University of Mississippi
eGrove

Accounting Trends and Techniques

American Institute of Certified Public Accountants (AICPA) Historical Collection

2003

Accounting trends and techniques, 57th annual survey, 2003 edition

American Institute of Certified Public Accountants

Follow this and additional works at: https://egrove.olemiss.edu/aicpa_att

Part of the Accounting Commons, and the Taxation Commons

Recommended Citation

American Institute of Certified Public Accountants, "Accounting trends and techniques, 57th annual survey, 2003 edition" (2003). *Accounting Trends and Techniques*. 49.
https://egrove.olemiss.edu/aicpa_att/49

This Book is brought to you for free and open access by the American Institute of Certified Public Accountants (AICPA) Historical Collection at eGrove. It has been accepted for inclusion in Accounting Trends and Techniques by an authorized administrator of eGrove. For more information, please contact egrove@olemiss.edu.

Accounting Trends & Techniques
FIFTY-SEVENTH EDITION 2003

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

Accounting Trends & Techniques

FIFTY-SEVENTH EDITION 2003

Annual Survey of Accounting Practices Followed in 600 Stockholders' Reports

AICPA

American Institute of Certified Public Accountants

Accounting Trends & Techniques

FIFTY-SEVENTH EDITION 2003

Fifty-seventh annual cumulative survey of the accounting aspects of the annual reports of 600 industrial, merchandising, technology, and service corporations. The reports analyzed are those with fiscal years ended not later than February 2, 2003.

Edited by

Yury Iofe
Senior Editor
Accounting and Auditing Publications

Matthew C. Calderisi, CPA
Editor

Copyright © 2003 by American Institute of Certified Public Accountants, Inc.
New York, New York 10036-8775

All rights reserved. For information about the procedure for requesting permission to make copies of any part of this work, please call the AICPA Copyright Permissions Hotline at (201) 938-3245. A Permissions Request Form for e-mailing requests is available at www.aicpa.org by clicking on the copyright notice on any page. Otherwise, requests should be written and mailed to the Permissions Department, AICPA, Harborside Financial Center, 201 Plaza Three, Jersey City, NJ 07311-3881.

1 2 3 4 5 6 7 8 9 0 AAP 0 9 8 7 6 5 4 3

ISSN 1531-4340

ISBN 0-87051-501-2

Notice to readers: This book is a publication of the staff of the American Institute of Certified Public Accountants and is not to be regarded as an official pronouncement of the Institute.

Acknowledgments

Special acknowledgment and sincere thanks are due to the following individuals for their technical assistance in the analysis of the financial reports:

Matthew C. Calderisi, CPA
J. Richard Chaplin, CPA
Constance J. Crawford, CPA
William A. Godla, CPA
Kathleen V. Karatas, CPA
Gene P. Leporiere, CPA
Toni Monier, CPA
Gene Ratin, CPA
Richard V. Rikert
Edward W. Swanson, CPA
Anthony E. Tarallo, CPA

In addition, special acknowledgment and sincere thanks are also due to the following individuals for their assistance in the preparation of the manuscript:

J. Richard Chaplin, CPA

Toni Monier, CPA

Edward W. Swanson, CPA

Anthony E. Tarallo, CPA

Preface

Accounting Trends & Techniques—2003, Fifty-Seventh Edition (the current 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, technology, and service companies for fiscal periods ending between February 23, 2002 and February 2, 2003.

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 reference 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 ***Yury Iofe,*** Senior Editor, at:

Harborside Financial Center
201 Plaza Three, Jersey City, NJ 07311-3881
Telephone: (201) 938-3491
Fax: (201) 938-3780
E-mail: yiofe@aicpa.org

Each of the 600 survey companies included in the current edition has been assigned a company reference number which is used for reference in the discussion of pertinent information. Companies not included from the prior edition were eliminated because of a business combination with another company or a delisting by the SEC. The identification numbers of the eliminated companies have not been reused. Over the years, company reference numbers 601 through 1070 have been assigned to the replacement companies. In the current edition, company reference numbers 1071 through 1094 have been assigned to additional replacement companies. The 600 companies in the current edition are listed in the *Appendix of 600 Companies* both alphabetically and by company reference number.

We would appreciate your feedback! We hope the additions described above are informative and useful. However, we urge you to give us your comments regarding the content of this publication, suggested improvements for future editions, and any other feedback. Please direct your comments to ***Yury Iofe*** at the above address or phone numbers. All comments will be considered and kept strictly confidential.

Robert Durak, CPA, Senior Manager—Accounting and Auditing Publications
AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

Order/technical information:

Accounting Trends & Techniques: (201) 938-3491
AICPA Technical Hotline: (888) 777-7077, option 5
AICPA Member Satisfaction (order department): (888) 777-7077, option 1

TABLE OF CONTENTS

Section		Paragraph
1	General	.01-.243
	Companies Selected for Survey	.01-.06
	Table 1-1: Industry Classifications	.04
	Table 1-2: Revenue of Survey Companies	.06
	Information Required by Rule 14a-3 to Be Included in Annual Reports to Stockholders	.07-.24
	Quarterly Financial Data	.10-.11
	Selected Information for Five Years	.12-.13
	Management's Discussion and Analysis of Financial Condition and Results of Operations	.14-.15
	Forward Looking Information Excerpts	.16-.18
	Euro Currency Conversion Excerpts	.19
	Environmental Matters Excerpts	.20-.21
	Market Risk Information Excerpts From Management's Discussion and Analysis	.22-.24
	Segment Information	.25-.34
	Table 1-3: Segment Information	.28
	Natural Business Year	.35-.46
	Table 1-4: Month of Fiscal Year End	.38
	Change in Date of Fiscal Year End	.39-.42
	Definition of Fiscal Year	.43-.46
	Comparative Financial Statements	.47-.49
	Rounding of Amounts	.50-.51
	Table 1-5: Rounding of Amounts	.51
	Notes to Financial Statements	.52-.54
	Table 1-6: Notes to Financial Statements	.54
	Disclosure of Accounting Policies	.55-.61
	Table 1-7: Disclosure of Accounting Policies	.57
	Accounting Changes	.62-.81
	Table 1-8: Accounting Changes	.64
	Goodwill and Other Intangibles	.65-.67
	Impairment or Disposal of Long-Lived Assets	.68-.69
	Business Combinations	.70-.71
	Gains or Losses From Debt Extinguishment	.72-.73
	Derivatives and Hedging Activities	.74
	Consideration Given by a Vendor to a Customer	.75
	Sales Incentives	.76
	Costs of Exit or Disposal Activities	.77
	Stock Compensation	.78-.79
	Consideration Paid to Reseller	.80
	Asset Retirement Obligation	.81

Section		Paragraph
1	General—continued	
	Consolidation Policies	.82-.93
	Table 1-9: Nonhomogeneous Operations—Consolidated	.86
	Business Combinations	.94-.103
	Table 1-10: Business Combination Disclosures—2002	.97
	Purchase Method	.98-.102
	Formation of Jointly Owned Companies	.103
	Contingencies	.104-.132
	Table 1-11: Contingencies	.106
	Loss Contingencies	.107-.127
	Litigation	.107-.111
	Environmental Matters	.112-.118
	Insurance Coverage/Self-Insurance	.119
	Governmental Investigations	.120-.122
	Possible Tax Assessments	.123-.124
	Contracts	.125
	Stockholder Litigation	.126
	Unfunded Pension Obligation	.127
	Gain Contingencies	.128-.132
	Plaintiff Litigation	.128-.130
	Contingent Receivables	.131-.132
	Risks and Uncertainties	.133-.155
	Nature of Operations	.135-.138
	Use of Estimates	.139-.142
	Significant Estimates	.143-.148
	Vulnerability Due to Certain Concentrations	.149-.155
	Commitments	.156-.179
	Table 1-12: Commitments	.158
	Debt Covenant Restrictions	.159-.163
	Purchase Agreements	.164-.168
	Capital Expenditures	.169-.170
	Additional Payments Related to Acquisitions	.171-.172
	Sales Agreements	.173-.174
	Employment Contracts	.175-.176
	Licensing Agreements	.177
	Consent Decree	.178
	Trade-In Options	.179
	Financial Instruments	.180-.203
	Table 1-13: Financial Instruments	.183
	Derivative Financial Instruments	.184-.188
	Off-Balance-Sheet Financial Instruments	.189-.194
	Financial Guarantees	.189-.191
	Letters of Credit	.192
	Sale of Receivables With Recourse	.193-.194

Section		Paragraph
1	General—continued	
	Disclosures of Fair Value	.195-.198
	Concentrations of Credit Risk	.199-.203
	Subsequent Events	.204-.228
	Table 1-14: Subsequent Events	.206
	Debt Incurred, Reduced, or Refinanced	.207-.210
	Discontinued Operations	.211-.214
	Business Combinations	.215-.218
	Litigation	.219-.220
	Capital Stock Issued or Purchased	.221
	Employee Benefits	.222
	Reorganization/Bankruptcy	.223
	Stock Splits/Dividends	.224
	Stock Purchase Rights	.225
	Spin-Off	.226
	Change in Functional Currency	.227
	Write-Down of Capitalized Production Costs	.228
	Related Party Transactions	.229-.236
	Sale of Receivables to Subsidiary	.230
	Transaction Between Reporting Entity and Investee	.231
	Transaction Between Reporting Entity and Major Stockholder	.232
	Transaction Between Reporting Entity and Officer/Director	.233
	Transaction Between Reporting Entity and Employee Benefit Trust	.234
	Consolidated Tax Return	.235
	Tax Sharing Agreement	.236
	Inflation Accounting	.237-.240
	Events of September 11, 2001	.241-.243
2	Balance Sheet	.01-.332
	Balance Sheet Title	.01-.02
	Table 2-1: Balance Sheet Title	.02
	Balance Sheet Format	.03-.08
	Table 2-2: Balance Sheet Format	.06
	Reclassifications	.07-.08
	Cash and Cash Equivalents	.09-.14
	Table 2-3: Cash and Cash Equivalents—Balance Sheet Captions	.11
	Marketable Securities	.15-.30
	Table 2-4: Marketable Securities—Bases	.22
	Available-for-Sale Securities	.23-.27
	Trading Securities	.28
	Held-to-Maturity Securities	.29-.30

Section		Paragraph
2	Balance Sheet—continued	
	Current Receivables	.31-.57
	Table 2-5: Current Receivables	.34
	Receivables Other Than Trade Receivables	.35-.45
	Tax Refund Claims	.35-.36
	Receivables From Affiliates	.37-.38
	Contracts	.39-.40
	Retained Interest in Sold Receivables	.41
	Finance Receivables	.42
	Installment Receivables	.43
	Insurance Claims	.44
	Credit Card Receivables	.45
	Receivables Sold or Collateralized	.46-.55
	Table 2-6: Receivables Sold or Collateralized	.50
	Receivables Sold With Recourse	.51
	Receivables Sold With Limited Recourse	.52
	Receivables Sold Without Recourse	.53-.54
	Receivables Used as Collateral	.55
	Allowance for Doubtful Accounts	.56-.57
	Table 2-7: Doubtful Account Captions	.57
	Inventories	.58-.77
	Table 2-8: Inventory Captions	.67
	Table 2-9: Inventory Cost Determination	.68
	Table 2-10: Industry Classification of Companies Using LIFO	.69
	First-In First-Out	.70-.71
	Last-In First-Out	.72-.75
	Average Cost	.76
	Production Cost	.77
	Prepaid Expenses	.78-.81
	Table 2-11: Prepaid Expenses	.79
	Other Current Assets	.82-.91
	Table 2-12: Other Current Asset Captions	.83
	Deferred Taxes	.84-.86
	Property Held for Sale	.87-.88
	Derivatives	.89
	Advances/Deposits	.90
	Unbilled Costs	.91
	Property, Plant, and Equipment	.92-.102
	Table 2-13: Land Captions	.95
	Table 2-14: Depreciable Asset Captions	.96
	Table 2-15: Accumulated Depreciation	.97
	Investments	.103-.120
	Table 2-16: Investments—Carrying Bases	.111
	Table 2-17: Investments—Description	.112

Section		Paragraph
2	Balance Sheet—continued	
	Equity Method	.113-.115
	Fair Value	.116-.119
	Cost	.120
	Noncurrent Receivables	.121-.131
	Table 2-18: Noncurrent Receivables	.128
	Intangible Assets	.132-.152
	Table 2-19: Intangible Assets	.137
	Table 2-20: Amortization Period—2002	.138
	Goodwill	.139-.143
	Trademarks	.144-.145
	Patents	.146
	Customer Lists /Relationships	.147
	Technology	.148-.149
	Covenants Not to Compete	.150
	Licenses and Franchises	.151
	Contracts	.152
	Other Noncurrent Assets	.153-.169
	Table 2-21: Other Noncurrent Assets	.154
	Deferred Income Taxes	.155-.156
	Prepaid Pension Cost	.157-.158
	Software Development Costs	.159-.160
	Segregated Funds	.161
	Debt Issue Costs	.162
	Derivatives	.163-.164
	Property Held for Sale	.165
	Cash Value of Life Insurance	.166
	Contracts	.167
	Assets of Nonhomogeneous Operations	.168
	Broadcast Rights	.169
	Current Liabilities	.170-.220
	Short-Term Debt	.171-.179
	Table 2-22: Short-Term Debt	.177
	Trade Accounts Payable	.180-.185
	Table 2-23: Trade Accounts Payable	.183
	Employee-Related Liabilities	.186-.189
	Table 2-24: Employee-Related Liabilities	.187
	Income Tax Liability	.190-.193
	Table 2-25: Current Income Tax Liability	.191
	Current Amount of Long-Term Debt	.194-.200
	Table 2-26: Current Amount of Long-Term Debt	.198
	Other Current Liabilities	.201-.220
	Table 2-27: Other Current Liabilities	.202
	Costs/Liabilities Related to Discontinued Operations	.203-.204

Section		Paragraph
2	Balance Sheet—continued	
	Interest	.205
	Deferred Revenue	.206-.207
	Taxes Other Than Federal Income Taxes	.208-.209
	Product Warranties	.210
	Insurance	.211
	Deferred Taxes	.212
	Advances/Deposits	.213
	Dividends	.214
	Advertising	.215
	Environmental Costs	.216
	Derivatives	.217
	Litigation	.218
	Rebates	.219
	Royalties	.220
	Long-Term Debt	.221-.237
	Table 2-28: Long-Term Debt	.229
	Unsecured	.230-.233
	Collateralized	.234-.235
	Convertible	.236
	Debt Covenant Violation	.237
	Credit Agreements	.238-.244
	Table 2-29: Credit Agreements	.239
	Long-Term Leases	.245-.259
	Table 2-30: Long-Term Leases	.248
	Lessee—Capital Leases	.249-.252
	Lessee—Operating Leases	.253-.256
	Lessor Leases	.257-.259
	Other Noncurrent Liabilities	.260-.282
	Table 2-31: Other Noncurrent Liabilities	.261
	Deferred Income Taxes	.262-.263
	Minority Interest	.264-.266
	Derivatives	.267
	Preferred Securities of Subsidiary Trust	.268
	Employee-Related Liabilities	.269-.272
	Environmental Costs	.273-.274
	Discontinued Operations	.275
	Insurance	.276
	Warranties	.277
	Litigation	.278
	Additional Payments Related to Acquisitions	.279
	Deferred Credits	.280-.282
	Reserves—Use of the Term "Reserve"	.283-.284
	Table 2-32: Use of Term "Reserve"	.284

Section		Paragraph
2	Balance Sheet—continued	
	Title of Stockholders' Equity Section	.285-.286
	Table 2-33: Title of Stockholders' Equity Section	.286
	Capital Structures	.287-.289
	Table 2-34: Capital Structures	.289
	Common Stock	.290-.291
	Table 2-35: Common Stock	.291
	Preferred Stock	.292-.298
	Table 2-36: Preferred Stock	.294
	Preferred Stock Extended at Par Value	.295-.296
	Preferred Stock Extended at Liquidating Value	.297
	Preferred Stock Extended at Fair Value at Issuance Date Plus Accretion	.298
	Additional Paid-In Capital	.299-.300
	Table 2-37: Additional Paid-In Capital—Caption Title	.300
	Retained Earnings	.301-.302
	Table 2-38: Retained Earnings—Caption Title	.302
	Accumulated Other Comprehensive Income	.303-.314
	Table 2-39: Accumulated Other Comprehensive Income—Balance Sheet Caption	.307
	Table 2-40: Accumulated Other Comprehensive Income—Presentation of Component Balances	.308
	Notes to Financial Statements	.309-.310
	Statement of Changes in Stockholders' Equity	.311-.312
	Equity Section of Balance Sheet	.313-.314
	Treasury Stock	.315-.320
	Table 2-41: Treasury Stock—Balance Sheet Presentation	.317
	Cost of Treasury Stock Shown as Reduction of Stockholders' Equity	.318-.319
	Par Value of Treasury Stock Deducted From Issued Stock	.320
	Other Accounts Shown in Stockholders' Equity Section	.321-.332
	Table 2-42: Other Stockholders' Equity Accounts	.325
	Unearned Compensation Relating to Stock Award Plans	.326-.327
	Guarantees of ESOP Debt	.328
	Receivables From Sale of Stock	.329
	Employee Benefit Trust	.330
	Common Stock Warrants	.331
	Stockholder Rights	.332

Section		Paragraph
3	Income Statement	.01-.183
	Income Statement Title	.01-.02
	Table 3-1: Income Statement Title	.02
	Income Statement Format	.03-.09
	Table 3-2: Income Statement Format	.07
	Reclassification	.08-.09
	Revenues and Gains	.10-.30
	Table 3-3: Revenue Caption Title	.13
	Table 3-4: Gains	.14
	Revenues	.15-.18
	Gains	.19-.30
	Interest	.19
	Sale of Assets	.20-.21
	Equity in Earnings of Investee	.22
	Liability Accruals Reduced	.23
	Foreign Currency Transactions	.24
	Change in Fair Value of Derivatives	.25
	Royalties	.26
	Litigation Settlements	.27
	Rentals	.28
	Insurance Recoveries	.29
	Nonrecurring Gain	.30
	Expenses and Losses	.31-.64
	Table 3-5: Expenses—Cost of Goods Sold Captions	.34
	Table 3-6: Expenses—Other Than Cost of Goods Sold	.35
	Table 3-7: Losses	.36
	Expenses	.37-.43
	Cost of Goods Sold	.37-.38
	Research and Development	.39-.40
	Advertising	.41
	Provision for Doubtful Accounts	.42
	Shipping	.43
	Losses	.44-.64
	Restructuring of Operations	.44-.45
	Write-Down of Assets	.46-.47
	Intangible Asset Amortization	.48-.49
	Sale of Assets	.50
	Foreign Currency Transactions	.51
	Equity in Losses of Investee	.52
	Minority Interest	.53
	Litigation Settlement	.54
	Change in Fair Value of Derivatives	.55
	Sale of Receivables	.56
	Merger Costs	.57

Section		Paragraph
3	Income Statement—continued	
	Environmental Clean-Up	.58
	Royalties	.59
	Purchased R&D	.60
	Start-Up Costs	.61
	Nonrecurring/Unusual Losses	.62-.64
	Impact of Events on September 11, 2001	.65-.67
	Pensions and Other Postretirement Benefits	.68-.84
	Table 3-8: Assumed Discount Rate	.71
	Table 3-9: Assumed Rate of Compensation Increase	.72
	Table 3-10: Expected Rate of Return	.73
	Table 3-11: Health Care Cost Trend Rate—2002	.74
	Defined Benefit Plans	.75-.77
	Defined Contribution Plans	.78
	Supplemental Retirement Plans	.79-.80
	Multiemployer Plans	.81
	Amendment of Plan	.82
	Adoption of Plan	.83
	Curtailment Gains/Losses	.84
	Postemployment Benefits	.85-.88
	Employee Compensatory Plans	.89-.116
	Table 3-12: Employee Compensatory Plans	.93
	Stock Option Plans	.94-.98
	Savings/Investment Plans	.99-.101
	Stock Award Plans	.102-.105
	Stock Purchase Plans	.106-.108
	Employee Stock Ownership Plans	.109-.110
	Deferred Compensation Plans	.111
	Profit Sharing Plans	.112-.113
	Incentive Compensation Plans	.114
	Participation Shares	.115
	Share Value Trust	.116
	Depreciation Expense	.117-.127
	Table 3-13: Depreciation Methods	.119
	Straight-Line Method	.120-.121
	Accelerated Methods	.122-.123
	Units-of-Production Method	.124
	Production Variable Method	.125
	Depletion	.126-.127
	Income Taxes	.128-.146
	Presentation of Income Taxes	.128-.136
	Table 3-14: Income Tax Expense	.130
	Expense Provision	.131-.133

Section		Paragraph
3	Income Statement—continued	
	Credit Provision	.134-.135
	No Provision	.136
	Operating Loss and Tax Credit Carryforwards	.137-.140
	Taxes on Undistributed Earnings	.141-.146
	Taxes Accrued on Undistributed Earnings	.142-.143
	Taxes Not Accrued on Undistributed Earnings	.144-.146
	Long-Term Contracts	.147-.155
	Table 3-15: Method of Accounting for Long-Term Contracts	.149
	Discontinued Operations	.156-.167
	Business Segment Disposals	.163-.165
	Adjustment of Gain/Loss Reported in Prior Period	.166-.167
	Charges or Credits Shown After Income Tax Caption	.168-.171
	Table 3-16: Charges or Credits Shown After Income Tax Caption	.169
	Extraordinary Items	.172-.177
	Table 3-17: Extraordinary Items	.174
	Debt Extinguishments	.175-.176
	Litigation	.177
	Earnings Per Share	.178-.183
4	Comprehensive Income	.01-.32
	Presentation in Annual Report	.01-.14
	Table 4-1: Comprehensive Income—Reporting Statement	.04
	Table 4-2: Comprehensive Income—Reporting Statement Title	.07
	Included in Statement of Changes in Stockholders' Equity	.08-.10
	Separate Statement of Comprehensive Income	.11-.12
	Combined Statement of Net Income and Comprehensive Income	.13-.14
	Tax Effect Disclosure	.15-.17
	Components of Other Comprehensive Income	.18-.32
	Table 4-3: Other Comprehensive Income—Components	.22
	Cumulative Translation Adjustments	.23-.24
	Minimum Pension Liability Adjustments	.25-.26
	Changes in Fair Value of Derivatives	.27-.28
	Unrealized Losses/Gains on Certain Investments	.29-.30
	Reclassification Adjustments	.31-.32

Section	Paragraph
5 Stockholders' Equity	.01-.59
General	.01
Retained Earnings	.02-.25
Presentation of Changes in Retained Earnings	.02-.03
Table 5-1: Presentation of Changes in Retained Earnings	.03
Dividends	.04-.12
Table 5-2: Dividends	.07
Cash Dividends	.08-.09
Dividends-in-Kind	.10-.11
Stock Purchase Rights	.12
Adjustments to Opening Balance of Retained Earnings	.13-.17
Table 5-3: Adjustments to Opening Balance of Retained Earnings	.15
Prior Period Adjustment	.16
Change in Accounting Principle	.17
Other Changes in Retained Earnings	.18-.25
Table 5-4: Other Changes in Retained Earnings	.19
Treasury Stock Transactions	.20-.21
Preferred Stock Accretion	.22
Change in Fiscal Year of Subsidiary	.23
Tax Benefit From ESOP Dividends	.24
Tax Benefit on Stock Option Exercise	.25
Additional Paid-In Capital	.26-.53
Presentation of Changes in Additional Paid-In Capital	.26-.28
Table 5-5: Presentation of Changes in Additional Paid-In Capital	.28
Stock Splits	.29-.33
Table 5-6: Stock Splits	.30
Changes in Additional Paid-In Capital	.34-.53
Table 5-7: Changes in Additional Paid-In Capital	.35
Common Stock Issued in Connection With Employee Benefit Plans	.36-.37
Business Combination	.38
Public Offering	.39
Preferred Stock Conversion	.40
Debt Conversion	.41
Stock Option Tax Benefit	.42
Deferred Compensation Recognized	.43
Warrants Issued	.44
Put Option Issued	.45
Dividend Reinvestment Plan	.46
Treasury Stock Purchased	.47

Section		Paragraph
5	Stockholders' Equity—continued	
	Treasury Stock Issued	.48
	Restricted Stock	.49
	Conversion of Preferred Stock	.50
	Equity Trust Market Value Adjustment	.51
	Equity Units	.52
	Stock Issuance Costs	.53
	Other Components of Stockholders' Equity	.54-.59
	Unearned Compensation Expense	.56-.57
	Employee Stock Ownership Plan	.58
	Stock Loan Program	.59
6	Statement of Cash Flows	.01-.64
	General	.01-.02
	Presentation in Annual Report	.03-.04
	Table 6-1: Presentation in Annual Report	.04
	Cash Flows From Operating Activities	.05-.28
	Table 6-2: Method of Reporting Cash Flows From Operating Activities	.10
	Table 6-3: Cash Flows From Operating Activities—Reconciling Items	.11
	Table 6-4: Interest and Income Tax Payments	.12
	Direct Method	.13-.14
	Indirect/Reconciliation Method	.15-.16
	Adjustments to Reconcile Net Income to Operating Cash Flows	.17-.25
	Sale of Property	.17
	Employee Related Costs	.18
	Sale of Assets Other Than Property	.19
	Provision for Bad Debt	.20
	Intangible Asset Amortization	.21
	Equity Earnings/(Loss)	.22
	Restructuring Charge	.23
	Changes in Assets and Liabilities	.24-.25
	Interest and Income Tax Payments	.26-.28
	Cash Flows From Investing Activities	.29-.40
	Property Acquisitions/Disposals	.30-.31
	Investments	.32-.33
	Business Combinations	.34
	Sale of Discontinued Operation	.35
	Finance Receivables	.36
	Capitalized Software	.37
	Restricted Cash	.38
	Life Insurance Policies	.39
	Capitalized Interest	.40

Section		Paragraph
6	Statement of Cash Flows—continued	
	Cash Flows From Financing Activities	.41-.50
	Debt Proceeds/Repayments	.42-.43
	Capital Stock Proceeds/Payments	.44-.45
	Exercise of Stock Options	.46
	Dividends Paid	.47
	Debt Issuance Costs	.48
	Lease Obligation Payments	.49
	Minority Interest Distributions	.50
	Foreign Currency Cash Flows	.51-.53
	Noncash Activities	.54-.58
	Cash and Cash Equivalents	.59-.64
	Table 6-5: Cash and Cash Equivalents	.60
7	Independent Auditors' Report	.01-.68
	Presentation in Annual Report	.01-.03
	Table 7-1: Presentation in Annual Report	.03
	Title	.04-.05
	Addressee	.06-.08
	Table 7-2: Addressee of Auditors' Reports	.08
	Auditors' Standard Report	.09-.14
	Statement of Comprehensive Income	.12
	Statement of Operations and Comprehensive Income	.13
	Statement of Changes in Shareholders' Equity	.14
	Reference to Report of Other Auditors	.15-.20
	Uncertainties	.21-.26
	Table 7-3: Uncertainties	.23
	Lack of Consistency	.27-.40
	Table 7-4: Lack of Consistency	.28
	Goodwill Not Amortized	.29-.30
	Derivatives	.31-.32
	Impairment of Long-Lived Assets	.33-.34
	Revenue Recognition	.35
	Business Combinations	.36
	Sales Incentives	.37
	Inventories	.38
	Stock-Based Compensation	.39
	Investments	.40
	Emphasis of a Matter	.41-.44
	Departures From Unqualified Opinions	.45
	Reports on Comparative Financial Statements	.46-.52
	Predecessor Auditors' Report Not Presented	.49-.50
	Predecessor Auditors' Report Reissued	.51
	Predecessor Auditors' Report Not Reissued	.52

Section		Paragraph
7	Independent Auditors' Report—continued	
	Opinion Expressed on Supplementary Financial Information	.53-.55
	Dating of Report	.56-.62
	Management and Special Purpose Committee Reports	.63-.68
	Reports of Management	.64-.65
	Audit Committee Reports	.66-.67
	Compensation Committee Reports	.68

Appendix/Indexes

Appendix of 600 Companies
Company Index
Pronouncement Index
Subject Index

Section 1: General

COMPANIES SELECTED FOR SURVEY

1.01 This section 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.

1.02 All 600 companies included in the survey are registered with the Securities and Exchange Commission (SEC). Many of the survey companies have securities traded on one of the major stock exchanges—80% on the New York and 2% on the American. The remaining 18% were traded on "over-the-counter" exchanges. Table 1-1 presents an industry classification of the 600 survey companies.

1.03 Each year, companies are selected from the latest Fortune 1000 listing to replace those companies that were deleted from the survey (see the *Appendix of 600 Companies* for a comprehensive listing of the 600 companies as well as those that were added and removed in this edition). Companies are deleted from the survey when they have either been acquired, have become privately held (and are, therefore, no longer registered with the SEC), or have ceased operations.

1.04

TABLE 1-1: INDUSTRY CLASSIFICATIONS

	2002	2001
Advertising, marketing	4	3
Aerospace	17	17
Apparel	14	16
Beverages	9	8
Building materials, glass	9	11
Chemicals	29	29
Computer and data services	16	15
Computer peripherals	7	6
Computer software	9	8
Computers, office equipment	11	11
Diversified outsourcing services	7	8
Electronics, electrical equipment	41	41
Engineering, construction	11	11
Entertainment	6	5
Food	27	27
Food and drug stores	13	12
Food services	6	4
Forest and paper products	19	20
Furniture	10	9
General merchandisers	10	10
Health care	9	9
Hotels, casinos, resorts	8	9
Industrial and farm equipment	34	35
Medical products and equipment	12	12
Metal products	21	22
Metals	17	17
Mining, crude-oil production	13	13
Miscellaneous	11	12
Motor vehicles and parts	17	16
Network communications	6	6
Petroleum refining	13	12
Pharmaceuticals	10	11
Publishing, printing	20	20
Rubber and plastic products	6	6
Scientific, photographic, and control equipment	20	19
Semiconductors	14	14
Soaps, cosmetics	8	8
Specialty retailers	18	19
Telecommunications	18	19
Temporary help	5	5
Textiles	6	7
Tobacco	6	6
Toys, sporting goods	2	3
Transportation equipment	4	4
Trucking, truck leasing	5	1
Waste management	3	3
Wholesalers	19	21
Total Companies	**600**	**600**

1.05 Table 1-2 indicates the relative size of the survey companies as measured by dollar amount of revenue.

1.06

TABLE 1-2: REVENUE OF SURVEY COMPANIES

	2002	2001	2000	1999
Less than $100,000,000	23	18	25	23
Between $100,000,000 and $500,000,000	44	50	53	60
Between $500,000,000 and $1,000,000,000	55	41	43	48
Between $1,000,000,000 and $2,000,000,000	128	123	110	121
More than $2,000,000,000	350	368	369	348
Total Companies	**600**	**600**	**600**	**600**

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

1.07 Rule 14a-3, *Information to Be Furnished to Security Holders,* 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 Securities and Exchange Commission (SEC) Regulation S-K, *Standard Instructions for Filing Forms Under the Securities Act of 1933, Securities Exchange Act of 1934 and Energy Policy and Conservation Act of 1975,* 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.

1.08 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 environmental matters.

1.09 Examples of segment information disclosures are presented under "Segment Information" in this section.

Quarterly Financial Data

1.10

GANNETT CO., INC. (DEC)

NOTES TO SELECTED FINANCIAL DATA

Quarterly Statements of Income (Unaudited)

(In thousands of dollars)

Fiscal Year Ended December 29, 2002	Ist Quarter	2nd Quarter	3rd Quarter	4th Quarter	Total
Net operating revenues					
Newspaper advertising	$ 969,803	$1,045,938	$1,006,923	$1,100,021	$4,122,685
Newspaper circulation[1]	299,262	293,990	292,659	296,192	1,182,103
Broadcasting	167,186	191,299	184,039	228,779	771,303
All other	76,907	81,963	86,058	101,230	346,158
Total	1,513,158	1,613,190	1,569,679	1,726,222	6,422,249
Operating expenses					
Cost of sales and operating expenses, exclusive of depreciation[1]	807,116	799,255	808,882	838,750	3,254,003
Selling, general and administrative expenses, exclusive of depreciation	248,331	254,534	253,735	262,893	1,019,493
Depreciation	53,369	53,362	54,572	53,814	215,117
Amortization of intangible assets	1,833	1,834	1,830	1,830	7,327
Total	1,110,649	1,108,985	1,119,019	1,157,287	4,495,940
Operating income	402,509	504,205	450,660	568,935	1,926,309
Non-operating (expense) income					
Interest expense	(28,754)	(41,101)	(39,709)	(36,795)	(146,359)
Other	(2,292)	(81)	(6,015)	(7,034)	(15,422)
Total	(31,046)	(41,182)	(45,724)	(43,829)	(161,781)
Income before income taxes	371,463	463,023	404,936	525,106	1,764,528
Provision for income taxes	127,900	159,100	139,300	178,100	604,400
Net income	$ 243,563	$ 303,923	$ 265,636	$ 347,006	$1,160,128
Net income per share—basic	$ .92	$ 1.14	$ .99	$ 1.30	$ 4.35
Net income per share—diluted[2]	$ .91	$ 1.13	$ .99	$ 1.29	$ 4.31

[1] At the end of 2002, certain immaterial charges relating to sales promotions have been reclassified from cost of sales and operating expenses to a reduction of circulation revenue; the reclassification had no effect on operating income or net income for any period. Circulation revenue and cost of sales amounts in prior quarters have been reclassified to conform to the fourth quarter 2002 presentation.

[2] As a result of rounding, the total of the four quarters' earnings per share does not equal the earnings per share for the year.

Quarterly Statements of Income (Unaudited)

(In thousands of dollars)

Fiscal Year Ended December 30, 2001	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Total
Net operating revenues					
Newspaper advertising	$1,020,934	$1,057,899	$ 988,045	$1,052,895	$4,119,773
Newspaper circulation[1]	301,949	294,461	295,098	296,959	1,188,467
Broadcasting	155,613	178,692	148,229	180,118	662,652
All other	85,392	84,622	75,515	83,185	328,714
Total	1,563,888	1,615,674	1,506,887	1,613,157	6,299,606
Operating expenses					
Cost of sales and operating expenses, exclusive of depreciation[1]	828,487	812,472	813,798	820,765	3,275,522
Selling, general and administrative expenses, exclusive of depreciation	254,738	246,324	244,308	245,102	990,472
Depreciation	53,281	51,059	50,916	47,200	202,456
Amortization of intangible assets	59,343	59,457	61,267	61,254	241,321
Total	1,195,849	1,169,312	1,170,289	1,174,321	4,709,771
Operating income	368,039	446,362	336,598	438,836	1,589,835
Non-operating (expense) income					
Interest expense	(80,442)	(61,728)	(48,600)	(31,084)	(221,854)
Other	448	528	530	1,110	2,616
Total	(79,994)	(61,200)	(48,070)	(29,974)	(219,238)
Income before income taxes	288,045	385,162	288,528	408,862	1,370,597
Provision for income taxes	113,500	151,700	113,700	160,500	539,400
Net income	$ 174,545	$ 233,462	$ 174,828	$ 248,362	$ 831,197
Net income per share—basic	$ .66	$ .88	$ .66	$ .94	$ 3.14
Net income per share—diluted[2]	$ .66	$ .88	$ .66	$ .93	$ 3.12

[1] At the end of 2002, certain immaterial charges relating to sales promotions have been reclassified from cost of sales and operating expenses to a reduction of circulation revenue; the reclassification had no effect on operating income or net income for any period. Circulation revenue and cost of sales amounts in prior years have been classified to conform to the 2002 presentation.

[2] As a result of rounding, the total of the four quarters' earnings per share does not equal the earnings per share for the year.

1.11

THE GILLETTE COMPANY AND SUBSIDIARY COMPANIES (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Quarterly Financial Information (Unaudited)

	Three Months Ended				
(Millions, except per share amounts)	March 31	June 30	September 30	December 31	Total Year
2002					
Net sales	$1,732	$2,024	$2,168	$2,529	$8,453
Gross profit	1,038	1,226	1,286	1,392	4,942
Profit from operations	328	449	522	510	1,809
Income from continuing operations before income taxes	323	425	513	491	1,752
Discontinued operations, net of tax	—	—	—	7	7
Net income	223	293	354	346	1,216
Net income per common share, basic[a]					
Continuing operations	.21	.28	.33	.32	1.15
Discontinued operations	—	—	—	.01	—
Net income	.21	.28	.33	.33	1.15
Net income per common share, assuming full dilution[a]					
Continuing operations	.21	.28	.33	.32	1.14
Discontinued operations	—	—	—	.01	.01
Net income	.21	.28	.33	.33	1.15
Dividends paid per common share	.16¼	.16¼	.16¼	.16¼	.65
Stock price range:					
High	34.98	37.30	34.47	31.66	37.30
Low	31.28	33.02	27.75	27.57	27.57
2001					
Net sales	$1,621	$1,922	$2,123	$2,418	$8,084
Gross profit	998	1,150	1,201	1,328	4,677
Profit from operations	319	375	473	331	1,498
Income from continuing operations before income taxes	264	336	429	313	1,342
Net income	182	232	296	200	910
Net income per common share, basic and assuming full dilution[a]	.17	.22	.28	.19	.86
Dividends paid per common share	.16¼	.16¼	.16¼	.16¼	.65
Stock price range:					
High	36.38	31.98	32.08	35.31	36.38
Low	29.50	24.50	26.00	29.00	24.50

[a] Net income per common share is computed independently for each of the periods presented and, therefore, may not add up to the total for the year.

Selected Information for Five Years

1.12

BALL CORPORATION AND SUBSIDIARIES (DEC)

FIVE-YEAR REVIEW OF SELECTED FINANCIAL DATA

($ in millions, except per share amounts)	2002	2001	2000	1999	1998
Net sales	$3,858.9	$3,686.1	$3,664.7	$3,707.2	$2,995.7
Earnings (loss) before extraordinary item and cumulative effect of accounting change[1]	159.3	(99.2)	68.2	104.2	32.0
Early debt extinguishment costs, net of tax	(3.2)	—	—	—	(12.1)
Cumulative effect of accounting change, net of tax	—	—	—	—	(3.3)
Net earning (loss)[1]	156.1	(99.2)	68.2	104.2	16.6
Preferred dividends, net of tax	—	(2.0)	(2.6)	(2.7)	(2.8)
Earnings (loss) attributable to common shareholders[1]	$ 156.1	$ (101.2)	$ 65.6	$ 101.5	$ 13.8
Return on average common shareholders' equity	31.3%	(17.7%)	10.1%	16.2%	2.3%
Basic earnings per share:[1][2]					
Earnings (loss) before extraordinary item and cumulative effect of accounting change	$ 2.83	$ (1.85)	$ 1.13	$ 1.68	$ 0.48
Early debt extinguishment costs, net of tax	(0.06)	—	—	—	(0.20)
Cumulative effect of accounting change, net of tax	—	—	—	—	(0.05)
Basic earnings (loss) per share	$ 2.77	$ (1.85)	$ 1.13	$ 1.68	$ 0.23
Weighted average common shares outstanding (000s)[1][2]	56,317	54,880	58,080	60,340	60,776
Diluted earnings per share:[1][2]					
Earnings (loss) before extraordinary item and cumulative effect of accounting change	$ 2.77	$ (1.85)	$ 1.07	$ 1.58	$ 0.46
Extraordinary item, net of tax	(0.06)	—	—	—	(0.19)
Cumulative effect of accounting changes, net of tax	—	—	—	—	(0.05)
Diluted earnings (loss) per share	$ 2.71	$ (1.85)	$ 1.07	$ 1.58	$ 0.22
Diluted weighted average common shares outstanding (000s)[2]	57,538	58,858	62,034	64,900	65,184
Property, plant and equipment additions	$ 158.4	$ 68.5	$ 98.7	$ 107.0	$ 84.2
Depreciation and amortization	$ 149.2	$ 152.5	$ 159.1	$ 162.9	$ 145.0
Total assets	$4,132.4	$2,313.6	$2,649.8	$2,732.1	$2,854.8
Total interest bearing debt and capital lease obligations	$1,981.0	$1,064.1	$1,137.3	$1,196.7	$1,356.6
Common shareholders' equity	$ 492.9	$ 504.1	$ 639.6	$ 655.2	$ 594.6
Capitalization[3]	$2,220.3	$1,494.8	$1,808.7	$1,871.5	$1,969.2
Net debt to capitalization[3]	77.5%	65.6%	60.6%	60.9%	66.0%
Cash dividends[2]	$ 0.36	$ 0.30	$ 0.30	$ 0.30	$ 0.30
Book value[2]	$ 8.69	$ 8.72	$ 11.40	$ 10.99	$ 9.76
Market value[2]	$ 51.19	$ 35.35	$ 23.03	$ 19.69	$ 22.88
Annual return to common shareholders[4]	46.0%	55.3%	19.2%	(12.7%)	31.4%
Working capital	$ 155.6	$ 218.8	$ 310.2	$ 225.7	$ 198.0
Current ratio	1.15	1.38	1.47	1.34	1.29

(1) Includes business consolidation costs and other items affecting comparability of pretax income of $2.3 million in 2002 and pretax expense of $271.2 million, $76.4 million and $73.9 million in 2001, 2000 and 1998, respectively.

(2) Amounts have been retroactively restated for a two-for-one stock split, which was effective on February 22, 2002.

(3) Capitalization is defined as the total of net debt, minority interests and shareholders' equity. Net debt is total debt less cash and cash equivalents.

(4) Change in stock price plus dividend yield assuming reinvestment of dividends.

1.13

COMPUTER SCIENCES CORPORATION (MAR)

FIVE-YEAR REVIEW

(In millions except per-share amounts)	March 29, 2002	March 30, 2001	March 31, 2000	April 2, 1999	April 3, 1998
Total assets	$8,610.5	$8,174.8	$5,874.1	$5,260.4	$4,274.1
Debt:					
Long-term	1,873.1	1,029.4	652.4	399.7	739.0
Short-term	309.6	1,195.7	238.1	436.4	12.1
Current maturities	21.4	158.9	11.1	167.5	22.8
Total debt	2,204.1	2,384.0	901.6	1,003.6	773.9
Stockholders' equity	3,623.6	3,215.2	3,044.0	2,588.5	2,171.0
Working capital	596.2	(384.9)	782.4	661.5	845.8
Property and equipment:					
At cost	3,884.4	3,507.4	2,744.2	2,368.8	1,992.2
Accumulated depreciation and amortization	1,976.4	1,649.0	1,469.3	1,256.6	1,012.6
Property and equipment, net	1,908.0	1,858.4	1,274.9	1,112.2	979.6
Current assets to current liabilities	1.2:1	0.9:1	1.4:1	1.3:1	1.7:1
Debt to total capitalization	37.8%	42.6%	22.9%	27.9%	26.3%
Book value per share	$ 21.17	$ 19.06	$ 18.17	$ 15.67	$ 13.33
Stock price range (high)	53.47	99.88	94.94	74.88	56.75
(low)	28.99	29.50	52.38	46.25	28.94

	Fiscal Year				
(In millions except per-share amounts)	2002	2001	2000	1999	1998
Revenues	$11,426.0	$10,524.0	$9,370.7	$8,111.4	$7,027.9
Costs of services	9,222.8	8,425.1	7,352.5	6,349.5	5,500.5
Selling, general and administrative	706.3	796.6	779.4	735.7	640.6
Depreciation and amortization	857.6	649.3	545.7	456.9	397.8
Interest, net	142.5	89.8	40.5	34.4	41.4
Special items		232.9	41.1		233.2
Total costs and expenses	10,929.2	10,193.7	8,759.2	7,576.5	6,813.5
Income before taxes	496.8	330.3	611.5	534.9	214.4
Taxes on income	152.7	97.1	208.6	179.4	(60.2)
Net income	$ 344.1	$ 233.2	$ 402.9	$ 355.5	$ 274.6
Basic earnings per common share	$ 2.02	$ 1.39	$ 2.42	$ 2.17	$ 1.71
Diluted earnings per common share	$ 2.01	$ 1.37	$ 2.37	$ 2.12	$ 1.67
Average common shares outstanding	170.054	168.260	166.311	164.124	160.881
Average common shares outstanding assuming dilution	171.279	170.767	169.749	167.986	164.501

Notes

A discussion of "Income Before Taxes" and "Net Income and Earnings per Share" before and after special items is included in Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A"). A discussion of "Special Items" for fiscal 2001 and 2000 is also included in MD&A. The fiscal 1998 special items consist of (a) a net special credit of $1.7 (1 cent per share after tax) of costs, expenses and benefits associated with developments at CSC Enterprises that generated a pre-tax charge of $208.4 ($133.3 after tax) and a tax benefit of $135; (b) pre-tax charge of $20.7 (8 cents per share after tax) related to CSC's response to a failed take-over attempt and (c) merger-related charges of $4.1 (2 cents per share after tax) associated with several acquisitions made by Nichols Research Corporation which was subsequently acquired by CSC and accounted for as a pooling of interests.

The selected financial data has been restated for fiscal 1998 and 1999 to include the results of business combinations accounted for as poolings of interests.

No dividends were paid by CSC during the five years presented.

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

1.14

BRIGGS & STRATTON CORPORATION (JUN)

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Results of Operations

Fiscal 2002 Compared to Fiscal 2001

Sales

Fiscal 2002 net sales were approximately $1.5 billion, an increase of $219 milllion, or 17% compared to the previous year. Generac Portable Products (GPP), included for a full fiscal year first time, added $186 million in sales the fiscal year. Our engine unit volume increase of 8%, offset by an unfavorable sales mix weighted towards lower priced engines accounts for the majority of the remaining increase.

Gross Profit

The total Company gross profit rate of approximately 18% was comparable with fiscal 2001. The Engine segment gross profit rate remained approximately 18% in fiscal 2002. Reductions in manufacturing costs of $25 million (primarily, repairs and maintenance, processing supplies, utilities and warranty) were offset by $17 million of increased costs (primarily, fringe benefits which included rising healthcare costs). GPP margins were approximately 9% for fiscal 2002, similar to their results for the 12 months ended June, 2001.

Engineering, Selling, General and Administrative Costs

Engineering, selling, general and administrative costs increased $16 million or 12% compared to fiscal 2001. The increase is entirely attributable to the inclusion of $18 million of GPP engineering, selling, general, and administrative costs for a full year. The Engine segment Engineering, Selling and Administrative cost category experienced increased salaries and fringe benefit expenses of approximately $8 million, but these increases were offset by a $6 million impact of lower bad debt write-off experience and a bad debt recovery, and $3 million of lower marketing expenses.

Interest Expense

Interest expense increased $14 million in fiscal 2002 compared to fiscal 2001, essentially the impact of increased borrowings associated with the GPP acquisition.

Other Income

Other income increased $3 million in fiscal 2002 compared to fiscal 2001. This increase is attributable to a $9 million increase in foreign currency transaction gains offset by $5 million in derivative losses and $1 million in amortization of deferred financing costs from the GPP acquisition.

Provision for Income Taxes

The effective tax rate increased to 34.0% in fiscal 2002 from 33.2%. The effective rates both reflect a refund on Foreign Sales Corporation tax benefits, however, the fiscal 2001 refund was larger.

Fiscal 2001 Compared to Fiscal 2000

Acquisition

On May 15, 2001, Briggs & Stratton acquired GPP for net cash of $267 million. Refer to Note 3 to the Consolidated Financial Statements for additional information on the acquisition.

Sales

Net sales for fiscal 2001 totaled approximately $1.3 billion, a decrease of $281 million or 18% compared to the preceding year. The primary factors were a 10% decline in engine unit volume, 15% lower sales of service components due to Briggs & Stratton's distributors having an adequate stock of parts, and an unfavorable sales mix as the entire 10% engine unit decline was made up of larger horsepower engines. Inventories of riding equipment at the OEMs and retailers were more than adequate to address soft demand for riding lawn and garden equipment.

The other major factor adversely affecting the fiscal year was the weak Euro which lowered revenues by $24 million. Additionally, these revenues decreased because Briggs & Stratton's pricing reflected the need to remain competitive in the European market.

The acquisition of GPP added $30 million in sales.

Gross Profit

The gross profit rate decreased to 18% from 21% in fiscal 2000. The major reasons for the decrease were lower plant utilization having a $32 million impact and the weak Euro of $24 million. Offsetting these factors was the favorable pension income impact of $12 million. Pension income included in gross profit totaled $24 million in fiscal 2001.

Engineering, Selling, General and Administrative Expenses

Engineering, selling, general and administrative expenses increased $5 million or 4% compared to fiscal 2000. Expenses in this category increased almost $20 million. The majority of the increase was due to the following factors: a $16 million planned expansion of staff and expenditures for business development and introduction of new product, a $3 million bad debt write-off, and $3 million of GPP's operating costs incurred since the acquisition. The increased costs were offset by $14 million of lower employee benefit costs for profit sharing and increased pension income. Pension income in this category was $4 million in fiscal 2001.

Interest Expense

Interest expense increased $9 million or 44% in fiscal 2001 compared to fiscal 2000 because the level of borrowings was greater in fiscal 2001. The increased level of borrowings resulted from increased seasonal working capital needs and the funding of the GPP acquisition.

Other Income

Other income decreased $13 million in fiscal 2001 compared to fiscal 2000. This decrease is attributed primarily to an $8 million reduction in equity income from joint ventures and investments and $5 million in foreign currency transaction losses.

Provision for Income Taxes

The effective tax rate decreased to 33.2% in fiscal 2001 from 37.0% in the previous year. The majority of the decrease was the result of the finalization and approval by the Congressional Joint Committee on Taxation of a refund on our Federal taxes related to Foreign Sales Corporation tax benefits.

Liquidity and Capital Resources

Fiscal Years 2002, 2001 and 2000

Cash flow from operating activities was $200 million, $68 million and $77 million, in fiscal 2002, 2001 and 2000, respectively.

The fiscal 2002 cash flow from operating activities increased $132 million, which was driven primarily by a reduction in inventory and an increase in accounts payable and accrued liabilities. The decrease in inventory levels was achieved through increased sales volume, while holding production levels consistent between years.

The fiscal 2001 cash flow from operating activities decreased $10 million, which reflects lower gains on the disposition of plant and equipment of $16 million. The lower gains from disposition of plant and equipment were because fiscal 2000 contained the disposition of the foundry assets. The increase in inventories was $114 million less in fiscal 2001 compared to the fiscal 2000 increase. This decrease was the result of planned inventory increases in fiscal 2000 to replenish abnormally low inventories to more normal levels. The change in accounts payable and accrued liabilities was $48 million less in fiscal 2001 due to timing of payments and lack of accruals for profit sharing due to lower performance. The $18 million increase in pension income is attributable to Briggs & Stratton's over funded pension plan.

The fiscal 2000 cash flow from operating activities decreased $38 million. This reflects increased net income of $30 million offset by the gain on disposition of foundry assets of $17 million and an increased requirement for operating capital of $41 million caused by increases in inventories at the end of fiscal 2000 offset by lower accounts receivable.

Net cash used in investing activities amounted to $38 million, $318 million and $43 million in fiscal 2002, 2001 and 2000, respectively. These cash flows include capital expenditures of $44 million, $61 million and $71 million in fiscal 2002, 2001 and 2000, respectively. These capital expenditures relate primarily to reinvestment in equipment, capacity additions and new products.

The fiscal 2001 cash used in investing activities includes $267 million of cash paid for the GPP acquisition, net of cash acquired. The fiscal 2000 cash used in investing activities is net of $24 million of proceeds received on disposition of plant and equipment.

Briggs & Stratton used cash in financing activities totalling $38 million and $77 million in fiscal 2002 and 2000, respectively. Briggs & Stratton provided cash through financing activites totalling $324 million in fiscal 2001. During fiscal 2002 Briggs & Stratton repaid $10 million of its 7.25% Senior Notes due 2007. Financing activities in fiscal 2001 included $399 million of proceeds received from issuing the 5.00% Convertible Senior Notes due 2006 and the 8.875% Senior Notes due 2011, in order to fund the acquisition of GPP and payment of short term borrowings. During fiscal 2000, Briggs & Stratton repaid the remaining $30 million on the 9.21% Senior Notes due 2001. Briggs & Stratton repurchased $6 million and $69 million of common shares in fiscal 2001 and 2000, respectively. There were no common shares repurchased in fiscal 2002.

Briggs & Stratton's significant contractual obligations are its pension plans, post retirement benefit obligations and deferred compensation arrangements. All of these obligations are recorded on our Balance Sheets and disclosed more fully in the Notes to the Consolidated Financial Statements. In addition, Briggs & Stratton is subject to certain financial and operating restrictions under its domestic debt agreements. As is fully disclosed in Note 6 of the notes to consolidated financial statements, these restrictions limit our ability to: pay dividends; incur further indebtedness; create liens; enter into sale and/or leaseback transactions; consolidate, sell or lease all or substantially all of our assets; and dispose of assets or the proceeds of our assets, in addition to certain financial covenants. We believe we will remain in compliance with these covenants in fiscal 2003.

Future Liquidity and Capital Resources

Briggs & Stratton has a three-year $300 million revolving credit facility. This credit facility is used to fund seasonal working capital requirements and other financing needs. This facility and Briggs & Stratton's other indebtedness contain certain restrictive covenants. Refer to Note 6 to the Consolidated Financial Statements.

Briggs & Stratton expects capital expenditures to be $60 million for fiscal 2003. These anticipated expenditures are for continued investments in equipment and new products.

Management believes that available cash, the credit facility, cash generated from operations, existing lines of credit and access to debt markets will be adequate to fund Briggs & Stratton's capital requirements for the foreseeable future.

Financial Strategy

Management believes that the value of Briggs & Stratton is enhanced if the capital invested in operations yields a cash return that is greater than the cost of capital. In addition, Management believes that when capital cannot be invested for returns greater than the cost of capital, they should return the capital to the capital providers. Briggs & Stratton also believes that the substitution of lower (after-tax) cost debt for equity in its permanent capital structure will reduce its overall cost of capital. Examples of the above beliefs are the repurchase of common stock from fiscal 1997 to 2001 when capital was not required for operational expansion and the fiscal 2001 increase of capital through debt for an acquisition. Briggs & Stratton believes its profitability and strong cash flows will accommodate the increased use of debt without impairing its ability to finance growth or increase cash dividends per share on its common stock.

Briggs & Stratton has remaining authorization to buy up to 1.8 million shares of its stock in open market or private transactions under the June 2000 Board of Directors' authorization to repurchase up to 2.0 million shares. Briggs & Stratton did

not repurchase shares in fiscal 2002 and does not anticipate any repurchases in fiscal 2003.

Also as a part of its financial strategy, subject to the discretion of its Board of Directors and the requirements of applicable law and debt covenants, Briggs & Stratton currently intends to increase future cash dividends per share at a rate approximating the inflation rate.

Other Matters

Early Retirement Incentive Program

In the second quarter of fiscal 2002, Briggs & Stratton offered and finalized an early retirement incentive program. The net reduction in the global salaried workforce was approximately 7%.

The impact for fiscal year 2002 was a reduction in net income on an after-tax basis of $2.5 million, after consideration of approximately $3 million in savings for lower salary related expenditures. The majority of the impact on net income was the result of recognizing the cost of the special termination benefits, which reduced net periodic pension income. The anticipated net income impact of salary related savings for fiscal 2003 is projected to be approximately $6 million on an after-tax basis.

General

In July 2001, Briggs & Stratton extended its collective bargaining agreement with one of its unions. This agreement expires in 2006, and contains provisions for future wage increases, medical cost sharing and increased pension benefits.

Emissions

Briggs & Stratton implemented a supplemental compliance plan for model years 2000 and 2001 with the California Air Resources Board (CARB), as required of companies that sold more than a threshold number of Class I engines into California. The objective of the plan was to achieve additional reductions in extreme non-attainment areas. While CARB's aggressive program resulted in a reduced product offering by Briggs & Stratton in California, the California program did not have a material effect on Briggs & Stratton's financial condition or results of operations.

The U.S. Environmental Protection Agency (EPA) has developed national emission standards under a two phase process for small air cooled engines. Briggs & Stratton currently has a complete product offering which complies with the EPA's Phase I engine emission standards. The Phase II program imposes more stringent standards over the useful life of the engine and is being phased in from 2001 to 2005 for Class II (225 or greater cubic centimeter displacement) engines and from 2003 to 2008 for Class I (under 225 cubic centimeter displacement) engines. Briggs & Stratton does not believe compliance with the new standards will have a material adverse effect on its financial position or results of operations.

Critical Accounting Policies

Briggs & Stratton's accounting policies are more fully described in Note 1 of the Notes to the Consolidated Financial Statements. As discussed in Note 1, the preparation of financial statements in conformity with accounting principles generally accepted in the U.S. requires management to make estimates and assumptions about future events that affect the amounts reported in the financial statements and accompanying notes. Future events and their effects cannot be determined with absolute certainty. Therefore, the determination of estimates requires the exercise of judgment. Actual results inevitably will differ from those estimates, and such difference may be material to the financial statements.

The most significant accounting estimates inherent in the preparation of our financial statements include estimates as to the recovery of accounts receivable, as well as those used in the determination of liabilities related to customer rebates, pension obligations, warranty, product liability, group health insurance and taxation. Various assumptions and other factors underlie the determination of these significant estimates. The process of determining significant estimates is fact specific and takes into account factors such as historical experience, current and expected economic conditions, product mix, and in some instances actuarial techniques. Briggs & Stratton reevaluates these significant factors as facts and circumstances change. Historically, actual results have not differed significantly from our estimates.

New Accounting Pronouncements

The Emerging Issues Task Force (EITF) issued EITF Abstract No. 01-09, "Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of Vendor's Products)". This was adopted during fiscal 2002. Pursuant to EITF No. 01-09, Briggs & Stratton was required to reclassify co-op advertising expense previously reported as selling expense to a reduction in net sales. The impact of adopting EITF 01-09 was to reduce net sales by $7.2 million, $2.3 million and $1.3 million in fiscal 2002, 2001 and 2000, respectively.

In June 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 141, "Business Combinations" and SFAS No. 142, "Goodwill and Other Intangible Assets". SFAS No. 141 provides for the elimination of the pooling-of-interests method of accounting for business combinations with an acquisition date of July 1, 2001 or later. SFAS No. 142 prohibits the amortization of goodwill and other intangible assets with indefinite lives and requires periodic reassessment of the underlying value of such assets for impairment. SFAS No. 142 is effective for fiscal years beginning after December 15, 2001. On July 2, 2001, Briggs & Stratton adopted SFAS No. 142. Application of the nonamortization provision of SFAS No. 142 resulted in an increase in net income of approximately $.7 million in fiscal 2002.

In August 2001, the Financial Accounting Standards Board issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," which supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of." SFAS No. 144 also supersedes the accounting and reporting provisions of APB Opinion No. 30, related to the disposal of a segment of a business. Briggs & Stratton adopted SFAS No. 144 on July 1, 2002. Management does not expect that SFAS No. 144 will have a material impact on Briggs & Stratton's consolidated financial statements.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities". SFAS No. 146 nullifies Emerging Issues Task Force Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)" and requires that

a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. SFAS No. 146 is effective for exit or disposal activities that are initiated after December 31, 2002. Briggs & Stratton does not expect that the adoption of this statement will have a material impact on its results of operations or financial position.

1.15

FOOT LOCKER, INC. (JAN)

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

Foot Locker, Inc., through its subsidiaries (Foot Locker, Inc. and its subsidiaries being hereafter referred to as the "Company") operates in two reportable segments—Athletic Stores and Direct-to-Customers. The Athletic Stores segment is one of the largest athletic footwear and apparel retailers in the world, whose formats include Foot Locker, Lady Foot Locker, Kids Foot Locker and Champs Sports. The Direct-to-Customers segment reflects Footlocker.com, Inc., which sells, through its affiliates, including Eastbay, Inc., to customers through catalogs and Internet websites.

All references to comparable-store sales for a given period relate to sales of stores that are open at the period-end and that have been open for more than one year. Accordingly, stores opened and closed during the period are not included. All comparable-store sales increases and decreases exclude the impact of foreign currency fluctuations.

The following table summarizes sales by segment, after reclassification for businesses disposed. The disposed category is included in continuing operations and represents all business formats sold or closed other than discontinued business segments. The disposition of all businesses previously held for disposal was completed in 2001. The 2002 and 2001 reporting years included 52 weeks compared with the 2000 reporting year, which included 53 weeks.

(In millions)	2002	2001	2000
Athletic stores	$4,160	$3,999	$3,953
Direct-to-customers	349	326	279
	4,509	4,325	4,232
Disposed[1]	—	54	124
	$4,509	$4,379	$4,356

Operating profit before corporate expense, net reflects income from continuing operations before income taxes, corporate expense, non-operating income and net interest expense. The following table reconciles operating profit before corporate expense, net by segment to income from continuing operations before income taxes.

(In millions)	2002	2001	2000
Athletic stores	$279	$283	$269
Direct-to-customers	40	24	1
Operating profit before corporate expense, net from ongoing operations	319	307	270
Disposed[1]	—	(12)	(2)
Restructuring income (charges)[2]	2	(33)	(7)
Gain (loss) on sale of businesses[3]	—	1	(1)
Total operating profit before corporate expense, net	321	263	260
Corporate expense[4]	52	65	79
Total operating profit	269	198	181
Non-operating income	3	1	17
Interest expense, net	26	24	22
Income from continuing operations before income taxes[5]	$246	$175	$176

[1] Includes The San Francisco Music Box Company, Foot Locker Outlets, Going to the Game!, Randy River Canada, Burger King and Popeye's franchises and Foot Locker Asia.

[2] Restructuring income of $2 million in 2002 and restructuring charges of $33 million and $7 million in 2001 and 2000, respectively, reflect the disposition of non-core businesses and an accelerated store closing program.

[3] 2001 reflects a $1 million adjustment to the $164 million gain on sale of Afterthoughts in 1999, 2000 reflects a $1 million adjustment to the gain of $19 million recognized on the sale of Garden Centers in 1998.

[4] 2001 includes a $1 million restructuring charge related to the 1999 closure of a distribution center, 2000 includes a $6 million reduction in previous restructuring charges.

[5] 2000 includes $16 million from the 53rd week.

Corporate expense included depreciation and amortization of $26 million in 2002, $28 million in 2001 and $29 million in 2000. Corporate expense in 2002 declined compared with 2001 primarily reflecting decreased payroll expenses related to reductions in headcount. Corporate expense in 2002 was also reduced by a net foreign exchange gain of $4 million related to intercompany foreign currency denominated firm commitments. Corporate expense decreased in 2001 compared with 2000 primarily as a result of decreased compensation costs for incentive bonuses.

Sales

Sales of $4,509 million in 2002 increased 3.0 percent from sales of $4,379 million in 2001. Excluding sales from businesses disposed and the effect of foreign currency fluctuations, 2002 sales increased by 3.1 percent as compared with 2001 primarily as a result of the new store opening program. Comparable-store sales increased by 0.1 percent.

Sales of $4,379 million in 2001 increased 0.5 percent from sales of $4,356 million in 2000. Excluding sales from businesses disposed, the 53rd week in 2000, and the effect of foreign currency fluctuations, 2001 sales increased by 4.4 percent as compared with 2000, reflecting an increase of 4.9 percent in comparable-store sales for ongoing formats.

Results of Operations

Gross Margin

Gross margin, as a percentage of sales, of 29.8 percent declined by 10 basis points in 2002 as compared with 29.9 percent in 2001, primarily resulting from the increase in the cost of merchandise, as a percentage of sales, due to increased markdown activity. Vendor allowances increased by $13 million as compared with the prior year period. The impact of these vendor allowances was an improvement in gross margin in 2002, as a percentage of sales, of 30 basis points as compared with 2001.

Gross margin, as a percentage of sales, of 29.9 percent declined by 20 basis points in 2001 from 30.1 percent in 2000, reflecting increased occupancy and buying costs. Excluding the impact of the 53rd week in 2000, gross margin, as a percentage of sales, was unchanged in 2001.

Selling, General and Administrative Expenses

Selling, general and administrative expenses ("SG&A") increased by $5 million in 2002 to $928 million. The increase included $13 million related to new store openings, $11 million related to the impact of foreign currency fluctuations primarily related to the euro and $10 million related to increased pension costs. The increase in pension costs resulted from the decline in plan asset values and the expected long-term rate of return used to determine the expense. These increases were partially offset by $29 million in the reduction in SG&A expenses related to the dispositions of The San Francisco Music Box Company and the Burger King and Popeye's franchises during the third quarter of 2001 and a $3 million increase in income related to the postretirement plan. The increase in postretirement income of $3 million resulted from the amortization of the associated gains. SG&A, as a percentage of sales, decreased to 20.6 percent in 2002 from 21.1 percent in 2001. During 2002, the Company recorded asset impairment charges of $6 million and $1 million related to the Kids Foot Locker and Lady Foot Locker formats, respectively, compared with $2 million in 2001 for the Lady Foot Locker format. SG&A in 2002 was reduced by a net foreign exchange gain of $4 million related to intercompany foreign currency denominated firm commitments.

SG&A declined by $52 million in 2001 to 21.1 percent, as a percentage of sales, compared with 22.4 percent in 2000. These declines reflect the operating efficiencies achieved by the ongoing store base during 2001 as compared with a year earlier, as a result of previous cost-cutting initiatives and restructuring programs. The completion of the sales of The San Francisco Music Box Company and Burger King and Popeye's franchises significantly contributed to the reduction in SG&A expenses. Salaries and payroll expenses have declined year-over-year, primarily reflecting reduced bonus expense during 2001. The impact of the 53rd week in 2000 was not material. SG&A included income of $8 million in 2001 and $5 million in 2000, which primarily reflected the amortization of gains associated with the Company's postretirement benefits. The increase in 2001 reflected income of $3 million related to a change in the postretirement benefit plans. As a result of this change, new retirees will be charged the full expected cost of the medical plan, and existing retirees will incur 100 percent of the expected future increase in medical plan costs. In 2001 and 2000, SG&A also included $4 million of income related to the Company's pension plan, as the expected return on the plan assets exceeded the cost to provide benefits. SG&A also included an asset impairment charge of $2 million in 2001 for the Lady Foot Locker format. There were no material asset impairment charges in 2000.

Depreciation and Amortization

Depreciation and amortization of $149 million decreased by 3.2 percent in 2002 from $154 million in 2001. The impact of no longer amortizing goodwill, as required by SFAS No. 142, which was adopted by the Company effective February 3, 2002, was $7 million and was partially offset by increased depreciation of $2 million associated with the new store opening program, primarily in Europe.

Depreciation and amortization of $154 million increased by 2.0 percent in 2001 from $151 million in 2000.

Other Income

The Company received cash proceeds of $6 million in 2002 related to the condemnation of a part-owned and part-leased property and recorded a net gain of $2 million. The Company also recorded a gain from the sale of real estate of $1 million in 2002.

Other income in 2001 comprised real estate gains of $1 million and a $1 million adjustment to the gain on the 1999 sale of Afterthoughts. Other income in 2000 primarily reflected corporate real estate gains of $11 million and a $6 million gain associated with the demutualization of the Metropolitan Life Insurance Company, offset by a $1 million reduction in the gain on the 1998 sale of the Garden Centers nursery business.

Operating Results

Total operating profit before corporate expense, net increased by $58 million, or 22.1 percent, to $321 million in 2002. This increase was primarily due to operating losses and costs related to exiting disposed businesses in 2001 of $44 million, as compared with restructuring income of $2 million in 2002, and a $12 million increase in operating profit for ongoing operations. Operating profit before corporate expense, net from ongoing operations, as a percentage of sales, was 7.1 percent in 2002 and in 2001.

Total operating profit before corporate expense, net increased by $3 million, or 1.2 percent, to $263 million in 2001 from $260 million in 2000. The increase reflected an increase of $37 million in operating profit before corporate expense, net for ongoing operations, which was partially offset by incremental restructuring charges and operating losses of $34 million related to disposed businesses. Operating profit before corporate expense, net from ongoing operations, excluding the impact of the 53rd week in 2000, increased by 20.9 percent to $307 million in 2001 from $254 million in 2000. The increase in operating profit in 2001 primarily reflected lower operating expenses.

Interest Expense, Net

(In millions)	2002	2001	2000
Interest expense	$ 33	$ 35	$ 41
Interest income	(7)	(11)	(19)
Interest expense, net	$ 26	$ 24	$ 22
Weighted-average interest rate (excluding facility fees):			
Short-term debt	—%	6.0%	9.2%
Long-term debt	7.2%	7.4%	8.0%
Total debt	7.2%	7.4%	8.2%
Short-term debt outstanding during the year:			
High	$—	$ 11	$206
Weighted-average	$—	$—	$ 68

Interest expense of $33 million declined by 5.7 percent in 2002 from $35 million in 2001. Interest expense related to short-term debt decreased by $1 million primarily as a result of the amortization of deferred financing costs related to the revolving credit facility over the amended agreement term. Interest expense related to long-term debt also declined by $1 million. There was an increase of $3 million in interest expense in 2002 resulting from the issuance of the $150 million 5.50 percent convertible notes in June 2001. This increase was more than offset by the reduction in interest expense that resulted from the repayment of the remaining $32 million of the $40 million 7.00 percent medium-term notes in October 2002 and the interest expense in 2001 associated with the $50 million 6.98 percent medium-term notes that were repaid in October 2001.

Interest expense declined by 14.6 percent in 2001, reflecting an $8 million decrease in interest expense associated with short-term borrowings as the Company was in a net investment position for substantially all of 2001, which was offset by an increase in interest expense of $2 million related to long-term debt. The issuance of the $150 million convertible notes in June 2001 increased interest expense by $5 million, which was partially offset by the impact of repaying and retiring $58 million of medium-term notes in the second half of 2001.

Interest income related to cash and cash equivalents and other short-term investments amounted to $5 million in 2002 and $4 million in 2001. Interest income in both 2002 and 2001 included $2 million of interest income related to tax refunds and settlements. Also included was intercompany interest of $5 million in 2001 related to the Northern Group segment. The offsetting interest expense for the Northern Group was charged to the reserve for discontinued operations.

Interest income related to cash and cash equivalents and other short-term investments amounted to $4 million in both 2001 and 2000. Interest income in 2001 and 2000 included $2 million and $5 million, respectively, of interest income related to tax refunds and settlements. Also included in interest income was intercompany interest of $5 million and $10 million in 2001 and 2000 related to the Northern Group segment. The offsetting interest expense for the Northern Group is included in the loss from discontinued operations through the measurement date and subsequently, in 2001, was charged to the reserve for discontinued operations.

Income Taxes

The effective rate for 2002 was 34.2 percent, as compared with 36.6 percent in the prior year. During the first quarter of 2002, the Company recorded a $3 million tax benefit related to a reduction in the valuation allowance for deferred tax assets related to a multistate tax planning strategy and subsequently, during the year, recorded an additional $2 million tax benefit related to this strategy. During the second quarter of 2002, the Company recorded a $2 million tax benefit related to a reduction in the valuation allowance for deferred tax assets related to foreign tax credits. During the fourth quarter the Company recorded a $1 million tax benefit related to the settlement of tax examinations and $1 million related to international tax planning strategies. The combined effect of these items, in addition to higher earnings in lower tax jurisdictions and the utilization of tax loss carryforwards reduced the effective tax rate to 34.2 percent in 2002. The Company expects the effective tax rate to be approximately 37 percent for 2003.

In 2001, the effective tax rate was 36.6 percent. The Company recorded a tax benefit during 2001 of $7 million related to state and local income tax settlements, partially offset by a $2 million charge from the impact of Canadian tax rate reductions on existing deferred tax assets. The combined effect of these items, in addition to higher earnings in lower tax jurisdictions and the utilization of tax loss carryforwards offset, in part, by the impact of non-deductible goodwill reduced the effective tax rate.

Discontinued Operations

On January 23, 2001, the Company announced that it was exiting its 694 store Northern Group segment. The Company recorded a charge to earnings of $252 million before-tax, or $294 million after-tax, in 2000 for the loss on disposal of the segment. Major components of the charge included expected cash outlays for lease buyouts and real estate disposition costs of $68 million, severance and personnel related costs of $23 million and operating losses and other exit costs from the measurement date through the expected date of disposal of $24 million. Non-cash charges included the realizaton of a $118 million currency translation loss, resulting from the movement in the Canadian dollar during the period the Company held its investment in the segment and asset write-offs of $19 million. The Company also recorded a tax benefit for the liquidation of the Northern U.S. stores of $42 million, which was offset by a valuation allowance of $84 million to reduce the deferred tax assets related to the Canadian operations to an amount that is more likely than not to be realized.

In the first quarter of 2001, the Company recorded a tax benefit of $5 million as a result of the implementation of tax planning strategies related to the discontinuance of the Northern Group. During the second quarter of 2001, the Company completed the liquidation of the 324 stores in the United States and recorded a charge to earnings of $12 million before-tax, or $19 million after-tax. The charge comprised the write-down of the net assets of the Canadian business to their net realizable value pursuant to the then pending transaction, which was partially offset by reduced severance costs as a result of the transaction and favorable results from the liquidation of the U.S. stores and real estate disposition activity. On September 28, 2001, the Company completed the stock transfer of the 370 Northern Group

stores in Canada, through one of its wholly-owned subsidiaries for approximately CAD$59 million (approxiamately US$38 million), which was paid in the form of a note (the "Note"). The purchaser agreed to obtain a revolving line of credit with a lending institution, satisfactory to the Company, in an amount not less than CAD$25 million (approximately US$17 million). Another wholly-owned subsidiary of the Company was the assignor of the store leases involved in the transaction and therefore retains potential liability for such leases. The Company also entered into a credit agreement with the purchaser to provide a revolving credit facility to be used to fund its working capital needs, up to a maximum of CAD$5 million (approximately US$3 million). The net amount of the assets and liabilities of the former operations was written down to the estimated fair value of the Note, approximately US$18 million. The transaction was accounted for pursuant to SEC Staff Accounting Bulletin Topic 5:E "Accounting for Divestiture of a Subsidiary or Other Business Operation," ("SAB Topic 5:E") as a "transfer of assets and liabilities under contractual arrangement" as no cash proceeds were received and the consideration comprised the Note, the repayment of which is dependent on the future successful operations of the business. The assets and liabilities related to the former operations were presented under the balance sheet captions as "Assets of business transferred under contractual arrangement (note receivable)" and "Liabilities of business transferred under contractual arrangement."

In the fourth quarter of 2001, the Company further reduced its estimate for real estate costs by $5 million based on then current negotiations, which was completely offset by increased severance, personnel and other disposition costs.

The Company recorded a charge of $18 million in the first quarter of 2002 reflecting the poor performance of the Northern Group stores in Canada since the date of the transaction. There was no tax benefit recorded related to the $18 million charge, which comprised a valuation allowance in the amount of the operating losses incurred by the purchaser and a further reduction in the carrying value of the net amount of the assets and liabilities of the former operations to zero, due to greater uncertainty with respect to the collectibility of the Note. This charge was recorded pursuant to SAB Topic 5:E, which requires accounting for the Note in a manner somewhat analogous to equity accounting for an investment in common stock.

In the third quarter of 2002, the Company recorded a charge of approximately $1 million before-tax for lease exit costs in excess of previous estimates. In addition, the Company recorded a tax benefit of $2 million, which also reflected the impact of the tax planning strategies implemented related to the discontinuance of the Northern Group.

On December 31, 2002, the Company-provided revolving credit facility expired, without having been used. Furthermore, the operating results of Northern Canada had significantly improved during the year such that the Company had reached an agreement in principle to receive CAD$5 million (approximately US$3 million) cash consideration in partial prepayment of the Note and accrued interest due and agreed to reduce the face value of the Note to CAD$17.5 million (approximately US$12 million). Based upon the improved results of the Northern Canada business, the Company believes there is no substantial uncertainty as to the amount of the future costs and expenses that could be payable by the Company. As indicated above, as the assignor of the Northern Canada leases, a wholly-owned subsidiary of the Company remains secondarily liable under those leases. As of February 1, 2003, the Company estimates that its gross contingent lease liability is between CAD$88 to $95 million (approximately US$57 to $62 million). Based upon its assessment of the risk of having to satisfy that liability and the resultant possible outcomes of lease settlement, the Company currently estimates the expected value of the lease liability to be approximately US$2 million. The Company believes that it is unlikely that it would be required to make such contingent payments, and further, such contingent obligations would not be expected to have a material effect on the Company's consolidated financial position, liquidity or results of operations. As a result of the aforementioned developments, during the fourth quarter of 2002 circumstances changed sufficiently such that it became appropriate to recognize the transaction as an accounting divestiture.

During the fourth quarter of 2002, as a result of the accounting divestiture, the Note was recorded in the financial statements at its estimated fair value of CAD$16 million (approximately US$10 million). The Company, with the assistance of an independent third party, determined the estimated fair value by discounting expected cash flows at an interest rate of 18 percent. This rate was selected considering such factors as the credit rating of the purchaser, rates for similar instruments and the lack of marketability of the Note. As the net assets of the former operations were previously written down to zero, the fair value of the Note was recorded as a gain on disposal within discontinued operations. There was no tax expense recorded related to this gain. The Company will no longer present the assets and liabilities of Northern Canada as "Assets of business transferred under contractual arrangement (note receivable)" and "Liabilities of business transferred under contractual arrangement," but rather will record the Note initially at its estimated fair value. At February 1, 2003, US$4 million is classified as a current receivable with the remainder classified as long term within other assets in the accompanying Consolidated Balance Sheet.

Future adjustments, if any, to the carrying value of the Note will be recorded pursuant to SEC Staff Accounting Bulletin Topic 5:Z:5, "Accounting and Disclosure Regarding Discontinued Operations," which requires changes in the carrying value of assets received as consideration from the disposal of a discontinued operation to be classified within continuing operations. Interest income will also be recorded within continuing operations. The Company will recognize an impairment loss when, and if, circumstances indicate that the carrying value of the Note may not be recoverable. Such circumstances would include a deterioration in the business, as evidenced by significant operating losses incurred by the purchaser or non-payment of an amount due under the terms of the Note.

On May 6, 2003, the amendments to the Note were executed and a cash payment of CAD$5.2 million (approximately US$3.5 million) was received representing principal and interest through the date of the amendment. After taking into account this payment, the remaining principal due under the Note is CAD$17.5 million (approximately US$12 million). Under the terms of the renegotiated Note, a principal payment of CAD$1 million is due January 15, 2004. An accelerated principal payment of CAD$1 million may be due if certain events occur. The remaining amount of the Note is required to be repaid upon the occurrence of "payment events," as defined in the purchase agreement, but no later than September 28, 2008. Interest is payable semiannually and will accrue beginning on May 1, 2003 at a rate of 7.0 percent per annum.

Net disposition activity of $13 million in 2002 included the $18 million reduction in the carrying value of the net assets and liabilities, recognition of the note receivable of $10 million, real estate disposition activity of $1 million and severance and other costs of $4 million. Net disposition activity of $116 million in 2001 included real estate disposition activity of $46 million, severance of $8 million, asset impairments of $23 million, operating losses of $28 million, a $5 million interest expense allocation based on intercompany debt balances and other costs of $6 million. The remaining reserve balance of $7 million at February 1, 2003 is expected to be utilized within twelve months.

The net loss from discontinued operations for 2000 includes sales of $335 million, and an interest expense allocation of $10 million based on intercompany debt balances, restructuring charges of $3 million and long-lived asset impairment charges of $4 million.

In 1998, the Company exited both its International General Merchandise and Specialty Footwear segments. In the second quarter of 2002, the Company recorded a $1 million charge for a lease liability related to a Woolco store in the former International General Merchandise segment, which was more than offset by a net reduction of $2 million before-tax, or $1 million after-tax, for each of the second and third quarters of 2002 in the Specialty Footwear reserve primarily reflecting real estate costs more favorable than original estimates.

In 1997, the Company announced that it was exiting its Domestic General Merchandise segment. In the second quarter of 2002, the Company recorded a charge of $4 million before-tax, or $2 million after-tax, for legal actions related to this segment, which have since been settled. In addition, the successor-assignee of the leases of a former business included in the Domestic General Merchandise segment has filed a petition in bankruptcy, and rejected in the bankruptcy proceeding 15 leases it originally acquired from a subsidiary of the Company. There are currently several actions pending against this subsidiary by former landlords for the lease obligations. In the fourth quarter of 2002, the Company recorded a charge of $1 million after-tax related to certain actions. The Company estimates the gross contingent lease liability related to the remaining actions as approximately $9 million. The Company believes that it may have valid defenses, however as these actions are in the preliminary stage of proceedings, their outcome cannot be predicted with any degree of certainty.

The remaining reserve balances for these three discontinued segments totaled $20 million as of February 1, 2003, $11 million of which is expected to be utilized within twelve months and the remaining $9 million thereafter.

Repositioning and Restructuring Reserves

1999 Restructuring

Total restructuring charges of $96 million before-tax were recorded in 1999 for the Company's restructuring program to sell or liquidate eight non-core businesses. The restructuring plan also included an accelerated store-closing program in North America and Asia, corporate headcount reduction and a distribution center shutdown.

Throughout 2000, the disposition of Randy River Canada, Foot Locker Outlets, Colorado, Going to the Game!, Weekend Edition and the accelerated store closing programs were essentially completed and the Company recorded additional restructuring charges of $8 million. In the third quarter of 2000, management decided to continue to operate Team Edition as a manufacturing business, primarily as a result of the resurgence of the screen print business. The Company completed the sales of The San Francisco Music Box Company and the assets related to its Burger King and Popeye's franchises in 2001, for cash proceeds of approximately $14 million and $5 million, respectively. Restructuring charges of $33 million in 2001 and reductions to the reserves of $2 million in 2002 were primarily due to The San Francisco Music Box Company sale. The remaining reserve balance of $1 million at February 1, 2003 is expected to be utilized within twelve months.

The 1999 accelerated store-closing program comprised all remaining Foot Locker stores in Asia and 150 stores in the United States and Canada. Total restructuring charges of $13 million were recorded and the program was essentially completed in 2000. During 2000, management decided to continue to operate 32 stores included in the program as a result of favorable lease renewal terms offered during negotiations with landlords. The impact on the reserve was not significant and was, in any event, offset by lease buy-out costs for other stores in excess of original estimates. Of the original 1,400 planned terminations associated with the store-closing program, approximately 200 positions were retained as a result of the continued operation of the 32 stores.

In connection with the disposition of several of its non-core businesses, the Company reduced sales support and corporate staff by over 30 percent, reduced divisional staff and consolidated the management of Kids Foot Locker and Lady Foot Locker into one organization. In additon, the Company closed its Champs Sports distribution center in Maumelle, Arkansas and consolidated its operations with the Foot Locker facility located in Junction City, Kansas. Total restructuring charges of $20 million were recorded in 1999 and approximately 400 positions were eliminated. In 2000, the Company recorded a reduction to the corporate reserve of $7 million, $5 million of which related to the agreement to sublease its Maumelle distribution center and sell the associated fixed assets, which had been impaired in 1999, for proceeds of approximately $3 million. A further $2 million reduction reflected better than anticipated real estate and severance payments. In the fourth quarter of 2001, the Company recorded a $1 million restructuring charge in connection with the termination of its Maumelle distribution center lease, which was completed in 2002.

Included in the consolidated results of operations are sales of $54 million and $139 million and operating losses of $12 million and $4 million in 2001 and 2000, respectively, for the above non-core businesses and under-performing stores, excluding Team Edition.

1993 Repositioning and 1991 Restructuring

The Company recorded charges of $558 million in 1993 and $390 million in 1991 to reflect the anticipated costs to sell or close under-performing specialty and general merchandise stores in the United States and Canada. Under the 1993 repositioning program, approximately 970 stores were identified for closing. Approximately 900 stores were closed under the 1991 restructuring program. The remaining reserve balance of $2 million at February 1, 2003, is expected to be substantially utilized within twelve months.

Store Count

At February 1, 2003, the Company operated 3,625 stores, as compared with 3,590 at February 2, 2002. During 2002, the Company opened 157 stores, closed 122 stores and remodeled/relocated 205 stores.

Segment Information

The Company operates in two segments—Athletic Stores and Direct-to-Customers. Athletic Stores formats include the Foot Locker businesses—Foot Locker, Lady Foot Locker and Kids Foot Locker—as well as Champs Sports. The Foot Locker format is located in North America, Europe and Australia. The Lady Foot Locker and Kids Foot Locker formats operate in the United States, and Champs Sports operates in the United States and Canada. The Direct-to-Customers division operates Footlocker.com, Inc., which sells, through its affiliates, directly to customers through catalogs and the Internet. Eastbay, Inc., one of its affiliates, is one of the largest direct marketers of athletic footwear, apparel and equipment in the United States, and provides the Company's seven full-service e-commerce sites access to an integrated fulfillment and distribution system. Included in the Company's disposed category are Foot Locker Outlets, Going to the Game! and Foot Locker Asia.

Athletic Stores

(In millions)	2002	2001	2000
Sales			
Stores	$4,160	$3,999	$3,953
Disposed	—	—	1
Total sales	$4,160	$3,999	$3,954
Operating profit before corporate expense, net			
Stores	$ 279	$ 283	$ 269
Disposed	—	—	(2)
Restructuring income	1	—	4
Total operating profit before corporate expense, net	$ 280	$ 283	$ 271
Sales as a percentage of consolidated total	92%	92%	91%
Number of stores at year end	3,625	3,590	3,582
Selling square footage (in millions)	8.04	7.94	7.91
Gross square footage (in millions)	13.22	13.14	13.08

Athletic Stores sales of $4,160 million increased 4.0 percent in 2002, as compared with $3,999 million in 2001. The increase was in part due to the strength of the euro's performance against the U.S. dollar in 2002, particularly in the third and fourth quarters. Excluding the effect of foreign currency fluctuations, sales from athletic store formats increased 2.8 percent in 2002, which was driven by the Company's new store opening program, particularly in Foot Locker Europe, Champs Sports and Foot Locker Australia. Foot Locker Europe and Foot Locker Australia generated impressive comparable-store sales increases and Champs Sports also contributed a comparable-store sales increase. Athletic Stores comparable-store sales decreased by 0.4 percent in 2002.

The Foot Locker business in the United States showed disappointing sales during 2002. In the United States, both the basketball category as well as the current trend in classic shoes led footwear sales across most formats, although certain higher-priced marquee footwear did not sell as well as anticipated in the first quarter of 2002. During the second quarter of 2002, the Company successfully moved its marquee footwear back in line with historical levels and refocused its marquee footwear selection on products having a retail price of $90 to $120 per pair and made changes to the product assortment, which accommodated customer demands in the third quarter of 2002. Lower mall traffic resulted in disappointing sales during the fourth quarter of 2002. Sales, however, continued to benefit from the apparel strategy led by merchandise in private label and licensed offerings.

Sales from the Lady Foot Locker and Kids Foot Locker formats were particularly disappointing in 2002. The Kids Foot Locker format, which had previously been managed in conjunction with Lady Foot Locker, is currently being managed by the Foot Locker U.S. management team. Pursuant to SFAS No. 144, the Company performed an analysis of the recoverability of store long-lived assets for the Lady Foot Locker format during the third quarter of 2002 and for the Kids Foot Locker format during the fourth quarter of 2002 and recorded asset impairment charges of $1 million and $6 million, respectively. Management has implemented various merchandising strategies in an effort to improve future performance and expects the businesses to return to historical levels of profitability.

Sales of $3,999 million from ongoing athletic store formats increased 1.2 percent in 2001, compared with $3,953 million in 2000. Excluding the impact of the 53rd week in 2000 and the effect of foreign currency fluctuations, sales from ongoing store formats increased 3.4 percent in 2001, compared with 2000, reflecting a comparable-store sales increase of 4.0 percent. The most significant growth was in Foot Locker Europe, which generated comparable-store increases in the double-digits. Champs Sports also contributed impressive comparable-store sales increases and Foot Locker U.S., Australia and Canada contributed solid increases. High-end basketball shoes continued to drive the strong footwear sales performance as the number of launches of marquee and exclusive footwear products contributed to incremental sales during the year. Apparel sales also increased in 2001 and reflected a balanced mix of branded, licensed and private label products.

Operating profit before corporate expense, net from ongoing athletic store formats decreased 1.4 percent to $279 million in 2002 from $283 million in 2001. Operating profit before corporate expense, net, as a percentage of sales, decreased to 6.7 percent in 2002 from 7.1 percent in 2001 primarily due to the increased operating expenses associated with the new store opening program. The impact of no longer amortizing goodwill as a result of the Company's adoption of SFAS No. 142 was a reduction of amortization expense of $2 million in 2002. Operating performance improved internationally but was more than offset by the decline in performance in the United States from the Foot Locker, Lady Foot Locker and Kids Foot Locker formats. Operating profit before corporate expense, net included asset impairment charges of $1 million and $2 million in 2002 and 2001, respectively, for the Lady Foot Locker format. An asset impairment charge of $6 million was also recorded in 2002 related to the Kids Foot Locker format.

Operating profit before corporate expense, net from ongoing athletic store formats increased 5.2 percent to

$283 million in 2001 from $269 million in 2000. Excluding the impact of the 53rd week in 2000, operating profit before corporate expense, net from ongoing athletic store formats increased 11.4 percent in 2001 form $254 million in 2000. The increase in 2001 was driven by all formats, with the exception of Lady Foot Locker, for which an asset impairment charge of $2 million was recorded in 2001. There were no material asset impairment charges in 2000.

Direct-to-Customers

(In millions)	2002	2001	2000
Sales	$349	$326	$279
Operating profit before corporate expense, net	$ 40	$ 24	$ 1
Sales as a percentage of consolidated total	8%	7%	6%

Direct-to-Customers sales increased by 7.1 percent to $349 million in 2002 from $326 million in 2001. The Internet business continued to drive the sales growth in 2002. Internet sales increased by $44 million, or 44.0 percent, to $144 million in 2002 compared with $100 million in 2001. Catalog sales decreased 9.3 percent to $205 million in 2002 from $226 million in 2001. Management believes that the decrease in catalog sales is substantially offset by the increase in Internet sales as the trend has continued for customers to browse and select products through its catalogs and then to make their purchases via the Internet. During 2002, the Company implemented many new initiatives designed to increase market share within the Internet arena. A new catalog website was launched that will offer value-based products. The Company began to offer product customization to further differentiate its products from those of competitors, expanded on the existing relationship with the National Football League and, prior to the end of 2002, entered into a strategic alliance to offer footwear and apparel on the Amazon.com website. Foot Locker is a featured brand in the Amazon.com specialty store for apparel and accessories.

Direct-to-Customers sales increased 16.8 percent in 2001 to $326 million compared with $279 million in 2000. Excluding the impact of the 53rd week in 2000, Direct-to-Customers sales increased by 18.5 percent in 2001. The Internet business continued to drive the sales growth in 2001. Internet sales increased by $42 million to $100 million in 2001 compared with $58 million in 2000, which was driven by an increase in product offerings and the continued growth of the overall Internet market in 2001. The impact of the 53rd week did not have a material impact on Internet sales. Catalog sales, excluding the impact of the 53rd week in 2000, increased 3.7 percent to $226 million in 2001 from $218 million in 2000, reflecting increased catalog distribution and an expanded product assortment available to consumers.

The Direct-to-Customers business generated operating profit before corporate expense, net of $40 million in 2002 compared with $24 million in 2001, and continued to increase profitability levels greater than the Athletic Stores segment. Operating profit before corporate expense, net, as a percentage of sales, increased to 11.5 percent in 2002 from 7.4 percent in 2001. The increase was primarily due to the increase in gross margin, reduced marketing costs and $5 million related to the impact of no longer amortizing goodwill as a result of the Company's adoption of SFAS No. 142 in 2002. Management anticipates that the sales growth in its integrated Internet and catalog business will continue in future years at high levels of profitability.

The Direct-to-Customers business generated operating profit before corporate expense, net of $24 million in 2001 compared with $1 million in 2000. The increase in operating profit was primarily due to the increase in sales performance. Excluding the impact of the 53rd week in 2000, the Direct-to-Customers business broke even in 2000.

Business Concentration

In 2002, the Company purchased approximately 71 percent of its merchandise from five vendors and expects to continue to obtain a significant percentage of its athletic product from these vendors in future periods. Of that amount, approximately 44 percent was purchased from one vendor—Nike, Inc. ("Nike")—and 11 percent from another. While the Company generally considers its relationships with its vendors to be satisfactory, given the significant concentration of its purchases from a few key vendors, its access to merchandise that it considers appropriate for its stores, catalogs, and online retail sites may be subject to the policies and practices of key vendors.

During 2002, Nike advised the Company that Nike would limit purchases of certain marquee and launch athletic footwear by the Company's U.S. divisions for delivery after February 1, 2003. Also, the Company has reduced its orders for certain other products offered for sale by Nike. The Company expects to make incremental purchases of marquee and launch product from its other key vendors, which the Company currently expects will allow it to meet customer demand for marquee and launch products. The Company expects that Nike will continue to be a significant supplier in 2003 and will reflect approximately 32 percent to 38 percent of its 2003 merchandise purchases.

All Other Businesses

The disposition of all business formats captured in the "All Other" category was completed during 2001. They include Afterthoughts, The San Franciso Music Box Company, Burger King and Popeye's franchises, Randy River Canada, Weekend Edition and Garden Centers.

(In millions)	2002	2001	2000
Sales	$—	$ 54	$ 123
Operating profit (loss) before corporate expense, net			
Disposed	$—	$(12)	$ —
Restructuring income (charges)	1	(33)	(11)
Gain (loss) on sale of businesses	—	1	(1)
Total operating profit (loss) before corporate expense, net	$ 1	$(44)	$ (12)
Sales as a percentage of consolidated total	—%	1%	3%
Number of stores at year end	—	—	170
Selling square footage (in millions)	—	—	0.18
Gross square footage (in millions)	—	—	0.24

In connection with the 1999 restructuring program, restructuring income of $1 million was recorded in 2002 as a reduction in the previous charges related to the disposition of the

non-core businesses. Restructuring charges of $33 million and $11 million were recorded in 2001 and 2000, respectively, for the disposition of The San Francisco Music Box Company and the Burger King and Popeye's franchises.

The sale of The San Francisco Music Box Company was completed on November 13, 2001, for cash proceeds of approximately $14 million. In addition, on October 10, 2001, the Company completed the sale of assets related to its Burger King and Popeye's franchises for cash proceeds of approximately $5 million.

In 2001, a $1 million adjustment was recorded to the gain on the 1999 sale of Afterthoughts. In 2000, the Company recorded a $1 million adjustment to the $19 million gain recognized on the 1998 sale of the Garden Centers nursery business.

Liquidity and Capital Resources

Cash Flow and Liquidity

Generally, the Company's primary source of cash has been from operations. The Company has a $190 million revolving credit facility available through June 2004. In 2001, the Company raised $150 million in cash through the issuance of subordinated convertible notes. The Company generally finances real estate with operating leases. The principal uses of cash have been to finance inventory requirements, capital expenditures related to store openings, store remodelings and management information systems, and to fund other general working capital requirements.

Management believes operating cash flows and current credit facilities will be adequate to finance its working capital requirements, to make scheduled pension contributions for the Company's retirement plans, to fund quarterly dividend payments, which are part of the approved dividend payment program, and support the development of its short-term and long-term operating strategies. Planned capital expenditures for 2003 are $148 million, of which $114 million relates to new store openings and modernizations of existing stores and $34 million reflects the development of information systems and other support facilities. In addition, planned lease acquisition costs are $17 million and primarily relate to the Company's operations in Europe. The Company has the ability to revise and reschedule the anticipated capital expenditure program should the Company's financial position require it.

Any materially adverse reaction to customer demand, fashion trends, competitive market forces, uncertainties related to the effect of competitive products and pricing, customer acceptance of the Company's merchandise mix and retail locations, the Company's reliance on a few key vendors for a significant portion of its merchandise purchases (and on one key vendor for approximately 44 percent of its merchandise purchases), risks associated with foreign global sourcing or economic conditions worldwide could affect the ability of the Company to continue to fund its needs from business operations.

Operating activities of continuing operations provided cash of $347 million in 2002 compared with $204 million in 2001. These amounts reflect income from continuing operations, adjusted for non-cash items and working capital changes. The increase in cash-flow from operations of $143 million in 2002 is primarily due to improved operating performance and is also related to working capital changes primarily related to merchandise inventories, offset by the related payables and income taxes payable. During the third quarter of 2002, the Company recorded a current receivable of approximately $45 million related to a Federal income tax refund and subsequently received the cash during the fourth quarter. Payments charged to the repositioning and restructuring reserves were $3 million in 2002 compared with $62 million in 2001.

Operating activities of continuing operations provided cash of $204 million in 2001 compared with $265 million in 2000. The decline in cash flow from operations in 2001 reflected increased cash outflows for merchandise inventories and income taxes payable and repositioning and restructuring reserves. Payments charged to repositioning reserves were $62 million in 2001 compared with $38 million in 2000.

Net cash used in investing activities of continuing operations was $162 million in 2002 compared with $116 million in 2001. Capital expenditures of $150 million in 2002 and $116 million in 2001 primarily related to store remodelings and new stores. Lease acquisition costs, primarily related to the process of securing and extending prime lease locations for real estate in Europe, were $18 million and $20 million in 2002 and 2001, respectively. Proceeds from sales of real estate and other assets and investments were $6 million in 2002 compared with $20 million in 2001. Proceeds from the condemnation of the Company's part-owned and part-leased property contributed $6 million of cash received in 2002. Proceeds from the sales of The San Francisco Music Box Company and the Burger King and Popeye's franchises contributed $14 million and $5 million in cash, respectively, in 2001.

Net cash used in investing activities of continuing operations was $116 million in 2001 compared with $86 million in 2000. The change was due to proceeds from sales of real estate and other assets and investments of $20 million in 2001 compared with $25 million in 2000, in addition to the $22 million increase in capital expenditures in 2001. Capital expenditures of $116 million in 2001 primarily related to store remodelings and new stores compared with $94 million in 2000.

Cash used in financing activities of the Company's continuing operations was $36 million in 2002 as compared with $89 million of cash provided by financing activities of continuing operations in 2001. The change in 2002 compared with 2001 was primarily due to the issuance of $150 million of convertible notes on June 8, 2001, which was partially offset by the repayment of the $50 million 6.98 percent medium-term notes that matured in October 2001 and the purchase and retirement of $8 million of the $40 million 7.00 percent medium-term notes payable in October 2002. During 2002, the repayment of debt continued as the Company repaid the balance of the $40 million 7.00 percent medium-term notes that were due in October 2002 and $9 million of the $200 million of debentures due in 2022. There were no outstanding borrowings under the Company's revolving credit agreement as of February 1, 2003 and February 2, 2002. During 2002, the Board of Directors of the Company initiated a dividend program and declared and paid a $0.03 per share dividend during the fourth quarter of 2002 of $4 million.

Cash provided by financing activities of the Company's continuing operations was $89 million in 2001 compared with cash used in financing activities of $167 million in 2000. The change in 2001 compared with 2000 was primarily due to the issuance of $150 million of convertible notes and the $113 million reduction in debt repayments for both short-term and long-term borrowings in 2001 compared with 2000. There were no outstanding borrowings under the Company's

revolving credit agreement as of February 2, 2002 and February 3, 2001. In 2001, the Company also repaid the $50 million 6.98 percent medium-term notes that matured in October 2001 and purchased and retired $8 million of the $40 million 7.00 percent medium-term notes payable in October 2002.

Net cash used in discontinued operations includes the loss from discontinued operations, the change in assets and liabilities of the discontinued segments and disposition activity related to the reserves. In 2002 and 2001, discontinued operations utilized cash of $10 million and $75 million, respectively, which consisted of payments for the Northern Group's operations and disposition activity related to the other discontinued segments. In 2000, discontinued operations utilized cash of $67 million, which comprised the loss of $50 million from the Northern Group's operations and disposition activity related to the other discontinued segments.

Capital Structure

The Company reduced debt and capital lease obligations, net of cash and cash equivalents to zero at February 1, 2003 from $184 million at February 2, 2002. In 2002, the Company repaid the remaining $32 million of the $40 million 7.00 percent medium-term notes that were payable in October 2002 and repurchased and retired $9 million of the $200 million 8.50 percent notes due in 2022, contributing to the reduction of debt and capital lease obligations, net of cash and cash equivalents. During the fourth quarter of 2002, the Board of Directors initiated the Company's dividend program and declared and paid a dividend of $0.03 per share. The Company will also be making scheduled contributions to the retirement plans. The Company made a $50 million contribution to its U.S. qualified retirement plan in February 2003, in advance of ERISA requirements.

During 2001, the Company issued $150 million of subordinated convertible notes due in 2008 and simultaneously amended its $300 million revolving credit agreement to a reduced $190 million three-year facility. The subordinated convertible notes bear interest at 5.50 percent and are convertible into the Company's common stock at the option of the holder, at a conversion price of $15.806 per share. The Company may redeem all or a portion of the notes at any time on or after June 4, 2004. The net proceeds of the offering are being used for working capital and general corporate purposes and to reduce reliance on bank financing. The Company's revolving credit facility includes various restrictive covenants with which the Company was in compliance on February 1, 2003. There were no borrowings outstanding under the revolving credit agreement at February 1, 2003. In 2001, the Company repaid its $50 million 6.98 percent medium-term notes that matured in October 2001, in addition to purchasing and retiring $8 million of the $40 million 7.00 percent medium-term notes payable October 2002.

On March 29, 2002, Standard & Poor's increased the Company's credit rating to BB+. On May 28, 2002, Moody's Investors Service's increased the Company's credit rating to Ba2.

For purposes of calculating debt to total capitalization, the Company includes the present value of operating lease commitments. These commitments are the primary financing vehicle used to fund store expansion. The following table sets forth the components of the Company's capitalization, both with and without the present value of operating leases:

(In millions)	2002	2001
Debt and capital lease obligations, net of cash and cash equivalents	$ —	$ 184
Present value of operating leases	1,571	1,372
Total net debt	1,571	1,556
Shareholders' equity	1,110	992
Total capitalization	$2,681	$2,548
Net debt capitalization percent	58.6%	61.1%
Net debt capitalization percent without operating leases	—%	15.6%

Excluding the present value of operating leases, the Company reduced debt and capital lease obligations, net of cash and cash equivalents to zero at February 1, 2003, due to the Company's ability to reduce debt and capital lease obligations by $42 million while increasing cash and cash equivalents by $142 million. These improvements were offset by an increase of $199 million in the present value of operating leases for additional leases entered into during 2002 for the Company's new store program, resulting in an increase in total net debt of $15 million. Including the present value of operating leases, the Company's net debt capitalization percent improved by 2.5 percent in 2002. Total capitalization improved by $133 million in 2002, which was primarily a result of a $118 million increase in shareholders' equity and a $15 million increase in total net debt. The increase in shareholders' equity relates primarily to net income of $153 million in 2002 and an increase of $38 million in the foreign exchange currency translation adjustment primarily related to the increase in the euro, which were partially offset by a charge of $83 million to record an additional minimum liability for the Company's pension plans. The additional mininum liability was required as a result of the plan's negative return on assets in 2002, coupled with a decrease in the discount rate used to value the benefit obligations.

The following represents the scheduled maturities of the Company's long-term contractual obligations and other commercial commitments as of February 1, 2003:

	Payments Due by Period				
(In millions)	Total	Less than 1 Year	2–3 Years	4–5 Years	After 5 Years
Contractual cash obligations					
Long-term debt	$ 342	$ —	$ —	$ —	$ 342
Capital lease obligations	15	1	—	14	—
Operating leases	2,241	357	629	519	736
Total contractual cash obligations	$2,598	$358	$629	$533	$1,078

	Amount of Commitment Expiration by Period				
(In millions)	Total Amounts Committed	Less than 1 Year	2–3 Years	4–5 Years	After 5 Years
Other commercial commitments					
Line of credit	$169	$—	$169	$—	$—
Stand-by letters of credit	21	—	21	—	—
Total commercial commitments	$190	$—	$190	$—	$—

The Company does not have any off-balance sheet financing, other than operating leases entered into in the normal course of business and disclosed above, or unconsolidated special purpose entities. The Company's treasury and risk management policies prohibit the use of leveraged derivatives or derivatives for trading purposes.

In connection with the sale of various businesses and assets, the Company may be obligated for certain lease commitments transferred to third parties and pursuant to certain normal representations, warranties, or indemnifications entered into with the purchasers of such businesses or assets. Although the maximum potential amounts for such obligations cannot be readily determined, management believes that the resolution of such contingencies will not have a material effect on the Company's consolidated financial position, liquidity, or results of operations. The Company is also operating certain stores for which lease agreements are in the process of being negotiated with landlords. Although there is no contractual commitment to make these payments, it is likely that a lease will be executed.

Critical Accounting Policies

Management's responsibility for integrity and objectivity in the preparation and presentation of the Company's financial statements requires diligent application of appropriate accounting policies. Generally, the Company's accounting policies and methods are those specifically required by accounting principles generally accepted in the United States of America ("GAAP"). Note 1 to the Consolidated Financial Statements includes a summary of the Company's most significant accounting policies. In some cases, management is required to calculate amounts based on estimates for matters that are inherently uncertain. The Company believes the following to be the most critical of those accounting policies that necessitate subjective judgments.

Merchandise Inventories

Merchandise inventories for the Company's Athletic Stores are valued at the lower of cost or market using the retail inventory method. The retail inventory method ("RIM") is commonly used by retail companies to value inventories at cost and calculate gross margins by applying a cost-to-retail percentage to the retail value of inventories. The RIM is a system of averages that requires management's estimates and assumptions regarding markups, markdowns and shrink, among others, and as such, could result in distortions of inventory amounts. Judgment is required to differentiate between promotional and other markdowns that may be required to correctly reflect merchandise inventories at the lower of cost or market. Management believes this method and its related assumptions, which have been consistently applied, to be reasonable.

Vendor Allowances

In the normal course of business, the Company receives allowances from its vendors for markdowns taken. Vendor allowances are recognized as a reduction in cost of sales in the period in which the markdowns are taken. The Company has volume-related agreements with certain vendors, under which it receives rebates based on fixed percentages of cost purchases. These rebates are recorded in cost of sales when the product is sold and they contributed 10 basis points to the 2002 gross margin rate.

The Company receives support from some of its vendors in the form of reimbursements for cooperative advertising and catalog costs for the launch and promotion of certain products. The reimbursements are agreed upon with vendors for specific advertising campaigns and catalogs. Such cooperative income is recorded in SG&A in the same period as the associated expense is incurred. Cooperative income amounted to approximately 17 percent of total advertising costs and approximately 7 percent of catalog costs in 2002.

Discontinued and Restructuring Reserves

The Company exited four business segments and other non-core businesses as part of a major restructuring program in recent years. In order to identify and calculate the associated costs to exit these businesses, management makes assumptions regarding estimates of future liabilities for operating leases and other contractual agreements, the net realizable value of assets held for sale or disposal and the fair value of non-cash consideration received. Management believes its estimates, which are reviewed quarterly, to be reasonable, and considers its knowledge of the retail industry, its previous experience in exiting activities and valuations from independent third parties in the calculation of such estimates. However, significant judgment is required and these estimates and assumptions may change as additional information becomes available or as facts or circumstances change.

Impairment of Long-Lived Assets

In accordance with SFAS No. 144, which the Company adopted in 2002, the Company recognizes an impairment loss when circumstances indicate that the carrying value of long-lived tangible and intangible assets with finite lives may not be recoverable. Management's policy in determining whether an impairment indicator exists, a triggering event, comprises measurable operating performance criteria as well as qualitative measures. If an analysis is necessitated by the occurrence of a triggering event, the Company uses assumptions, which are predominately identified from the Company's three-year strategic plans, in determining the impairment amount. The calculation of fair value of long-lived assets is based on estimated expected discounted future cash flows by store, which is generally measured by discounting the expected future cash flows at the Company's weighted-average cost of capital. Management believes its policy is reasonable and is consistently applied. Future expected cash flows are based upon estimates that, if not achieved, may result in significantly different results. Long-lived tangible assets and intangible assets with finite lives

primarily include property and equipment and intangible lease acquisition costs.

In accordance with SFAS No. 142, which the Company adopted in 2002, goodwill is no longer amortized but is subject to impairment review. The Company completed its transitional impairment review as of February 3, 2002 and no impairment charges were recorded. The impairment review requires a two-step approach. The initial step requires that the carrying value of each reporting unit be compared with its estimated fair value. The second step to evaluate goodwill of a reporting unit for impairment is only required if the carrying value of that reporting unit exceeds its estimated fair value. The fair value of each of the Company's reporting units exceeded its carrying value as of February 3, 2002. The Company used a market-based approach to determine the fair value of a reporting unit, which requires judgment and uses one or more methods to compare the reporting unit with similar businesses, business ownership interests or securities that have been sold.

Pension and Postretirement Liabilities

The Company determines its obligations for pension and postretirement liabilities based upon assumptions related to discount rates, expected long-term rates of return on invested plan assets, salary increases, age, mortality and health care cost trends, among others. Management reviews all assumptions annually with its independent actuaries, taking into consideration existing and future economic conditions and the Company's intentions with regard to the plans. Management believes its estimates for 2002, the most significant of which are stated below, to be reasonable. The expected long-term rate of return on invested plan assets is a component of pension expense and the rate is based on the plans' weighted-average asset allocation of 64 percent equity securities and 36 percent fixed income investments, as well as historical and future expected performance of those assets. The Company's common stock represented approximately one percent of the total pension plans' assets at February 1, 2003. A decrease of 50 basis points in the weighted-average expected long-term rate of return would have increased 2002 pension expense by $3 million. The actual return on plan assets in a given year may differ from the expected long-term rate of return and the resulting gain or loss is deferred and amortized over time. An assumed discount rate is used to measure the present value of future cash flow obligations of the plans and the interest cost component of pension expense and postretirement income. The discount rate is selected with reference to the long-term corporate bond yield. A decrease of 50 basis points in the weighted-average discount rate would have increased the accumulated benefit obligation at February 1, 2003 of the pension and postretirement plans by $33 million and $1 million, respectively. Such a decrease would not have significantly changed 2002 pension expense or postretirement income. There is limited risk to the Company for increases in healthcare costs related to the postretirement plan as new retirees have assumed the full expected costs and existing retirees have assumed all increases in such costs since the beginning of fiscal year 2001. The additional minimum liability included in shareholders' equity at February 1, 2003 for the pension plans represented the amount by which the accumulated benefit obligation exceeded the fair market value of plan assets.

2002 Principal Assumptions	Pension Benefits	Postretirement Benefits
Weighted-average discount rate	6.50%	6.50%
Weighted-average rate of compensation increase	3.65%	N/A
Weighted-average expected long-term rate of return on assets	8.87%	N/A

The Company expects to record postretirement income of $12 million and pension expense of $16 million in 2003. Pension expense would be $20 million in 2003 if the Company had not made the $50 million contribution to its U.S. qualified retirement plan in February 2003, in advance of ERISA requirements.

Deferred Tax Assets

In accordance with GAAP, 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. Management is required to estimate taxable income for future years by taxing jurisdiction and to use its judgment to determine whether or not to record a valuation allowance for part or all of a deferred tax asset.

A one percent change in the Company's overall statutory tax rate for 2002 would have resulted in a $5 million change in the carrying value of the net deferred tax asset and a corresponding charge or credit to income tax expense depending on whether such tax rate change was a decrease or increase.

Cumulative Effect of Changes in Accounting Principle

Effective in 2001, the Company adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," and its related amendment, SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities" ("SFAS No. 133"). SFAS No. 133 requires that all derivative financial instruments be recorded in the Consolidated Balance Sheets at their fair values. Changes in fair values of derivatives will be recorded each period in earnings or other comprehensive income (loss), depending on whether a derivative is designated and effective as part of a hedge transaction and, if it is, the type of hedge transaction. The effective portion of the gain or loss on the hedging derivative instrument will be reported as a component of other comprehensive income (loss) and will be reclassified to earnings in the period in which the hedged item affects earnings. To the extent derivatives do not qualify as hedges, or are ineffective, their changes in fair value will be recorded in earnings immediately, which may subject the Company to increased earnings volatility. The adoption of SFAS No. 133 in 2001 did not have a material impact on the Company's consolidated earnings and reduced accumulated other comprehensive loss by approximately $1 million.

The Securities and Exchange Commission issued Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements," in 1999, which interprets generally accepted accounting principles related to revenue recognition in financial statements. In the fourth quarter of 2000, the Company changed its method of accounting for sales under its layaway program and recorded an after-tax expense of $1 million as of the beginning of the fiscal year, representing the cumulative effect of this change on prior years.

Recently Adopted Accounting Pronouncements

In 2002 the Company adopted SFAS No. 142, "Goodwill and Other Intangible Assets" ("SFAS No. 142"). Under SFAS No. 142, goodwill and intangible assets with indefinite lives are no longer amortized but are reviewed at a minimum annually (or more frequently if impairment indicators arise) for impairment. The Company completed the transitional review, which did not result in an impairment charge. Separable intangible assets that are deemed to have definite lives continue to be amortized over their estimated useful lives (but with no maximum life). With respect to goodwill acquired prior to July 1, 2001, the Company ceased amortizing those assets during the first quarter of 2002. Goodwill amortization was $7.5 million in 2001 and $7.7 million in 2000.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS No. 144"), which supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," as well as the accounting and reporting requirements of APB Opinion No. 30 "Reporting the Results of Operations—Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events" ("APB No. 30"). SFAS No. 144 retains the basic provisions of APB No. 30 for the presentation of discontinued operations in the income statement but broadens that presentation to apply to a component of an entity rather than a segment of a business. The pronouncement now provides for a single accounting model for reporting long-lived assets to be disposed of by sale. The Company adopted SFAS No. 144 in 2002, and as required, prior year balance sheet amounts have been conformed for the required presentation of discontinued operations and other long-lived assets held for disposal. In addition, impairment reviews were performed in 2002 pursuant to SFAS No. 144 and impairment charges of $7 million were recorded.

In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections" ("SFAS No. 145"). SFAS No. 145 amends other existing authoritative pronouncements to make various technical corrections, including that gains and losses from extinguishment of debt no longer be classified as extraordinary. The statement also eliminates an inconsistency between the required accounting for sale-leaseback transactions and the required accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions. In addition, it requires that the original lessee under an operating lease agreement that becomes secondarily liable shall recognize the fair value of the guarantee obligation for all transactions occurring after May 15, 2002. The Company adopted SFAS No. 145 as of May 15, 2002, and it did not have a material impact on its financial position or results of operations.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" ("SFAS No. 146"), which is effective for exit and disposal activities that are initiated after December 31, 2002. The statement addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force ("EITF") Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)". The statement requires that the fair value of an initial liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred as opposed to when the entity commits to an exit plan, thereby eliminating the definition and requirements for recognition of exit costs, as is the guidance under EITF 94-3. The Company adopted SFAS No. 146 in 2002, and it did not have a material impact on its financial position or results of operations.

In November 2002, EITF Issue No. 02-16, "Accounting by a Customer (Including a Reseller) for Certain Consideration Received from a Vendor" was issued to clarify the accounting for consideration received from a vendor. Cash received applies to cash received for reimbursements of costs incurred to sell the vendor's products, cooperative advertising and cash received as rebates or refunds based upon cumulative levels of purchases. The pronouncement applies to new arrangements, including modifications of existing arrangements entered into after December 31, 2002. The Company adopted the provisions of the pronouncement, as of January 1, 2003 and it did not have a material impact on its financial position or results of operations.

New Accounting Pronouncements

In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations" ("SFAS No. 143"), which is effective for fiscal years beginning after June 15, 2002. The Company intends to adopt SFAS No. 143 as of the beginning of fiscal year 2003. The statement requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset. The initial amount to be recognized will be at its fair value. The liability will be discounted and accretion expense will be recognized using the credit-adjusted risk-free interest rate in effect when the liability is initially recognized. The Company does not expect the adoption to have a significant impact on its financial position or results of operations.

In December 2002, SFAS No. 148, "Accounting for Stock-Based Compensation—Transition and Disclosure an amendment of FASB Statement No. 123," was issued and provides alternative methods of transition for an entity that changes to the fair value based method of accounting for stock-based compensation, requires more prominent disclosure of the pro forma impact on earnings per share and requires such disclosures quarterly for interim periods beginning in 2003. The Company intends to adopt the interim disclosure requirements as of the beginning of fiscal year 2003 and to continue to account for stock-based compensation under APB No. 25.

Disclosure Regarding Forward-Looking Statements

This report, including the Shareholders' Letter, the material following the Shareholders' Letter, and Management's Discussion and Analysis of Financial Condition and Results of Operations, contains forward-looking statements within the meaning of the federal securities laws. All statements, other than statements of historical facts, which address activities, events or developments that the Company expects or anticipates will or may occur in the future, including, but not limited to, such things as future capital expenditures, expansion, strategic plans, dividend payments, stock repurchases, growth of the Company's business and operations, including future cash flows, revenues and earnings, and

other such matters are forward-looking statements. These forward-looking statements are based on many assumptions and factors, including, but not limited to, the effects of currency fluctuations, customer demand, fashion trends, competitive market forces, uncertainties related to the effect of competitive products and pricing, customer acceptance of the Company's merchandise mix and retail locations, the Company's reliance on a few key vendors for a significant portion of its merchandise purchases (and on one key vendor for approximately 44 percent of its merchandise purchases), unseasonable weather, risks associated with foreign global sourcing, including political instability, changes in import regulations and the presence of Severe Acute Respiratory Syndrome, the effect on the Company, its suppliers and customers, of any significant future increases in the cost of oil or petroleum products, economic conditions worldwide, any changes in business, political and economic conditions due to the threat of future terrorist activities in the United States or in other parts of the world and related U.S. military action overseas, and the ability of the Company to execute its business plans effectively with regard to each of its business units, including its plans for marquee and launch footwear component of its business. Any changes in such assumptions or factors could produce significantly different results. The Company undertakes no obligation to publicly update forward-looking statements, whether as a result of new information, future events or otherwise.

Forward Looking Information Excerpts

1.16

BRUNSWICK CORPORATION (DEC)

FORWARD-LOOKING STATEMENTS

Certain statements in this Annual Report are forward-looking as defined in the Private Securities Litigation Reform Act of 1995. Forward-looking statements in this Annual Report may include words such as "expect," "anticipate," "believe," "may," "should," "could," or "estimate." These statements involve certain risks and uncertainties that may cause actual results to differ materially from expectations as of the date of this filing. These risks include, but are not limited to:

- *General economic conditions, a weakened stock market and consumer confidence, and resultant demand for the Company's products, particularly in the United States and Europe:* Like many companies, the Company's revenues have been, and continue to be, affected by weak domestic and international market conditions and the fluctuating stock market. The threat of war in the Middle East and other global political events may adversely affect consumer confidence during 2003 and beyond. The Company's future results may continue to suffer if general economic conditions do not improve.
- *The effect of interest rates and fuel prices on demand for marine products:* The Company's marine products, particularly boats, are often financed, and higher interest rates can retard demand for these products. The Company's marine businesses are somewhat fuel-cost-sensitive, and higher fuel costs can also hurt demand.
- *Adverse weather conditions retarding sales of marine products:* Sales of the Company's marine products are generally more robust just before and during spring and summer, and favorable weather during these months tends to have a positive effect on consumer demand. Conversely, poor weather conditions during these periods can retard demand.
- *Shifts in currency exchange rates:* The Company manufactures its products predominately in the United States, though international manufacturing and sourcing are increasing. A strong U.S. dollar can make the Company's products less price-competitive relative to locally produced products in international markets. The Company is focusing on international manufacturing and global sourcing in part to offset this risk.
- *Competitive pricing pressures:* Across all of the Company's product lines, introduction of lower-cost alternatives by other companies can hurt the Company's competitive position. The Company's efforts toward cost-containment, commitment to quality products, and excellence in operational effectiveness and customer service are designed in part to offset this risk.
- *Inventory adjustments by the Company, its major dealers, retailers and independent boatbuilders:* The Company's inventory reduction efforts have focused on reducing production, which results in lower rates of absorption of fixed costs and thus lower margins. In addition, as the Company's dealers and retailers, as well as independent boatbuilders who purchase the Company's marine engine products, adjust their inventories downward, wholesale demand for the Company's products diminishes. Inventory reduction can hurt the Company's short-term results of operations and limit the Company's ability to meet increased demand when the U.S. economy recovers.
- *Financial difficulties experienced by dealers and independent boatbuilders:* The U.S. economic downturn has adversely affected some of the Company's dealers. As the main distribution channel for the Company's products, dealer health is critical to the Company's continued success. In addition, a substantial portion of the Company's engine sales are made to independent boatbuilders. As a result, the Company's financial results can be influenced by the availability of capital and the financial health of these independent boatbuilders.
- *The ability to maintain effective distribution:* The Company sells the majority of its products through third parties such as dealers, retailers and distributors. Maintaining good relationships with superior distribution partners, and establishing new distribution channels where appropriate, is critical to the Company's continued success.
- *The Company's ability to complete environmental remediation efforts and resolve claims and litigation at the cost estimated:* As discussed in Part I, Item 3 above, the Company is subject to claims and litigation in the ordinary course of operations. These claims include several environmental proceedings, some of which involve costly remediation efforts over extended periods of time, as well as certain litigation matters which if not resolved in the Company's favor, could require significant expenditures by the Company. The Company believes that it is adequately reserved for these obligations, but

significant increases in the anticipated costs associated with these matters could hurt the Company's results of operations in the period or periods in which additional reserves or outlays are deemed necessary.

- *The Company's ability to develop product technologies which comply with regulatory requirements:* As discussed in Part I, Item 3 above, the Company's Marine Engine segment is subject to emissions standards that require ongoing efforts to bring the Company's engine products in line with regulatory requirements. The Company believes that these efforts are on track and will be successful, but unforeseen delays in these efforts could have an adverse effect on the Company's results of operations.
- *The success of marketing and cost-management programs and the Company's ability to develop and produce competitive new products and technologies:* The Company is constantly subject to competitive pressures. The Company's continuing ability to respond to these pressures, particularly through cost-containment initiatives, marketing strategies, and the introduction of new products and technologies, is critical to the Company's continued success.
- *The ability to maintain product quality and service standards expected by the Company's customers:* The Company's consumers demand high quality products and excellent customer service. The Company's ability to meet these demands through continuous quality improvement across all of its businesses will significantly impact the Company's future results.
- *The Company's ability to maintain market share and volume in key high-margin product lines, particularly in its marine engine segment:* The Company derives a significant portion of its earnings from sales of higher-margin products, especially in its marine engine business. Changes in sales mix to lower-margin products, including low-emission engines, as well as increased competition in these product lines, could adversely impact the Company's future operating results. The Company is focusing on cost-containment efforts, new product development and global sourcing initiatives, as well as operational improvements, to offset this risk.
- *The ability to successfully integrate acquisitions:* The Company has acquired several new businesses since 2000 and intends to continue to acquire additional businesses to complement its existing portfolio. The Company's success in effectively integrating these operations, including their financial, operational and distribution practices and systems, will affect the contribution of these businesses to the Company's consolidated results.
- *Adverse foreign economic conditions:* As the Company continues to focus on international growth, it will become increasingly vulnerable to the effects of political instability, economic conditions and war in key world regions.
- *The effect of weak financial markets on pension expense and funding levels:* The Company has made, and will continue to make as necessary, contributions to meet its pension funding obligations. The Company's pension expense is affected by the performance of financial markets where pension assets are invested. These costs will continue to increase if the performance of financial markets weaken further.
- *The success of global sourcing and supply chain management initiatives:* The Company has launched a number of initiatives to strengthen its sourcing and supply chain management activities. The success of these initiatives will play a critical role in the Company's continuing ability to reduce costs.

1.17

CHEVRONTEXACO CORPORATION (DEC)

FORWARD-LOOKING STATEMENTS

This Annual Report of ChevronTexaco Corporation contains forward-looking statements relating to ChevronTexaco's operations that are based on management's current expectations, estimates and projections about the petroleum, chemicals and other energy-related industries. Words such as "anticipates," "expects," "intends," "plans," "targets," "projects," "believes," "seeks," "estimates" and similar expressions are intended to identify such forward-looking statements. These statements are not guarantees of future performance and are subject to certain risks, uncertainties and other factors, some of which are beyond our control and are difficult to predict. Therefore, actual outcomes and results may differ materially from what is expressed or forecasted in such forward-looking statements. You should not place undue reliance on these forward-looking statements, which speak only as of the date of this report. Unless legally required, ChevronTexaco undertakes no obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

Among the factors that could cause actual results to differ materially are crude oil and natural gas prices; refining margins and marketing margins; chemicals prices and competitive conditions affecting supply and demand for aromatics, olefins and additives products; actions of competitors; the competitiveness of alternate energy sources or product substitutes; technological developments; the results of operations and financial condition of equity affiliates; the ability of the company's Dynegy affiliate to successfully execute its recapitalization and restructuring plans and the results of Dynegy's re-audit of its 1999–2001 financial statements; inability or failure of the company's joint-venture partners to fund their share of operations and development activities; potential failure to achieve expected production from existing and future oil and gas development projects; potential delays in the development, construction or start-up of planned projects; potential disruption or interruption of the company's production or manufacturing facilities due to accidents, political events, severe weather or war; potential liability for remedial actions under existing or future environmental regulations and litigation; significant investment or product changes under existing or future environmental regulations (including, particularly, regulations and litigation dealing with gasoline composition and characteristics); and potential liability resulting from pending or future litigation. In addition, such statements could be affected by general domestic and international economic and political conditions. Unpredictable or unknown factors not discussed

herein also could have material adverse effects on forward-looking statements.

the date they are made, and the Company undertakes no obligation to update publicly any of them in light of new information or future events.

1.18

NATIONAL SERVICE INDUSTRIES, INC. (AUG)

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

This report contains forward-looking statements within the meaning of the federal securities laws. Statements that are not historical facts, including statements about management's and the Company's beliefs and expectations, are forward-looking statements. Forward-looking statements include statements preceded by, followed by or that include the words "believes," "expects," "anticipates," "plans," "estimates" or similar expressions. These statements include, among others, statements regarding our expected business outlook, pricing levels, raw materials costs, anticipated financial and operating results, strategies, contingencies, financing and working capital requirements, sources of liquidity, capital expenditures, amounts and timing of expenditures with respect to asbestos litigation and environmental matters, amounts and timing of insurance recoveries covering those expenses, the resolution of allocation and coverage issues with the Company's insurers, the solvency of the Company's insurers, competitive conditions and general economic conditions.

Forward-looking statements are only predictions and are not guarantees of performance. These statements are based on management's beliefs and assumptions, which in turn are based on currently available information. These assumptions could prove inaccurate. Forward-looking statements also involve risks and uncertainties, which could cause actual results to differ materially from those contained in any forward-looking statement. Many of these factors are beyond the Company's ability to control or predict. Such factors include, but are not limited to:

- changes in general business and economic conditions;
- fluctuations in raw material prices;
- unexpected developments or outcomes in the Company's legal or environmental proceedings;
- the risk of additional insolvencies among the Company's insurance carriers;
- the risk of an increase or acceleration in the number of asbestos-related claims filed against the Company;
- the risk of adverse judgments and damage awards against the Company in pending or future litigation;
- the risk that the number of future asbestos claims or the settlement costs of such claims will exceed the Company's forecasts;
- changes in competitive conditions in the Company's markets;
- foreign currency fluctuations relative to the U.S. dollar; and
- increases in labor and other significant operating expenses.

Investors should not place undue reliance on any forward-looking statements, which are based on current expectations. Further, forward-looking statements speak only as of

Euro Currency Conversion Excerpts

1.19

NEWELL RUBBER MAID INC. (DEC)

EURO CURRENCY CONVERSION

On January 1, 1999, the "Euro" became the common legal currency for 11 of the 15 member countries of the European Union. On that date, the participating countries fixed conversion rates between their existing sovereign currencies ("legacy currencies") and the Euro. On January 4, 1999, the Euro began trading on currency exchanges and became available for noncash transactions, if the parties elected to use it. On January 1, 2001, another country (Greece) also adopted the Euro, fixing the conversion rate against their legacy currency. The legacy currencies remained legal tender through December 31, 2001. On January 1, 2002, participating countries introduced Euro-denominated bills and coins, and effective July 1, 2002, legacy currencies were no longer legal tender.

All businesses in participating countries are now required to conduct all transactions in the Euro and must convert their financial records and reports to be Euro-based. The Company has completed this conversion process and has deemed its information systems to be Euro compliant. As a result of the Euro conversion, the Company experienced no adverse impact to its business or financial condition on a consolidated basis.

Environmental Matters Excerpts

1.20

PEPSIAMERICAS, INC. (DEC)

ENVIRONMENTAL MATTERS

We maintain a continuous program in our operations to facilitate compliance with federal, state and local laws and regulations relating to management of wastes and to the discharge or emission of materials used in production, and such other laws and regulations relating to the protection of the environment. The capital costs of such management and compliance, including the costs of the modification of existing plants and the installation of new manufacturing processes incorporating pollution control technology, are not material to continuing operations.

Under the agreement pursuant to which we sold our subsidiaries, Abex Corporation and Pneumo Abex Corporation, in 1988 and a subsequent settlement agreement entered into in September 1991, we have assumed indemnification obligations for certain environmental liabilities of Pneumo Abex,

net of any insurance recoveries. Pneumo Abex has been and is subject to a number of environmental cleanup proceedings, including proceedings under the Comprehensive Environmental Response, Compensation and Liability Act of 1980 regarding disposal of wastes at on-site and off-site locations. In some proceedings, federal, state and local government agencies are involved and other major corporations have been named as potentially responsible parties. Pneumo Abex also has been and is subject to private claims and lawsuits for remediation of properties currently or previously owned by Pneumo Abex or certain other entities.

There is an inherent uncertainty in determining our potential expenses for complying with our indemnification obligations, and in particular, in assessing the total cost of remediating a given site and in determining any individual party's share in that cost. This is because of the nature of the remediation and allocation process and due to the fact that the liabilities are at different stages in terms of their ultimate resolution, and any assessment and determination are inherently speculative during the early stages, depending upon a number of variables beyond the control of any party. Furthermore, there are often timing considerations in that a portion of the expense incurred by Pneumo Abex, and any resulting obligation of ours to indemnify Pneumo Abex, may not occur for a number of years.

During the second quarter of 2000, proceeds of a settlement of insurance policies issued to a prior subsidiary were placed in a trust (the "Trust"). The Trust documents specify that funds in the Trust would be used to pay future liabilities of the prior subsidiaries. Monies paid by the Trust thereby would reduce our indemnification obligations. At fiscal year end 2001, we had $131.2 million accrued (net of the responsive Trust amount) to cover potential indemnification obligations, including $20 million classified as current liabilities. As a result of the establishment of the Trust, we removed from our Consolidated Balance Sheet the portion of our liabilities to which the Trust was responsive, and the Trust held $34.3 million as of fiscal year end 2001.

In the latter part of 2001, we decided to investigate the use of insurance products to mitigate risks related to our indemnification obligations under the 1988 agreement, as amended. As a prerequisite to receiving bids for such insurance, the insurance carriers required that we employ an outside consultant to perform a comprehensive review of all former facilities related to the discontinued operations, regardless of whether any disputes have arisen with respect to a particular former site or facility. This comprehensive review was possible because of advances in the business of retrospective evaluation of the risk posed by particular types of sites and the increased experience (and therefore available data) at our former facilities. The consultant's review was completed in the fourth quarter of 2001. It provided a contingent indemnification liability for all known sites operated or impacted by Pneumo Abex and resulted in the $111 million charge, or $71.2 million net of tax, recorded in the fourth quarter of 2001.

During the second quarter of 2002, as part of a comprehensive program concerning environmental liabilities related to the former Whitman Corporation subsidiaries, we purchased new insurance coverage related to the known sites previously owned and operated or impacted by Pneumo Abex and its subsidiaries, along with other sites which Pneumo Abex or one of its subsidiaries may have owned or operated or impacted. In addition, the Trust purchased insurance coverage and funded coverage for remedial and other costs ("finite funding") related to the sites previously owned and operated or impacted by Pneumo Abex and its subsidiaries. In conjunction with the purchase of the insurance policies, we recorded a charge to discontinued operations of $9.8 million, or $6 million after tax. This charge represented amounts expended by us and a reduction of funds in the Trust available to pay expenses related to sites for which we have indemnification obligations. These actions have been taken to fund costs associated with the sites previously owned and operated or impacted by Pneumo Abex and its subsidiaries and to protect against additional future costs in excess of our self-insured retention. The amount of self-insured retention (the amount we must pay before the insurance carrier is obligated to commence payments) is $114 million. We had accrued $90 million in 2001 for remediation costs, which is our best estimate of the contingent liabilities related to such environmental matters. The estimated range of aggregate exposure related only to the remediation costs of such environmental liabilities is approximately $81 million to $130 million. The finite funding of $26 million may be used to pay a portion of the $90 million, which we had accrued, along with our previously incurred expenses. Essentially all of the assets of the Trust were expended by the Trust in connection with the purchase of the insurance coverage and the finite funding and related expenses.

Because payments by the Trust for finite funding reduce cash required to be paid by us for the environmental sites for which we have indemnification obligations, we recorded the finite funding in "Investments and other assets." We had $138.1 million accrued to cover potential indemnification obligations, including $25.5 million classified as current liabilities as of fiscal year end 2002. This excludes possible insurance recoveries under policies that were in place prior to recently purchased insurance policies and is determined on an undiscounted cash flow basis. The estimated indemnification liabilities of $138.1 million as of the end of fiscal year 2002, include expenses for the remediation of identified sites, payments to third parties for claims and expenses, (including product liability and toxic tort claims) administrative expenses and the expenses of on-going evaluations and litigation. We expect a significant portion of the accrued liabilities will be disbursed during the next 10 years.

In addition, we had recorded receivables of $20.6 million for future probable amounts to be received from insurance companies and other responsible parties, of which $5.3 million was included in "Other current assets" with the remaining $15.3 million recorded in "Other assets" in the Consolidated Balance Sheet as of fiscal year end 2002. As of fiscal year end 2001, such receivables were $25 million.

We also have certain indemnification obligations related to product liability and toxic tort claims which might emanate out of the 1988 agreement with Pneumo Abex.

Other companies not owned by or associated with us are responsible to indemnify Pneumo Abex for all of the claims which have been filed against Pneumo Abex after 1998, except for a maximum of 9 percent of such claims for which we have or may have indemnification obligations. As of fiscal year end 2002, the number of underlying lawsuits (including asbestos-related claims against Pneumo Abex) that are or may be indemnifiable by us has been reduced by more than 60 percent from its high point, with much of the reduction having occurred in 2000 and 2001. Of the remaining claims, many are asserted in less than five lawsuits brought on behalf of multiple plaintiffs against multiple defendants, which are based on generalized allegations. Our employees and

agents manage or monitor such underlying claims, and we also monitor and participate in related insurance-recovery claims.

We continue to have environmental exposure related to the remedial action required at a facility in Portsmouth, Virginia for which we have an indemnity obligation. This is a superfund site which the United States Environmental Protection Agency required to be remediated. Through 2002, we had made indemnity payments of approximately $39.3 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 have accrued and expect to incur an estimated $4 million to complete the remediation, administration and legal defense costs over the next several years. Such amounts are included in the $138.1 million accrued as of the end of fiscal year 2002 for potential indemnification obligations.

We also have financial exposure related to certain remedial actions required at a facility which manufactured hydraulic and related equipment in Willits, California. The plant site is contaminated by various chemicals and metals. In August 1997, a final consent decree was issued in the case of the People of the State of California and the City of Willits, California v. Remco Hydraulics, Inc. This final consent decree was amended in December 2000 and established a trust whose officers are obligated to investigate and clean up this site. We are currently funding the investigation and interim remediation costs on a year to year basis according to the final consent decree. Through 2002, we have made indemnity payments of approximately $22.9 million for investigation and remediation at the Willits site (consisting principally of soil removal, groundwater and surface/water treatment). We have accrued $40.8 million for future remediation and trust administration costs, with the majority of this amount being spent in the next several years. Such amounts are included in the $138.1 million accrued as of the end of fiscal year 2002 for potential indemnification obligations. In addition, two lawsuits have been filed in California, which name several defendants including certain of our prior subsidiaries. The lawsuits allege that we and our former subsidiaries are liable for personal injury and/or property damage resulting from environmental contamination at the facility. There are currently approximately 650 plaintiffs in the lawsuits seeking an unspecified amount of damages, punitive damages, injunctive relief and medical monitoring damages. We are actively defending the lawsuits. At this time, we do not believe these lawsuits are material to our business or financial condition, although at this stage of the proceeding we are unable to reasonably estimate the range of possible loss.

We also have liability related to several investigations regarding on-site and off-site disposal of wastes generated at a facility in Mahwah, New Jersey, for which we have certain indemnity obligations. Through 2002, we have not indemnified a significant amount for remediation but have accrued approximately $18 million for certain remediation, long-term monitoring and administration expenses, which are expected to be incurred over the next several years. Such amounts are included in the $138.1 million accrued as of the end of fiscal year 2002 for potential indemnification obligations.

Although we have certain indemnification obligations for environmental liabilities at a number of other sites, including several superfund sites, it is not anticipated that the additional expense involved at any specific site would have a material effect on us. In the case of some of the other sites, the volumetric contribution for which we have an obligation has in most cases been estimated and other large, financially viable parties are responsible for substantial portions of the remainder. In our opinion, based upon information currently available, the ultimate resolution of these claims and litigation, including potential environmental exposures, and considering amounts already accrued, should not have a material effect on our financial condition, although amounts recorded in a given period could be material to our results of operations or cash flows for that period.

1.21

SEQUA CORPORATION AND SUBSIDIARIES (DEC)

ENVIRONMENTAL MATTERS

Sequa's environmental department, under senior management's direction, manages all activities related to Sequa's involvement in environmental cleanup. This department establishes the projected range of expenditures for individual sites with respect to which Sequa may be considered a potentially responsible party under applicable federal or state laws. These projected expenditures, which are reviewed periodically, include: remedial investigation and feasibility studies; outside legal, consulting and remediation project management fees; the projected cost of remediation activities; and site closure and post-remediation monitoring costs. The assessments take into account currently available facts, existing technology, presently enacted laws, past expenditures, and other potentially responsible parties and their probable level of involvement. Outside technical, scientific and legal consulting services are used to support management's assessments of costs at significant individual sites.

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. In the fourth quarter of 2001, Sequa recorded a charge of $13.3 million to increase its accruals for remediation costs. The charge included $9.7 million of estimated cost to remediate soil and groundwater contamination from ammonium perchlorate (AP), a raw material used to produce missile and rocket fuel. Although no federal or state environmental standards have been finalized for AP, recent studies indicating that the chemical may interfere with human thyroid function have prompted Sequa to begin cleanup actions at its solid propellant facilities. At December 31, 2002, the potential exposure for all remediation costs is estimated to range from $16 million to $28 million, and Sequa's Consolidated Balance Sheet includes accruals for remediation costs of $23.1 million. 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.

With respect to all known environmental liabilities, Sequa's actual cash expenditures for remediation of previously contaminated sites were $8.0 million in 2002, $4.0 million in 2001 and $3.3 million in 2000. Sequa anticipates that remedial cash expenditures will be between $5 million and $8 million during 2003 and between $5 million and $7 million during 2004. Sequa's capital expenditures for projects to eliminate,

control or dispose of pollutants were $1.3 million, $2.4 million and $2.2 million in 2002, 2001 and 2000, respectively. Sequa anticipates annual environment-related capital expenditures to be approximately $2.5 million during 2003 and $1.8 million during 2004. Sequa's operating expenses to eliminate, control and dispose of pollutants were approximately $11 million in 2002, $11 million in 2001 and $10 million in 2000. Sequa anticipates that environmental operating expenses will be approximately $12 million per year during 2003 and 2004.

Market Risk Information Excerpts From Management's Discussion and Analysis

1.22

AIR PRODUCTS AND CHEMICALS, INC. (SEP)

MARKET RISKS AND SENSITIVITY ANALYSIS

The company's earnings, cash flows and financial position are exposed to market risks relating to fluctuations in interest rates and foreign currency exchange rates. It is the policy of the company to minimize its cash flow exposure to adverse changes in currency and exchange rates and to reduce the financial risks inherent in funding the company with debt capital.

The company addresses these financial exposures through a controlled program of risk management that includes the use of derivative financial instruments. Counterparties to all derivative contracts are major financial institutions, thereby minimizing the risk of credit loss. All instruments are entered into for other than trading purposes. The utilization of these instruments is described more fully in Note 6 to the consolidated financial statements. The major accounting policies for these instruments are described in Note 1 to the consolidated financial statements.

The company's derivative and other financial instruments consist of long-term debt (including current portion), interest rate swaps, interest rate and currency swaps, foreign exchange-forward contracts and foreign exchange-option contracts. The net market value of these financial instruments combined is referred to below as the net financial instrument position. The net financial instrument position does not include other investments of $50.1 at 30 September 2002 and $52.1 at 30 September 2001 as disclosed in Note 6 to the consolidated financial statements. These amounts primarily represent an investment in a publicly traded foreign company accounted for by the cost method. The company assessed the materiality of the market risk exposure on these financial instruments and determined this exposure to be immaterial.

At 30 September 2002 and 2001, the net financial instrument position was a liability of $2,363.0 and $2,300.5, respectively. The increase in the net financial instrument position was due primarily to higher long-term debt, including the current portion.

The analysis below presents the sensitivity of the market value of the company's financial instruments to selected changes in market rates and prices. The range of changes chosen reflects the company's view of changes which are reasonably possible over a one-year period. Market values are the present value of projected future cash flows based on the market rates and prices chosen. The market values for interest rate risk and foreign currency risk are calculated by the company using a third-party software model that utilizes standard pricing models to determine the present value of the instruments based on market conditions (interest rates, spot and forward exchange rates and implied volatilities) as of the valuation date.

Interest Rate Risk

The company's debt portfolio, including swap agreements, as of 30 September 2002 primarily comprised debt denominated in Euros (41%) and U.S. dollars (35%). This debt portfolio is composed of 67% fixed-rate debt and 33% variable-rate debt. Changes in interest rates have different impacts on the fixed- and variable-rate portions of the company's debt portfolio. A change in interest rates on the fixed portion of the debt portfolio impacts the net financial instrument position but has no impact on interest incurred or cash flows. A change in interest rates on the variable portion of the debt portfolio impacts the interest incurred and cash flows but does not impact the net financial instrument position.

The sensitivity analysis related to the fixed portion of the company's debt portfolio assumes an instantaneous 100 basis point move in interest rates from the levels at 30 September 2002 and 2001, with all other variables (including foreign exchange rates) held constant. A 100 basis point increase in market interest rates would result in a decrease of $52 and $69 in the net liability position of financial instruments at 30 September 2002 and 2001, respectively. A 100 basis point decrease in market interest rates would result in an increase of $55 and $75 in the net liability position of financial instruments at 30 September 2002 and 2001, respectively.

Based on the variable-rate debt included in the company's debt portfolio, including the interest rate swap agreements, as of 30 September 2002 and 2001, a 100 basis point increase in interest rates would result in an additional $8 and $7 in interest incurred per year at 30 September 2002 and 2001, respectively. A 100 basis point decline would lower interest incurred by $8 and $7 per year at 30 September 2002 and 2001, respectively.

Foreign Currency Exchange Rate Risk

The sensitivity analysis assumes an instantaneous 10% change in the foreign currency exchange rates from their levels at 30 September 2002 and 2001, with all other variables (including interest rates) held constant. A 10% strengthening of the functional currency of an entity versus all other currencies would result in a decrease of $188 and $165 in the net liability position of financial instruments at 30 September 2002 and 2001, respectively. A 10% weakening of the functional currency of an entity versus all other currencies would result in an increase of $183 and $163 in the net liability position of financial instruments at 30 September 2002 and 2001, respectively.

The primary currencies for which the company has exchange rate exposure are the U.S. dollar versus the Euro, the U.S. dollar versus the U.K. Pound Sterling and the Euro versus the Canadian Dollar. Foreign currency debt, interest rate and currency swaps and foreign exchange-forward contracts are used in countries where the company does business, thereby reducing its net asset exposure. Foreign exchange-forward contracts also are used to hedge the company's firm and highly anticipated foreign currency cash flows, along with

foreign exchange-option contracts. Thus, there is either an asset or cash flow exposure related to all of the financial instruments in the above sensitivity analysis for which the impact of a movement in exchange rates would be in the opposite direction and materially equal (or more favorable in the case of purchased foreign exchange-option contracts) to the impact on the instruments in the analysis.

1.23

BARNES GROUP INC. (DEC)

MARKET RISK

Market risk is the potential economic loss that may result from adverse changes in the fair value of financial instruments. The Company's financial results could be impacted by changes in interest rates, foreign currency exchange rates and commodity price changes. The Company uses financial instruments to hedge its exposure to fluctuations in interest rates and foreign currency exchange rates. The Company does not use derivatives for speculative or trading purposes.

The Company's long-term debt portfolio consists of fixed-rate and variable-rate instruments and is managed to reduce the overall cost of borrowing while also minimizing the effect of changes in interest rates on near-term earnings. In August 2002, the Company entered into an interest rate swap agreement that effectively converts $18.8 million of its fixed-rate Senior Notes to variable-rate debt. This interest swap agreement had a positive impact on 2002 earnings, reducing interest expense by $0.1 million.

The Company's primary interest rate risk is derived from its outstanding variable-rate debt obligations. At December 31, 2002, the result of a hypothetical 1% increase in the average cost of the Company's variable-rate debt, including the interest rate swap agreement, would have reduced annual pretax profit by $0.6 million.

At December 31, 2002, the fair value of the Company's fixed-rate debt was $153.0 million, compared with its carrying amount of $156.9 million. The Company estimates that a 1% decrease in market interest rates at December 31, 2002, would have increased the fair value of the Company's fixed-rate debt to $158.5 million.

The Company has manufacturing, sales and distribution facilities around the world and thus makes investments and conducts business transactions denominated in various currencies. The currencies of the locations where the Company's business operations are conducted are the U.S. dollar, Singapore dollar, Euro, British pound, Mexican peso, Brazilian real, Canadian dollar, Swedish krona and Chinese renminbi. The Company is exposed primarily to U.S. dollar-denominated financial instruments at its international locations. A 10% adverse change in all currencies at December 31, 2002, would have resulted in a $1.0 million loss in the fair value of those financial instruments.

Foreign currency commitments and transaction exposures are managed at the operating units as an integral part of their businesses in accordance with a corporate policy that addresses acceptable levels of foreign currency exposures. The Company does not hedge its foreign currency net investment exposure. To reduce foreign currency exposure in countries where the local currency is strengthening against the U.S. dollar, management has converted U.S. dollar-denominated cash and short-term investments to local currency and is using forward currency contracts for other U.S. dollar-denominated assets in an effort to reduce the effect of the volatility of changes in foreign exchange rates on the income statement. In weaker currency countries, such as Brazil and Mexico, management continues to invest excess cash in U.S. dollar-denominated instruments.

The Company's exposure to commodity price changes relates primarily to certain manufacturing operations that utilize high-grade steel spring wire and titanium. The Company manages its exposure to changes in those prices through its procurement and sales practices. The Company is not dependent upon any single source for any of its principal raw materials or products for resale, and all such materials and products are readily available.

1.24

CAMPBELL SOUP COMPANY (JUL)

MARKET RISK SENSITIVITY

The principal market risks to which the company is exposed are changes in interest rates and foreign currency exchange rates. In addition, the company is exposed to equity price changes related to certain employee compensation obligations. The company manages its exposure to changes in interest rates by optimizing the use of variable-rate and fixed-rate debt and by utilizing interest rate swaps in order to maintain its variable-to-total debt ratio within targeted guidelines. International operations, which accounted for approximately 29% of 2002 net sales, are concentrated principally in Australia, Canada, France, Germany and the United Kingdom. The company manages its foreign currency exposures by borrowing in various foreign currencies and utilizing cross-currency swaps, forward contracts, and options. Swaps and forward contracts are entered into for periods consistent with related underlying exposures and do not constitute positions independent of those exposures. The company does not enter into contracts for speculative purposes and does not use leveraged instruments.

The company principally uses a combination of purchase orders and various short- and long-term supply arrangements in connection with the purchase of raw materials, including certain commodities and agricultural products. On occasion, the company may also enter into commodity futures contracts, as considered appropriate, to reduce the volatility of price fluctuations for commodities such as corn, soybean meal and cocoa. At July 28, 2002 and July 29, 2001, the notional values and unrealized gains or losses on commodity futures contracts held by the company were not material.

The information below summarizes the company's market risks associated with debt obligations and other significant financial instruments as of July 28, 2002. Fair values included herein have been determined based on quoted market prices. The information presented below should be read in conjunction with Notes 16 and 18 to the Consolidated Financial Statements.

The table below presents principal cash flows and related interest rates by fiscal year of maturity for debt obligations. Variable interest rates disclosed represent the weighted-average rates of the portfolio at the period end. Notional amounts and related interest rates of interest rate swaps are presented by fiscal year of maturity. For the swaps, variable rates are the average forward rates for the term of each contract.

Expected Fiscal Year of Maturity

(US$ equivalents in millions)	2003	2004	2005	2006	2007	Thereafter	Total	Fair Value
Debt								
Fixed rate	$ 301	$ 300	$ 1	$ 1	$ 605	$1,242	$2,450	$2,652
Weighted average interest rate	6.16%	4.76%	9.00%	9.00%	6.20%	6.90%	6.37%	
Variable rate	$ 895	$ 300					$1,195	$1,195
Weighted average interest rate	2.52%	2.29%					2.46%	
Interest rate swaps								
Fixed to variable					$ 100[(2)]	$ 325[(3)]	$ 425	$ 31
Average pay rate					4.12%	5.39%	5.09%	
Average receive rate					5.50%	6.55%	6.30%	
Variable to fixed		$ 300[(1)]					$ 300	$ (4)
Average pay rate		3.74%					3.74%	
Average receive rate		2.63%					2.63%	

(1) Hedges variable-rate notes due in 2004.
(2) Hedges 5.50% notes due in 2007.
(3) Hedges $75 million of 5.875% notes and $250 million of 6.75% notes, respectively, due in 2009 and 2011.
As of July 29, 2001, fixed-rate debt of approximately $1.7 billion with an average interest rate of 6.51% and variable-rate debt of approximately $2.3 billion with an average interest rate of 4.43% were outstanding. At July 29, 2001, the company had swapped $250 million of fixed-rate debt to variable. The average rate received on these swaps was 6.75% and the average rate paid was 6.47%.

The company is exposed to foreign exchange risk related to its international operations, including non-functional currency intercompany debt and net investments in subsidiaries.

The table below summarizes the cross-currency swaps outstanding as of July 28, 2002, which hedge such exposures. The notional amount of each currency and the related weighted-average forward interest rate are presented in the Cross-Currency Swaps table.

Cross-Currency Swaps

(US$ equivalents in millions)	Expiration	Interest Rate	Notional Value	Fair Value
Pay fixed SEK	2003	5.72%	$ 29	$ (2)
Receive fixed USD		4.03%		
Pay fixed SEK	2005	5.78%	$ 47	$ (2)
Receive fixed USD		5.25%		
Pay fixed EUR	2007	5.46%	$200	$(19)
Receive fixed USD		5.75%		
Pay fixed GBP	2011	5.97%	$200	$(14)
Receive fixed USD		6.08%		

The cross-currency contract outstanding at July 29, 2001 represented a pay variable FrF/receive variable US$ contract with a notional value of $110 million. This contract was canceled in 2002. The aggregate fair value of the contract was $25 million as of July 29, 2001.

The company is also exposed to foreign exchange risk as a result of transactions in currencies other than the functional currency of certain subsidiaries, including subsidiary debt. The company utilizes foreign currency forward purchase and sale contracts to hedge these exposures. The table below summarizes the foreign currency forward contracts outstanding and the related weighted-average contract exchange rates as of July 28, 2002.

Forward Exchange Contracts

(US$ equivalents in millions)	Contract Amount	Average Contractual Exchange Rate
Receive USD / Pay GBP	$229	0.67
Receive USD / Pay EUR	$207	1.03
Receive CAD / Pay USD	$ 74	0.63
Receive GBP / Pay USD	$ 28	1.57
Receive USD / Pay SEK	$ 20	9.24
Receive AUD / Pay NZD	$ 18	1.20
Receive USD / Pay CAD	$ 18	1.56
Receive JPY / Pay USD	$ 9	0.01
Receive EUR / Pay GBP	$ 9	0.62
Receive EUR / Pay USD	$ 9	0.90
Receive USD / Pay JPY	$ 6	124.67
Receive EUR / Pay SEK	$ 5	9.44

The company had an additional $5 million in a number of smaller contracts to purchase or sell various other currencies, such as the Australian dollar, British pound, Canadian dollar, euro and New Zealand dollar, as of July 28, 2002. The aggregate fair value of all contracts was $(7) million as of July 28, 2002. Total forward exchange contracts outstanding as of July 29, 2001 were $880 million with a fair value of $(7) million.

The company had swap contracts outstanding as of July 28, 2002, which hedge a portion of exposures relating to certain employee compensation liabilities linked to the total return of the Standard & Poor's 500 Index or to the total return of the company's capital stock. Under these contracts, the company pays variable interest rates and receives from the counterparty either the Standard & Poor's 500 Index total return or the total return on company capital stock. The notional value of the contracts that are linked to the return on the Standard & Poor's 500 Index was $21 million at July 28, 2002 and $28 million at July 29, 2001. The average forward interest rate applicable to the contract, which expires in 2003, was 2.22% at July 28, 2002. The notional value of the contract that is linked to the total return on company capital stock was $32 million at both July 28, 2002 and July 29, 2001. The average forward interest rate applicable to this contract, which expires in 2003, was 2.07% at July 28, 2002. The net cost to settle these contracts was $22 million at July 28, 2002 and $17 million at July 29, 2001. Gains and losses on the contracts, which offset gains and losses on the underlying employee compensation obligations, are recorded in Other expenses.

The company's utilization of financial instruments in managing market risk exposures described above is consistent with the prior year. Changes in the portfolio of financial instruments are a function of the results of operations, market effects on debt and foreign currency, and the company's acquisition and divestiture activities.

SEGMENT INFORMATION

1.25 Statement of Financial Accounting Standards (SFAS) No. 131, *Disclosures about Segments of an Enterprise and Related Information,* supersedes SFAS No. 14, *Financial Reporting for Segments of a Business Enterprise,* 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.

1.26 *SFAS No. 131* requires that a public business enterprise report a measure of segment profit or loss, certain specific revenue and expense items, and segment assets. It requires reconciliations of total segment revenues, total segment profit or loss, total segment assets, and other amounts disclosed for segments to corresponding amounts in the enterprise's general-purpose financial statements. It requires that all public business enterprises report information about the revenues derived from the enterprise's products or services (or groups of similar products and services), about the countries in which the enterprise earns revenues and holds assets, and about major customers regardless of whether that information is used in making operating decisions. However, this Statement does not require an enterprise to report information that is not prepared for internal use if reporting it would be impracticable.

1.27 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.

1.28

TABLE 1-3: SEGMENT INFORMATION

	Number of Companies			
	2002	2001	2000	1999
Industry segments				
Revenue	404	412	345	357
Operating income or loss	310	311	299	309
Identifiable assets	389	400	371	368
Depreciation expense	406	402	398	409
Capital expenditures	367	373	356	374
Geographic area				
Revenue	296	295	282	300
Operating income or loss	48	66	58	66
Identifiable assets	82	85	92	92
Depreciation expense	37	36	42	41
Capital expenditures	34	35	38	41
Export sales	33	43	37	51
Sales to major customers	137	138	104	133

1.29

AMERICAN BILTRITE INC. AND SUBSIDIARIES (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (In thousands of dollars)

16. Industry Segments

Description of Products and Services

The Company has four reportable segments: flooring products, tape products, jewelry, and a Canadian division that produces flooring and rubber products. Congoleum, which represents the majority of the Company's flooring products segment, manufactures vinyl and vinyl composition floor coverings and sells them primarily through floor covering distributors to retailers, and contractors for commercial and residential use. Effective October 12, 2000, the Company acquired Janus Flooring Corporation, which has been included in the flooring products segment. The tape products segment consists of two production facilities in the United States, and finishing and sales facilities in Belgium and Singapore. The tape products segment manufactures paper, film, HVAC, electrical, shoe, and other tape products for use in industrial and automotive markets. The jewelry segment consists of K&M Associates L.P., a national costume jewelry supplier to mass merchandisers and department stores. The Company's Canadian division produces flooring, rubber products, including materials used by footwear manufacturers, and other industrial products.

Measurement of Segment Profit or Loss and Segment Assets

The Company considers all revenues and expenses to be of an operating nature and, accordingly, allocates them to industry segments regardless of the profit center in which recorded. Costs specific to a segment, such as pension expense, are charged to the segment. Corporate office expenses are allocated to certain segments based on resources allocated. Significant assets of the Corporate office include cash, deferred tax assets, and goodwill. The accounting policies of the reportable segments are the same as those described in the summary of significant accounting policies.

Intersegment sales and transfers are recorded at cost plus an agreed upon intercompany profit on intersegment sales or transfers.

Factors Used to Identify Reportable Segments

Reportable segments are business units that offer different products and are each managed separately. The Company's Canadian division manufactures certain products, which are similar to products of the flooring segment; however, the Canadian division is managed and reports separately from the flooring segment.

Segment Profit and Assets

	2002	2001	2000
Revenues			
Revenues from external customers:			
Flooring products	$244,546	$225,723	$221,222
Tape products	80,637	82,914	94,773
Jewelry	78,972	62,125	51,002
Canadian division	37,878	39,924	49,107
Total revenues from external customers	442,033	410,686	416,104
Intersegment revenues:			
Flooring products	235	288	361
Tape products	138	143	154
Jewelry	—	—	—
Canadian division	9,816	7,949	6,354
Total intersegment revenues	10,189	8,380	6,869
Total revenue	452,222	419,066	422,973
Reconciling items			
Intersegment revenues	(10,189)	(8,380)	(6,869)
Total consolidated revenues	$442,033	$410,686	$416,104

A major portion of the increase in Jewelry segment revenue in 2002 compared to 2001 was from the acquisition of Swank's Ladies Jewelry Division. The increase in Flooring segment revenue in 2002 resulted from strong sales of the new DuraStone product line introduced in August 2001 and improved resilient sheet sales, partially offset by lower luxury and contract tile sales.

Approximately 50%, 53% and 56% of the Canadian division's revenues from external customers were for flooring products for 2002, 2001 and 2000, respectively. The remaining revenues from the Canadian division's external customers were from sale of rubber and other industrial products.

	2002	2001	2000
Interest income			
Flooring products	$ 263	$ 709	$1,799
Tape products	15	105	25
Jewelry	20	34	48
Canadian division	120	144	131
Total segment interest revenue	418	992	2,003
Reconciling items			
Corporate office interest revenue	100	56	98
Intersegment interest revenue	(188)	(138)	(60)
Total consolidated interest income	$ 330	$ 910	$2,041
Interest expense			
Flooring products	$ 8,986	$ 8,797	$7,567
Tape products	109	114	144
Jewelry	515	741	1,029
Canadian division	109	38	1
Total segment interest expense	9,719	9,690	8,741
Reconciling items			
Corporate office interest expense	1,843	1,385	726
Intersegment interest expense	(188)	(138)	(60)
Total consolidated interest expense	$11,374	$10,937	$9,407

	2002	2001	2000
Depreciation and amortization expense			
Flooring products	$ 11,735	$12,696	$ 11,786
Tape products	2,861	2,529	2,252
Jewelry	831	1,548	1,387
Canadian division	2,078	1,978	1,783
Total segment depreciation and amortization	17,505	18,751	17,208
Reconciling items			
Corporate office depreciation	16	22	31
Total consolidated depreciation and amortization	$ 17,521	$18,773	$ 17,239
Segment profit			
Flooring products	$(22,200)	$ (4,075)	$(12,158)
Tape products	305	1,137	7,614
Jewelry	7,301	5,633	3,444
Canadian division	507	1,717	4,170
Total segment profit	(14,087)	4,412	3,070
Reconciling items			
Corporate office loss	(716)	(145)	(298)
Intercompany profit (loss)	29	(72)	96
Total consolidated (loss) earnings before income taxes and other items	$(14,774)	$ 4,195	$ 2,868

Segment profit or loss is before income tax expense or benefit. Included in the flooring products segment loss for 2000 is a charge of $9 million (before tax) recorded by Congoleum in connection with a change in distributor.

	2002	2001
Segment assets		
Flooring products	$226,339	$292,031
Tape products	56,561	55,983
Jewelry	43,123	39,177
Canadian division	30,467	31,822
Total segment assets	356,490	419,013
Reconciling items		
Corporate office assets	19,402	15,542
Intersegment accounts receivable	(13,860)	(10,446)
Intersegment profit in inventory	(162)	(191)
Total consolidated assets	$361,870	$423,918

	2002	2001	2000
Expenditures for additions to long-lived assets			
Flooring products	$ 9,990	$10,887	$13,948
Tape products	2,004	8,303	3,621
Jewelry	579	858	457
Canadian division	1,164	5,185	2,769
Total expenditures for additions to long-lived assets	13,737	25,233	20,795
Reconciling items			
Corporate office expenditure for additions to long-lived assets	14	7	22
Total expenditures for additions to long-lived assets	$13,751	$25,240	$20,817

Geographic Area Information

	2002	2001	2000
Revenues from external customers			
United States	$373,312	$340,624	$346,583
Canada	37,198	37,821	35,661
Mexico	5,512	6,929	7,238
Europe	16,871	16,599	16,436
Asia	7,474	6,719	7,119
Other	1,666	1,994	3,067
Total revenues from external customers	$442,033	$410,686	$416,104

Revenues are attributed to regions based on the location of customers.

	2002	2001
Long-lived assets by area		
United States	$159,940	$228,308
Canada	21,271	21,094
Mexico	9	9
Europe	1,070	890
Asia	2,216	2,338
Total long-lived assets	$184,506	$252,639

1.30

CENDANT CORPORATION AND SUBSIDIARIES (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Amounts are in millions)

29. Segment Information

Management evaluates each segment's performance based upon earnings before non-program interest, income taxes, non-program depreciation and amortization, minority interest and, in 2001, equity in Homestore. Such measure is then adjusted to exclude items that are of a non-recurring or unusual nature and are not measured in assessing segment performance or are not segment specific ("Adjusted EBITDA"). Management believes such discussions are the most informative representation of how management evaluates performance. However, the Company's presentation of Adjusted EBITDA may not be comparable with similar measures used by other companies.

A description of the services provided within each of the Company's five reportable segments is as follows:

Real Estate Services

The Real Estate Services segment franchises the Company's three residential and one commercial real estate brands, operates real estate brokerages, provides home buyers with mortgages, title and closing services and facilitates employee relocations. The Company licenses the owners and operators of independent real estate brokerage businesses to use its brand names. Operational and administrative services are provided to franchisees, which are designed to increase franchisee revenue and profitability. Such services include advertising and promotions, referrals, training and volume purchasing discounts. As an owner operator of real estate brokerages, the Company acts as a real estate broker, recruiting agents to assist home buyers and sellers in listing, marketing, selling and finding homes. Mortgage services includes the origination, sale and servicing of residential mortgage loans. The Company markets a variety of mortgage products to consumers through relationships with corporations, affinity groups, financial institutions, real estate brokerage firms and other mortgage banks. The Company customarily sells all mortgages it originates to investors while generally retaining mortgage servicing rights. Mortgage servicing consists of collecting loan payments, remitting principal and interest payments to investors, holding escrow funds for payment of mortgage-related expenses such as taxes and insurance, and otherwise administering the Company's mortgage loan servicing portfolio. Title and closing services include title search procedures for title insurance policies, homesale escrow and closing services including ordering appraisal, flood and credit reports. Title search activities do not include underwriting the title insurance policies. Relocation services are provided to client corporations for the transfer of their employees. Such services include appraisal, inspection and selling of transferees' homes, providing home equity advances to transferees (generally guaranteed by the corporate customer), purchasing of a transferee's home, certain home management services, assistance in locating a new home for the transferee at the transferee's destination, consulting services and other related services. The

transferee's home is purchased under a contract of sale and the Company obtains a deed to the property; however, it does not generally record the deed or transfer title. Transferring employees are provided equity advances on the home based on their ownership equity of the appraised home value. The mortgage is generally retired concurrently with the advance of the equity and the purchase of the home. Based on its client agreements, the Company is given parameters under which it negotiates for the ultimate sale of the home. The gain or loss on resale is generally borne by the client corporation. In certain transactions, the Company will assume the risk of loss on the sale of homes; however, in such transactions, the Company will control all facets of the resale process, thereby limiting its exposure.

Hospitality

The Hospitality segment markets and sells vacation ownership interests, provides consumer financing to individuals purchasing these interests, franchises the Company's nine lodging brands, facilitates the sale and exchange of vacation ownership intervals and markets vacation rental properties in Europe. As a provider of vacation and timeshare exchange services, the Company enters into affiliation agreements with resort property owners/developers to allow owners of weekly timeshare intervals to trade their owned weeks with other subscribers. As a franchiser of guest lodging facilities, the Company licenses the independent owners and operators of hotels to use its brand names. Operation and administrative services are provided to franchisees, which include access to a national reservation system, national advertising and promotional campaigns, co-marketing programs and volume purchasing discounts.

Travel Distribution

The Travel Distribution segment provides global distribution and computer reservation services, offers travel agency services and provides travel marketing information to airline clients. The Company provides scheduling and ticketing services and fare and other information to global travel agencies, Internet travel sites, corporations and individuals to assist them with the placement of airline, car rental and hotel reservations. Such services are provided through the use of a computerized reservation system. The Company also provides airline, car rental, hotel and other travel reservation and fulfillment services to members of its timeshare exchange programs and members of certain of Trilegiant's programs. Further, the Company provides hotels, car rental businesses and tour/leisure travel operators, including Internet travel companies, with access to reservation systems and processing.

Vehicle Services

The Vehicle Services segment operates and franchises the Avis and Budget car rental brands and provides fleet management and fuel card services. The Company owns and operates the Avis and Budget car rental franchise systems and franchises vehicle rentals to business and leisure travelers. The Company also provides fleet and fuel card related products and services to corporate clients and government agencies. These services include management and leasing of vehicles, fuel card payment and reporting and other fee-based services for clients' vehicle fleets. The Company leases vehicles primarily to corporate fleet users under open-end operating and direct financing lease arrangements where the customer bears substantially all of the vehicle's residual value risk. In limited circumstances, the Company leases vehicles under closed-end leases where the Company bears all of the vehicle's residual value risk.

Financial Services

The Financial Services segment provides financial institution enhancement products and insurance-based and loyalty solutions, operates and franchises tax preparation services and provides a variety of membership programs through an outsourcing arrangement with Trilegiant (as discussed in Note 28—Related Party Transactions). The Company affiliates with business partners, such as leading financial institutions and retailers, to offer membership as an enhancement to their credit card customers. The Company also markets and administers insurance products, primarily accidental death and dismemberment insurance and term life insurance, and provides services such as checking account enhancement packages, various financial products and discount programs, to financial institutions, which, in turn, provide these services to their customers. The Company franchises tax preparation services through its Jackson Hewitt brand name. The Company, through its relationship with Trilegiant Corporation, also provides consumers with a variety of membership programs offering discounted products and services in such areas as retail shopping, auto, dining, home improvement and credit information.

	Year Ended December 31, 2002			
	Real Estate Services	Hospitality	Travel Distribution	Vehicle Services
Net revenues[a]	$4,687	$2,180	$1,695	$ 4,175
Adjusted EBITDA	853	625	524	408
Non-program depreciation and amortization	113	96	92	64
Segment assets exclusive of assets under programs	4,786	4,680	4,088	5,160
Assets under management and mortgage programs	3,928	685	—	10,395
Capital expenditures	74	67	97	100

	Financial Services	Corporate and Other[b]	Total
Net revenues[a]	$1,325	$ 26	$14,088
Adjusted EBITDA	449	(98)	2,761
Non-program depreciation and amortization	65	36	466
Segment assets exclusive of assets under programs	1,615	560	20,889
Assets under management and mortgage programs	—	—	15,008
Capital expenditures	27	34	399

	Year Ended December 31, 2001			
	Real Estate Services	Hospitality	Travel Distribution	Vehicle Services[c]
Net revenues[a]	$1,859	$1,522	$ 437	$ 3,322
Adjusted EBITDA	939	513	108	290
Non-program depreciation and amortization	116	119	26	102
Segment assets exclusive of assets under programs[d]	3,826	2,957	3,854	4,260
Assets under management and mortgage programs	3,573	222	—	–8,073
Capital expenditures	41	70	22	74

	Financial Services	Corporate and Other[b]	Total
Net revenues[a]	$1,402	$ 71	$ 8,613
Adjusted EBITDA	310	(73)	2,087
Non-program depreciation and amortization	73	41	477
Segment assets exclusive of assets under programs[d]	1,611	3,858	20,366
Assets under management and mortgage programs	—	—	11,868
Capital expenditures	64	58	329

	Year Ended December 31, 2000			
	Real Estate Services	Hospitality	Travel Distribution	Vehicle Services[c]
Net revenues[a]	$1,461	$ 918	$ 99	$ 230
Adjusted EBITDA	752	385	10	169
Non-program depreciation and amortization	103	80	2	21
Segment assets exclusive of assets under programs[d]	3,262	1,906	22	1,292
Assets under management and mortgage programs	2,861	—	—	—
Capital expenditures	39	38	1	1

	Financial Services	Corporate and Other[b]	Total
Net revenues[a]	$1,380	$ 232	$ 4,320
Adjusted EBITDA	373	(104)	1,585
Non-program depreciation and amortization	59	56	321
Segment assets exclusive of assets under programs[d]	1,525	2,884	10,891
Assets under management and mortgage programs	—	—	2,861
Capital expenditures	74	39	192

[a] Inter-segment net revenues were not significant to the net revenues of any one segment

[b] Includes the results of operations of the Company's non-strategic businesses, unallocated corporate overhead and the elimination of transactions between segments.

[c] Net revenues and Adjusted EBITDA include the equity in earnings from the Company's investment in Avis of $5 million and $17 million in 2001 and 2000, respectively. Segment assets at December 31, 2000 also include such equity method investment, which approximated $132 million.

[d] Excludes assets of discontinued operations.

Provided below is a reconciliation of Adjusted EBITDA to income (loss) before income taxes, minority interest and equity in Homestore.

	2002	2001	2000
Adjusted EBITDA	$2,761	$2,087	$1,585
Non-program related depreciation and amortization	(466)	(477)	(321)
Other (charges) credits:			
Acquisition and integration related costs	(285)	(112)	—
Litigation and related costs	(103)	(86)	(2)
Restructuring and other unusual charges	14	(379)	(109)
Mortgage servicing rights impairment	—	(94)	—
Non-program related interest, net	(262)	(252)	(152)
Gains on dispositions of businesses	—	443	37
Losses on dispositions of businesses	—	(26)	(45)
Impairment of investments	—	(441)	—
Income before income taxes, minority interest and equity in Homestore	$1,659	$ 663	$ 993

The geographic segment information provided below is classified based on the geographic location of the Company's subsidiaries.

	United States	United Kingdom	All Other Countries	Total
2002				
Net revenues	$12,329	$389	$1,370	$14,088
Total assets	33,233	860	1,804	35,897
Net property and equipment	1,611	50	119	1,780
2001				
Net revenues	$ 7,842	$240	$ 531	$ 8,613
Total assets[a]	30,198	831	1,205	32,234
Net property and equipment	1,268	38	88	1,394
2000				
Net revenues	$ 3,955	$161	$ 204	$ 4,320
Total assets[a]	13,026	604	122	13,752
Net property and equipment	672	27	36	735

[a] Excludes assets of discontinued operations.

1.31

DELPHI CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

13. Segment Reporting

For the years ended December 31, 2002, 2001 and 2000, Delphi's operating segments ("product sectors") were Electronics & Mobile Communication; Safety, Thermal & Electrical Architecture; and Dynamics & Propulsion. The Electronics & Mobile Communication product sector supplied automotive electronic products, as well as audio and communication systems. The Safety, Thermal & Electrical Architecture product sector supplied our safety and interior systems, thermal systems, electrical power and signal distribution products. The Dynamics & Propulsion product sector supplied our engine and emission management systems, energy systems, and vehicle dynamic systems, including, braking, steering, and ride control.

The accounting policies of the product sectors are the same as those described in the summary of significant accounting policies except that the disaggregated financial results for the product sectors have been prepared using a management approach, which is consistent with the basis and manner in which management internally disaggregates financial information for the purposes of assisting in making internal operating decisions. Generally, Delphi evaluates performance based on stand-alone product sector operating income and accounts for intersegment sales and transfers as if the sales or transfers were to third parties, at current market prices. Net sales are attributed to geographic areas based on the location of the assets producing the revenues. Financial information by product sector is as follows:

(In millions)	Electronics & Mobile Communication Mobile MultiMedia[a]	Other Electroics & Mobile Communication	Total	Safety, Thermal & Electrical Architecture	Dynamics & Propulsion	Other[b]	Total
2002							
Net sales to GM and affiliates	$207	$2,877	$3,084	$5,671	$ 7,913	$ 1,194	$17,862
Net sales to other customers	103	1,218	1,321	3,673	3,853	718	9,565
Inter-sector net sales	—	636	636	361	1,242	(2,239)	—
Total net sales	$310	$4,731	$5,041	$9,705	$13,008	$ (327)	$27,427
Depreciation and amortization	$ —	$ 193	$ 193	$ 322	$ 444	$ 29	988
Sector operating income (loss)	$ (19)	$ 429[c]	$ 410[c]	$ 544[c]	$ 76[c]	$ (78)[c]	$ 952[c]
Sector assets	N/A	N/A	$2,934	$6,876	$ 9,048	$ 458	$19,316
Capital expenditures	N/A	N/A	$ 237	$ 304	$ 479	$ 15	$ 1,035
2001							
Net sales to GM and affiliates	$321	$2,783	$3,104	$5,401	$ 7,778	$ 1,341	$17,624
Net sales to other customers	52	1,002	1,054	3,235	3,611	564	8,464
Inter-sector net sales	—	642	642	394	1,239	(2,275)	—
Total net sales	$373	$4,427	$4,800	$9,030	$12,628	$ (370)	$26,088
Depreciation and amortization	$ 8	$ 187[d][g]	$ 195[d][g]	$ 305[d][g]	$ 446[d][g]	$ 41[g]	$ 987[d][g]
Sector operating income (loss)	$ (33)	$ 319[e][g]	$ 286[e][g]	$ 362[e][g]	$ (8)[e][g]	$ (87)[e][g]	$ 553[e][g]
Sector assets	N/A	N/A	$2,673	$7,381	$ 8,587	$ (39)	$18,602
Capital expenditures	N/A	N/A	$ 238	$ 304	$ 497	$ 18	$ 1,057
2000							
Net sales to GM and affiliates	$304	$3,364	$3,668	$6,341	$ 9,169	$ 1,487	$20,665
Net sales to other customers	18	1,018	1,036	3,145	3,747	546	8,474
Inter-sector net sales	—	622	622	450	1,286	(2,358)	—
Total net sales	$322	$5,004	$5,326	$9,936	$14,202	$ (325)	$29,139
Depreciation and amortization	$ 7	$ 148[g]	$ 155[g]	$ 309[g]	$ 391[g]	$ 50[g]	$ 905[g]
Sector operating income (loss)	$ (23)	$ 497[g]	$ 474[g]	$ 679[g]	$ 678[f][g]	$ (56)[g]	$ 1,775[f][g]
Sector assets	N/A	N/A	$2,889	$6,468	$ 9,439	$ (275)	$18,521
Capital expenditures	N/A	N/A	$ 315	$ 381	$ 566	$ 10	$ 1,272

[a] Certain information for the Mobile MultiMedia business line within the Electronics & Mobile Communication sector is separately disclosed due to the strategic importance of this high-tech business line and its usefulness in understanding sector net sales and operating results. Mobile MultiMedia develops products designed to bring the internet, telematics, entertainment and mobile communication technologies into vehicles and home use.

[b] Other includes Delphi Products & Service Solutions and other activities not allocated to the product sectors and the elimination of inter-sector transactions.

[c] Excludes the first quarter 2002 net restructuring and generator product line charges of $262 million with $20 million for Electronics & Mobile Communication, $101 million for Safety, Thermal & Electrical Architecture, $126 million for Dynamics & Propulsion and $15 million for Other.

[d] Excludes asset impairment charges recorded in the first and fourth quarters of $63 million and $65 million, respectively, with $10 million for Electronics & Mobile Communications, $47 million for Safety, Thermal & Electrical Architecture and $71 million for Dynamics & Propulsion.

[e] Excludes the first quarter 2001 restructuring and asset impairment charges of $599 million and the fourth quarter 2001 product line impairment and other charges of $203 million with $87 million for Electronics & Mobile Communications, $214 million for Safety, Thermal & Electrical Architecture, $474 million for Dynamics & Propulsion and $27 million for Other.

[f] Excludes the first quarter 2000 one-time, non-cash charge for Dynamics & Propulsion of $51 million resulting from acquisition-related in-process research and development.

[g] Excludes goodwill amortization for 2001 of $35 million with $4 million for Electronics & Mobile Communication, $10 million for Safety, Thermal & Electrical Architecture, $19 million for Dynamics & Propulsion and $2 million for Other, and goodwill amortization for 2000 of $31 million with $4 million for Electronics & Mobile Communication, $8 million for Safety, Thermal & Electrical Architecture, $18 million for Dynamics & Propulsion and $1 million for Other.

A reconciliation between sector operating income and income (loss) before income taxes for each of the years presented is as follows:

(In millions)	2002	2001	2000
Sector operating income	$ 952[a]	$ 553[b][c]	$1,775[c][e]
Interest expense	(191)	(222)	(183)
Other income, net	32	48[d]	157
Income before income taxes, non-recurring items and goodwill amortization	$ 793[a]	$ 379[b][c][d]	$1,749[c][e]
Non-recurring items	(262)	(872)	(51)
Goodwill amortization	—	(35)	(31)
Income (loss) before income taxes	$ 531	$ (528)	$1,667

[a] Excludes the 2002 net restructuring and generator product line charges of $262 million.
[b] Excludes the first quarter 2001 restructuring and asset impairment charges of $599 million and the fourth quarter product line impairment and other charges of $203 million.
[c] Excludes goodwill amortization of $35 million and $31 million for the years ended December 31, 2001 and 2000, respectively.
[d] Excludes impairment charges of $70 million in 2001.
[e] Excludes the first quarter 2000 one-time, non-cash charge of $51 million resulting from acquisition-related in-process research and development.

Information concerning principal geographic areas is set forth below. Net sales data is for the years ended December 31 and net property data is as of December 31.

	2002		2001		2000	
(In millions)	Net Sales	Net Property	Net Sales	Net Property	Net Sales	Net Property
North America:						
U.S. and Canada	$16,986	$3,584	$16,393	$3,553	$19,615	$3,642
Mexico	4,268	304	3,884	309	3,985	289
Total North America	21,254	3,888	20,277	3,862	23,600	3,931
Europe, Middle East & Africa	5,048	1,672	4,801	1,420	4,553	1,319
Asia—Pacific	777	288	598	302	507	306
South America	348	96	412	140	479	162
Total	$27,427	$5,944	$26,088	$5,724	$29,139	$5,718

Realignment

In October 2002, we announced a realignment of our business sectors, which was effective on January 1, 2003. The realignment and the resultant assignment of new responsibilities to certain of Delphi's senior leadership was done to strengthen the Company's focus on customer relationships and growth, accelerate lean transformation across key business processes and place more emphasis on initiatives to resolve underperforming assets in our portfolios. Beginning January 1, 2003, the Company has three reporting segments that are grouped on the basis of similar product, market and operating factors:

- Dynamics, Propulsion & Thermal Sector, which includes selected businesses from our energy and engine management systems, chassis, steering and thermal systems product lines.
- Electrical, Electronics, Safety & Interior Sector, which includes selected businesses from our automotive electronics, audio, consumer and aftermarket products, communication systems, safety and power and signal distribution systems product lines.
- Automotive Holdings Group is comprised of product lines and plant sites that do not meet our targets for net income or other financial metrics. This will further enable consistent and targeted management focus on finding solutions to these businesses.

The realignment is designed to increase focus on products and services for the greatest long-term benefit for Delphi while at the same time placing an equal focus on businesses requiring additional management attention. It is a further step in the implementation of our long-term portfolio plans. Starting in the first quarter of 2003, we will report our segment information based on the realigned sectors.

1.32

HONEYWELL INTERNATIONAL INC. (DEC)

NOTES TO FINANCIAL STATEMENTS
(Dollars in millions)

Note 23. Segment Financial Data

Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information" (SFAS No. 131), establishes standards for reporting information about operating segments. The following information is provided in accordance with the requirements of SFAS No. 131 and is consistent with how business results are reported internally to management.

We globally manage our business operations through strategic business units (SBUs) serving customers worldwide with aerospace products and services, control, sensing and security technologies for buildings, homes and industry, automotive products and chemicals. Based on similar economic and operational characteristics, our SBUs are aggregated into the following four reportable segments:

- Aerospace includes Engines, Systems and Services (auxiliary power units; propulsion engines; environmental control systems; engine controls; repair and overhaul services; hardware; logistics and power generation systems); Aerospace Electronic Systems (flight safety communications, navigation, radar and surveillance systems; aircraft and airfield lighting; management and technical services and advanced systems and instruments); and Aircraft Landing Systems (aircraft wheels and brakes).
- Automation and Control Solutions includes Automation and Control Products (controls for heating, cooling, indoor air quality, ventilation, humidification and home automation; advanced software applications for home/building control and optimization; sensors, switches, control systems and instruments for measuring pressure, air flow, temperature, electrical current and, security and fire detection, access control and video surveillance systems); Service (installs, maintains and upgrades systems that keep buildings safe, comfortable and productive); and Industry Solutions (provides full range of automation and control solutions for industrial plants, offering advanced software and automation systems that integrate, control and monitor complex processes in many types of industrial settings).
- Specialty Materials includes fibers; specialty films; intermediate chemicals; fluorine-based products; pharmaceutical and agricultural chemicals; specialty waxes, adhesives and sealants; process technology; wafer fabrication materials and services; and amorphous metals.
- Transportation and Power Systems includes Garrett Engine Boosting Systems (turbochargers and charge-air coolers); the Consumer Products Group (car care products including anti-freeze, filters, spark plugs, cleaners, waxes and additives); and Friction Materials (friction material and related brake system components).

The accounting policies of the segments are the same as those described in Note 1. We evaluate segment performance based on segment profit, which excludes general corporate unallocated expenses, gains (losses) on sales of non-strategic businesses, equity income, other (income) expense, interest and other financial charges and repositioning, litigation, business impairment and other charges. Intersegment sales approximate market and are not significant. Reportable segment data were as follows:

	2002	2001	2000
Net sales			
Aerospace	$ 8,855	$ 9,653	$ 9,988
Automation and Control Solutions	6,978	7,185	7,384
Specialty Materials	3,205	3,313	4,055
Transportation and Power Systems	3,184	3,457	3,527
Corporate	52	44	69
	$22,274	$23,652	$25,023
Depreciation			
Aerospace	$ 224	$ 232	$ 268
Automation and Control Solutions	167	178	178
Specialty Materials	180	199	204
Transportation and Power Systems	66	78	89
Corporate	34	37	52
	$ 671	$ 724	$ 791
Goodwill and indefinite-lived intangible asset amortization			
Aerospace	$ —	$ 60	$ 60
Automation and Control Solutions	—	92	86
Specialty Materials	—	32	40
Transportation and Power Systems	—	20	20
	$ —	$ 204	$ 206
Segment profit			
Aerospace	$ 1,358	$ 1,741	$ 2,195
Automation and Control Solutions	890	819	986
Specialty Materials	57	52	334
Transportation and Power Systems	357	289	274
Corporate	(154)	(153)	(160)
	$ 2,508	$ 2,748	$ 3,629
Capital expenditures			
Aerospace	$ 182	$ 212	$ 225
Automation and Control Solutions	106	154	193
Specialty Materials	233	325	261
Transportation and Power Systems	108	172	145
Corporate	42	13	29
	$ 671	$ 876	$ 853
Total assets			
Aerospace	$ 7,094	$ 8,003	$ 8,454
Automation and Control Solutions	7,044	6,827	7,510
Specialty Materials	3,512	4,053	4,243
Transportation and Power Systems	2,201	2,195	2,792
Corporate	7,708	3,148	2,176
	$27,559	$24,226	$25,175

A reconciliation of segment profit to consolidated income (loss) before taxes is as follows:

	2002	2001	2000
Segment profit	$ 2,508	$ 2,748	$3,629
Gain (loss) on sale of non-strategic businesses	(124)	—	112
Asbestos related litigation charges, net of insurance	(1,548)	(159)	(7)
Business impairment charges	(877)	(145)	(410)
Repositioning and other charges[1]	(634)	(2,490)	(549)
Equity in income of affiliated companies	55	7	47
Other income	19	22	57
Interest and other financial charges	(344)	(405)	(481)
Income (loss) before taxes	$ (945)	$ (422)	$2,398

[1] In 2001 includes cumulative effect adjustment of $1 million of income related to adoption of SFAS No. 133.

Note 24. Geographic Areas—Financial Data

	Net Sales[1]		
	2002	2001	2000
United States	$15,522	$17,421	$18,007
Europe	4,192	4,264	4,313
Other international	2,560	1,967	2,703
	$22,274	$23,652	$25,023

	Long-Lived Assets[2]		
	2002	2001	2000
United States	$ 8,665	$ 9,402	$ 9,540
Europe	1,756	1,491	1,617
Other international	406	396	517
	$10,827	$11,289	$11,674

[1] Sales between geographic areas approximate market and are not significant. Net sales are classified according to their country of origin. Included in United States net sales are export sales of $2,249, $3,074 and $3,194 million in 2002, 2001 and 2000, respectively.

[2] Long-lived assets are comprised of property, plant and equipment, goodwill and other intangible assets.

1.33

RYDER SYSTEM, INC. AND SUBSIDIARIES (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Segment Reporting

The Company's operating segments are aggregated into reportable business segments based primarily upon similar economic characteristics, products, services and delivery methods. The Company operates in three reportable business segments: (1) FMS, which provides full service leasing, commercial rental and programmed maintenance of trucks, tractors and trailers to customers, principally in the U.S., Canada and the U.K.; (2) SCS, which provides comprehensive supply chain consulting and lead logistics management solutions that support customers' entire supply chains, from inbound raw materials through distribution of finished goods throughout North America, in Latin America, Europe and Asia; and (3) DCC, which provides vehicles and drivers as part of a dedicated transportation solution, principally in North America.

Beginning in the first quarter of 2002, the primary measurement of segment financial performance, defined as "Net Before Taxes" (NBT), includes an allocation of Central Support Services (CSS) and excludes goodwill impairment, goodwill amortization and restructuring and other charges, net. CSS represents those costs incurred to support all business segments, including sales and marketing, human resources, finance, corporate services, shared management information systems, customer solutions, health and safety, legal and communications. The objective of the NBT measurement is to provide clarity on the profitability of each business segment and, ultimately, to hold leadership of each business segment and each operating segment within each business segment accountable for their allocated share of CSS costs. To facilitate the comparison of 2002 business segment NBT to prior periods, prior-year goodwill amortization (see "Summary of Significant Accounting Policies—Goodwill and Other Intangible Assets") is now treated as a corporate, rather than segment, cost and is segregated as such. Prior year segment results have been restated to conform to the new measurement of segment financial performance.

Certain costs are considered to be overhead not attributable to any segment and as such, remain unallocated in CSS. Included among the unallocated overhead remaining within CSS are the costs for investor relations, corporate communications, public affairs and certain executive compensation.

CSS costs attributable to the business segments are generally allocated to FMS, SCS and DCC as follows:

- *Sales and marketing, finance, corporate services and health and safety*—allocated based upon estimated and planned resource utilization.
- *Human resources*—individual costs within this category are allocated in several ways, including allocation based on estimated utilization and number of personnel supported.
- *Information technology*—allocated principally based upon utilization-related metrics such as number of users or minutes of CPU time.
- *Customer solutions*—represents project costs and expenses incurred in excess of amounts billable to customers during the period. Expenses are allocated to the business segment responsible for the project.
- *Other*—represents purchasing, legal, and other centralized costs and expenses including certain incentive compensation costs. Expenses, where allocated, are based primarily on the number of personnel supported.

The FMS segment leases revenue earning equipment and provides fuel, maintenance and other ancillary services to the SCS and DCC segments. Inter-segment revenues and NBT are accounted for at approximate fair value as if the transactions were made with independent third parties. NBT related to inter-segment equipment and services billed to customers (equipment contribution) is included in both FMS and the business segment which served the customer,

then eliminated (presented as "Eliminations"). Equipment contribution included in SCS NBT was $16 million in 2002, $17 million in 2001 and $20 million in 2000. Equipment contribution included in DCC NBT was $19 million in 2002, $20 million in 2001 and $22 million in 2000. Interest expense is primarily allocated to the FMS business segment since such borrowings are used principally to fund the purchase of revenue earning equipment used in FMS; however, with the availability of segment balance sheet information in 2002 (including targeted segment leverage ratios), interest expense (income) is also reflected in SCS and DCC.

Business segment revenue and NBT is presented below:

(In thousands)	2002	2001	2000
Revenue:			
Fleet Management Solutions:			
Full service lease and program maintenance	$1,795,254	1,855,865	1,865,345
Commercial rental	458,355	468,438	523,776
Fuel	582,643	658,325	773,320
Other	346,770	369,912	393,549
	3,183,022	3,352,540	3,555,990
Supply Chain Solutions	1,388,299	1,453,881	1,595,252
Dedicated Contract Carriage	517,961	534,962	551,706
Eliminations	(313,017)	(335,260)	(366,156)
Total	$4,776,265	5,006,123	5,336,792
NBT:			
Fleet Management Solutions	$ 214,384	194,398	225,088
Supply Chain Solutions	(6,221)	(6,760)	10,035
Dedicated Contract Carriage	31,157	34,755	37,282
Eliminations	(34,636)	(36,989)	(41,888)
	204,684	185,404	230,517
Unallocated Central Support Services	(24,585)	(25,396)	(35,522)
Goodwill amortization	—	(12,738)	(11,660)
Earnings before restructuring and other charges, taxes and cumulative effect of change in accounting principle	180,099	147,270	183,335
Restructuring and other charges, net	(4,216)	(116,564)	(42,014)
Earnings before income taxes and cumulative effect of change in accounting principle	$ 175,883	30,706	141,321

Each business segment follows the same accounting policies as described in the Summary of Significant Accounting Policies. These results are not necessarily indicative of the results of operations that would have occurred had each segment been an independent, stand-alone entity during the periods presented.

(In thousands)	2002	2001	2000
Depreciation expense*:			
Fleet Management Solutions	$517,302	509,652	543,261
Supply Chain Solutions	32,623	32,373	31,571
Dedicated Contract Carriage	2,067	2,744	3,272
Central Support Services	499	716	2,252
Total	$552,491	545,485	580,356

* Depreciation expense associated with CSS assets are allocated to business segments based upon estimated and planned asset utilization. Depreciation expense totaling $19 million, $18 million and $16 million during 2002, 2001 and 2000, respectively, associated with CSS assets was allocated to other business segments.

Gains on sales of revenue earning equipment, net of selling and equipment preparation cost reflected in FMS, totaled $14 million, $12 million and $19 million in 2002, 2001 and 2000, respectively.

(In thousands)	2002	2001	2000
Amortization expense and other non-cash charges, net:			
Fleet Management Solutions	$4,884	35,653	15,973
Supply Chain Solutions	482	47,543	14,624
Dedicated Contract Carriage	(7)	431	—
Central Support Services	3,354	7,286	2,330
Total	$8,713	90,913	32,927

Interest expense is primarily allocated to the FMS segment; however, with the availability of segment balance sheet information for 2002 (including targeted segment leverage ratios), interest expense (income) is also reflected in SCS and DCC. Interest expense (income) for the business segments is presented below:

(In thousands)	2002	2001	2000
Interest expense:			
Fleet Management Solutions	$88,185	111,032	152,596
Supply Chain Solutions	6,416	5,321	5,196
Dedicated Contract Carriage	(3,087)	19	3
Central Support Services	204	2,177	(3,786)
Total	$91,718	118,549	154,009

The following table sets forth total assets as provided to the chief operating decision-maker for each of the Company's reportable business segments:

(In thousands)	2002	2001
Assets:		
Fleet Management Solutions	$4,241,095	4,413,352
Supply Chain Solutions	366,954	414,441
Dedicated Contract Carriage	113,479	113,290
Central Support Services	185,773	222,133
Receivables sold	—	(110,000)
Inter-segment eliminations	(140,319)	(126,055)
Total	$4,766,982	4,927,161

Asset information, including capital expenditures, was not maintained in 2000 on the new segment basis nor provided to the chief operating decision-maker. The following table sets forth total capital expenditures for each of the Company's reportable business segments:

(In thousands)	2002	2001
Capital expenditures:		
Fleet Management Solutions*	$576,067	597,698
Supply Chain Solutions	17,625	35,684
Dedicated Contract Carriage	344	1,218
Central Support Services	6,265	21,997
Total	$600,301	656,597

* 2002 excludes non-cash additions of $67 million in assets held under capital leases resulting from the extension of existing operating leases and other additions.

Geographic Information

(In thousands)	2002	2001	2000
Revenue:			
United States	$3,993,368	4,218,163	4,445,842
Foreign	782,897	787,960	890,950
Total	$4,776,265	5,006,123	5,336,792
Long-lived assets:			
United States	$2,439,436	2,489,338	3,026,644
Foreign	589,055	556,659	598,788
Total	$3,028,491	3,045,997	3,625,432

The Company believes that its diversified portfolio of customers across a full array of transportation and logistics solutions across many industries will help to mitigate the impact of adverse downturns in specific sectors of the economy in the near to medium-term. The Company's portfolio of full service lease and commercial rental customers is not concentrated in any one particular industry or geographic region, however, the largest concentration is in non-cyclical industries such as food, groceries and beverages. While the Company derives a significant portion of its SCS revenue (over 40 percent in 2002) from the automotive industry, the business is derived from numerous manufacturers and suppliers of original equipment parts. None of the customers constitute more than 10 percent of the Company's total revenue.

1.34

TEXAS INSTRUMENTS INCORPORATED (DEC)

NOTES TO FINANCIAL STATEMENTS

Business Segment and Geographic Area Data

Texas Instruments develops, manufactures and sells a variety of products used in the commercial electronic and electrical equipment industry, primarily for industrial and consumer markets.

TI has three principal businesses: Semiconductor, Sensors & Controls and Educational & Productivity Solutions. Each of these is a business segment, with its respective financial performance detailed in this report.

Semiconductor consists of digital signal processors, analog integrated circuits, standard logic devices, application-specific integrated circuits, reduced instruction-set computing microprocessors, microcontrollers and digital imaging devices. They are sold to original-equipment manufacturers (OEMs), original-design manufacturers (ODMs), contract manufacturers and distributors. An OEM designs and sells under its own brand products that it has manufactured or contracted others to manufacture for it. An ODM designs and manufactures products for others to sell under their brands.

Sensors & Controls consists primarily of sensors, electrical and electronic controls, and radio frequency identification systems for automotive and industrial markets. They are sold to OEMs and distributors.

Educational & Productivity Solutions includes graphing and other educational calculators, which are marketed primarily through retailers and to schools through instructional dealers.

Operating profits of the three principal businesses exclude the effects of special charges and gains and acquisition-related amortization, but include the effects of profit sharing. The results for Semiconductor include the effects of all royalty revenue from semiconductor-related cross-license agreements. Business assets are the owned or allocated assets used by each business.

Included in corporate activities are general corporate expenses, elimination of intersegment transactions (which are generally intended to approximate market prices), and royalty revenue from computer-related cross-license agreements. Assets of corporate activities include unallocated

cash, short-term investments, noncurrent investments and deferred income taxes.

Divested activities include the historical operating results and assets of the materials portion of Sensors & Controls (sold in 2000), the memory business unit of Semiconductor (sold in 1998) and other smaller divestitures.

Business Segment Net Revenue

(Millions of dollars)	2002	2001	2000
Semiconductor			
Trade	$6,934	$6,767	$10,267
Intersegment	10	17	17
	6,944	6,784	10,284
Sensors & Controls			
Trade	954	955	1,029
Intersegment	4	3	1
	958	958	1,030
Educational & Productivity Solutions			
Trade	494	465	446
Corporate activities	(13)	(18)	3
Divested activities	—	12	112
Total	$8,383	$8,201	$11,875

Business Segment Profit (Loss)

(Millions of dollars)	2002	2001	2000
Semiconductor	$ 254	$(155)	$2,607
Sensors & Controls	214	192	191
Educational & Productivity Solutions	154	132	111
Corporate activities	(182)	(170)	(234)
Special charges/gains and acquisition-related amortization, net of applicable profit sharing	(772)	(575)	1,429
Interest on loans/other income (expense) net, excluding 2002 net charges of $620, 2001 net gains of $11 and 2000 net gains of $1,791 included above in special charges/gains and acquisition-related amortization	(14)	144	447
Divested activities	—	6	27
Income (loss) before income taxes and cumulative effect of an accounting change	$(346)	$(426)	$4,578

Details of special charges and gains are as follows:

(Millions of dollars)	2002	2001	2000
Semiconductor manufacturing operations alignment	$ (17)	$ —	$ —
Voluntary/involuntary program in U.S.	—	(153)	—
Semiconductor site closings in U.S.	(20)	(88)	—
International restructuring actions	—	(116)	—
Semiconductor and Sensors & Controls restructuring and other actions, of which $11 was included in other income (expense) net	—	—	(41)
Gain on sale of Micron common stock	—	—	1,636
Gain on sale of the memory business unit	—	—	88
Gain on sale of the materials operation	—	—	56
Write-down of investment in Micron common stock	(638)	—	—
Reversal of warranty reserve	20	—	—
Acquisition-related amortization	(115)	(229)	(160)
Purchased in-process R&D charges	(1)	—	(112)
Pooling of interests transaction costs	—	—	(50)
Other	(1)	11	12
Total	$(772)	$(575)	$1,429

Business Segment Assets

(Millions of dollars)	2002	2001	2000
Semiconductor	$ 6,251	$ 6,934	$ 8,228
Sensors & Controls	383	415	499
Educational & Productivity Solutions	96	94	124
Corporate activities	7,949	8,336	8,869
Total	$14,679	$15,779	$17,720

Business Segment Property, Plant and Equipment Additions and Depreciation

(Millions of dollars)	2002	2001	2000
Additions			
Semiconductor	$718	$1,699	$2,615
Sensors & Controls	26	29	65
Educational & Productivity Solutions	1	1	1
Corporate activities	57	61	78
Divested activities	—	—	3
Total	$802	$1,790	$2,762

(Millions of dollars)	2002	2001	2000
Depreciation			
Semiconductor	$1,470	$1,461	$1,115
Sensors & Controls	39	43	45
Educational & Productivity Solutions	1	1	1
Corporate activities	64	94	49
Divested activities	—	—	6
Total	$1,574	$1,599	$1,216

The following geographic area data include trade revenue, based on product shipment destination and royalty payor location, and property, plant and equipment based on physical location:

Geographic Area Net Trade Revenue

(Millions of dollars)	2002	2001	2000
United States	$1,941	$2,284	$ 3,209
Japan	1,429	1,430	2,119
Europe	1,649	1,637	2,491
Asia-Pacific	2,935	2,320	3,157
Other	429	530	899
Total	$8,383	$8,201	$11,875

Geographic Area Property, Plant and Equipment (Net)

(Millions of dollars)	2002	2001	2000
United States	$3,442	$3,940	$3,825
Japan	446	577	634
Europe	450	590	384
Asia-Pacific	406	436	524
Other	50	46	80
Total	$4,794	$5,589	$5,447

Major Customer

During 2002, sales to the Nokia group of companies accounted for 12% of the company's consolidated revenue. During 2001 and 2000, no customer accounted for more than 10% of the company's revenue.

NATURAL BUSINESS YEAR

1.35 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.

1.36 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.

1.37 For 2002, 161 survey companies were on a 52–53 week fiscal year. During 2002, 4 survey companies changed the date of their fiscal year end. Examples of fiscal year end changes and of fiscal year definitions follow.

1.38

TABLE 1-4: MONTH OF FISCAL YEAR END

	2002	**2001**	**2000**	**1999**
January	31	32	30	26
February	9	10	11	11
March	16	16	15	16
April	7	8	8	9
May	21	18	16	17
June	49	48	48	53
July	8	8	11	9
August	14	15	15	15
September	42	38	40	38
October	16	19	19	21
November	13	15	15	16
Subtotal	**226**	**227**	**228**	**231**
December	374	373	372	369
Total Companies	**600**	**600**	**600**	**600**

Change in Date of Fiscal Year End

1.39

CSP INC. AND SUBSIDIARIES

Consolidated Balance Sheets

	September 30, 2002		August 31, 2001

Consolidated Statements of Operations

		Year Ended	
	September 30, 2002	August 31, 2001	August 31, 2000

Consolidated Statements of Cash Flows

		Year Ended	
	September 30, 2002	August 31, 2001	August 31, 2000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Fiscal Year

The Company changed its fiscal year end from the last Friday in August to the last day in August for Fiscal 2000 (August 31, 2000). In Fiscal 2000 each quarter ended on the last day of the last month of the quarter. Fiscal Year 2000 was 53 weeks in length compared to 52 weeks in Fiscal 1999. Effective on September 1, 2001, the Company changed its fiscal year end from August 31 to September 30. This change was effective for the one-month period ended September 30, 2001.

Change in Fiscal Year

Effective on September 1, 2001 the Company changed its fiscal year end from August 31st to September 30th. This change was effective for the one-month period ended September 30, 2001. The following table presents the audited Consolidation Statement of Cash Flows and Statement of Operation, for the one-month ended September 30, 2001:

Consolidated Statements of Operations

(Amounts in thousands, except for per share data)	
Sales	
Systems	$ 22
Service and system integration	1,428
E-Commerce software	2
Other software	45
Total sales	$ 1,497
Cost of sales	
Systems	178
Service and system integration	1,186
Other software	18
Total cost of sales	1,382
Gross profit	115
Operating expenses	
Engineering and development	291
Selling, general and administrative	706
Total operating expenses	997
Operating loss	(882)
Other expense	(142)
Loss before income taxes	(1,024)
Income tax benefit	366
Net loss	$ (658)
Net loss per share—basic and diluted	$ (0.19)
Weighted average shares outstanding—basic and diluted	3,513

Consolidated Statements of Cash Flows

(Amounts in thousands)	
Cash flows from operating activities:	
Net loss	$ (658)
Adjustments to reconcile net income loss to net cash provided by (used in) operating activities:	
Depreciation and amortization	78
Impairment charge on investments	77
Deferred income taxes	(391)
Other assets	13
Changes in current assets and liabilities:	
Decrease in accounts receivable, net	1,438
Increase in inventories	(23)
Decrease in other current assets	19
Decrease in accounts payable and accrued expenses	(986)
Increase in income taxes payable	38
Net cash provided by (used in) operating activities	(393)
Cash flows from investing activities:	
Purchases of held-for-sale securities	(20)
Purchases of held-to-maturity securities	(2,615)
Sales of available-for-sale securities	36
Maturities of held-to-maturity securities	2,663
Purchases of property, equipment and improvements	(29)
Net cash used in investing activities	35
Net cash provided by(used in) financing activities	—
Effects of exchange rate on cash	33
Net decrease in cash	(325)
Cash and cash equivalents, at August 31, 2001	1,835
Cash and cash equivalents, at September 30, 2001	$ 1,510

1.40

HILLENBRAND INDUSTRIES, INC. AND SUBSIDIARIES

Statements of Consolidated (Loss) Income

	Ten Months Ended September 30, 2002 Fiscal Year Ended December 1, 2001 and December 2, 2000 (53 weeks)		
	2002	2001	2000

Consolidated Balance Sheets

	September 30, 2002	December 1, 2001

Statements of Consolidated Cash Flows

	Ten Months Ended September 30, 2002 Fiscal Year Ended December 1, 2001 and December 2, 2000 (53 weeks)		
	2002	2001	2000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Change in Fiscal Year

Effective for fiscal year 2002, the Company changed its fiscal year end to September 30 from the 52 or 53-week period ending the Saturday nearest November 30 of each year. As a result of this change, the Statements of Consolidated Income, Statements of Consolidated Cash Flows and Statements of Consolidated Shareholders' Equity are presented for the ten-month period ended September 30, 2002 and each of the two previous fiscal years ended December 1, 2001 and December 2, 2000. For comparative purposes only, the following table presents the condensed results of operations for the ten-month periods ended September 30, 2002 and 2001:

	(Unaudited)	
Condensed Statement of Consolidated Income	2002	2001
Total revenues	$1,757	$1,717
Total cost of revenue	1,009	1,029
Gross profit	748	688
Other operating expenses and unusual charges	530	500
Litigation charge	250	—
Operating (loss) profit	(32)	188
Other income (expense), net	(3)	(10)
(Loss) income before income taxes	(35)	178
Income tax (benefit) expense	(25)	62
Net (loss) income	$ (10)	$ 116
Net (loss) income per common share—basic	$ (0.16)	$ 1.85
Net (loss) income per common share—diluted	$ (0.16)	$ 1.84

1.41

MERISEL, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

	December 31,	
	2002	2001

Consolidated Statements of Operations

	For the Years Ended December 31,		
	2002	2001	2000

Consolidated Statements of Cash Flows

	For the Years Ended December 31,		
	2002	2001	2000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 (In Part): Summary of Significant Accounting Policies

Fiscal Periods

Effective December 31, 2002, the Company's fiscal year ends on December 31 and its fiscal quarters end on March 31, June 30, September 30 and December 31. Prior to December 31, 2002, the Company's fiscal year was the 52-week period ending on the Saturday nearest to December 31 and its fiscal quarters were the 13-week periods ending on the Saturday nearest to March 31, June 30, September 30 and December 31. For clarity of presentation of prior years, the Company has described fiscal years presented as if the years ended on December 31 and fiscal quarters presented as if the quarters ended on March 31, June 30, September 30 and December 31.

1.42

SILICON GRAPHICS, INC.

Consolidated Statements of Operations

		Years Ended	
	June 28, 2002	June 30, 2001	June 30, 2000

Consolidated Balance Sheets

	June 28, 2002	June 30, 2001

Consolidated Statements of Cash Flows

		Years Ended	
	June 28, 2002	June 30, 2001	June 30, 2000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Basis of Presentation and Principles of Consolidation

Beginning in fiscal 2002, SGI changed to a 52–53 week fiscal year ending on the last Friday in June. For fiscal 2002, the fiscal year ended on June 28. For prior years, the fiscal year ended on June 30. The consolidated financial statements include the accounts of SGI and our wholly-and majority-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated.

Definition of Fiscal Year

1.43

AOL TIME WARNER INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (In Part)

Basis of Consolidation and Accounting for Investments (In Part)

The Company's fiscal year-end is December 31, however certain foreign locations are on a month lag. In addition, during 2002, the Company's domestic Music operations changed its fiscal year end from December 31 to November 30 in order to be consistent with Music's foreign operations which had previously been operating under a November fiscal year end. The impact of this change was not material to the Company's overall financial results. To the extent a significant and or unusual transaction or event occurs during the one month lag period, it would be accounted for within the Company's year-end financial statements.

1.44

FOOT LOCKER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Reporting Year

The reporting period for the Company is the Saturday closest to the last day in January. Fiscal years 2002 and 2001 represented the 52 weeks ended February 1, 2003 and February 2, 2002, respectively. Fiscal 2000 ended February 3, 2001 and included 53 weeks. References to years in this annual report relate to fiscal years rather than calender years.

1.45

MOHAWK INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

i) Fiscal Year

The Company ends its fiscal year on December 31. Each of the first three quarters in the fiscal year ends on the Saturday nearest the calendar quarter end.

1.46

THE NEW YORK TIMES COMPANY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Fiscal Year

The Company's fiscal year-end is the last Sunday in December. Fiscal years 2002 and 2001 each comprises 52 weeks and fiscal year 2000 comprises 53 weeks.

COMPARATIVE FINANCIAL STATEMENTS

1.47 *Rule 14a-3* 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 SEC and conformed to the aforementioned requirements of *Rule 14a-3.*

1.48 In their annual reports, the survey companies usually present an income statement as the first financial statement. For 2002, 323 survey companies presented an income statement first followed by a balance sheet; 212 survey companies presented a balance sheet first followed by an income statement; 19 survey companies presented an income statement first followed by a statement of cash flows; and 25 survey companies presented an income statement first combined with a statement of comprehensive income or followed by a separate statement of comprehensive income.

1.49 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 2002, 6 survey companies did not present their financial statements on consecutive pages.

ROUNDING OF AMOUNTS

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

1.51

TABLE 1-5: ROUNDING OF AMOUNTS

	2002	2001	2000	1999
To nearest dollar	21	20	23	26
To nearest thousand dollars:				
Omitting 000	336	334	335	338
Presenting 000	4	4	4	6
To nearest million dollars	239	242	238	230
Total Companies	**600**	**600**	**600**	**600**

NOTES TO FINANCIAL STATEMENTS

1.52 SEC Regulations S-X, *Accounting Rules—Form and Content of Financial Statements,* and *S-K,* and Statement on Auditing Standards (SAS) No. 32, *Adequacy of Disclosure in Financial Statements,* 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.

1.53 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.

1.54

TABLE 1-6: NOTES TO FINANCIAL STATEMENTS

	2002	2001	2000	1999
General reference only	514	475	448	429
General and direct references	85	124	151	168
Direct reference only	1	1	1	3
Total Companies	**600**	**600**	**600**	**600**

DISCLOSURE OF ACCOUNTING POLICIES

1.55 Accounting Principles Board (APB) Opinion No. 22, *Disclosure of Accounting Policies,* requires that the significant accounting policies of an entity be presented as an integral part of the financial statements of the entity. *APB Opinion No. 22* sets forth guidelines as to the content and format of disclosures of accounting policies. *APB 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. 480 survey companies presented the Summary of Significant Accounting Policies as either the first footnote or as a separate presentation following the last financial statement and preceding the footnotes. Of the remainder, most survey companies presented the Summary of Significant Accounting Policies as the second footnote following a footnote which described the nature of operations.

1.56 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.

1.57

TABLE 1-7: DISCLOSURE OF ACCOUNTING POLICIES

	Number of Companies			
	2002	**2001**	**2000**	**1999**
Revenue recognition	584	574	555	486
Consolidation policy	576	587	581	583
Use of estimates	576	577	576	574
Depreciation methods	567	584	581	587
Property	556	543	552	537
Impairment	540	533	428	426
Cash equivalents	537	543	518	516
Inventory pricing	522	523	538	542
Amortization of intangibles	509	495	481	479
Financial instruments	487	450	423	428
Stock-based compensation	483	335	318	289
Interperiod tax allocation	449	418	404	377
Translation of foreign currency	420	407	398	386
Earnings per share calculation	386	383	407	405
Nature of operations	361	329	313	312
Advertising costs	250	227	197	174
Research and development costs	206	186	180	179
Fiscal years	181	175	178	171
Credit risk concentrations	178	167	173	147
Employee benefits	167	133	164	124
Environmental costs	133	131	139	140
Capitalization of interest	89	87	89	76

1.58

AK STEEL HOLDING CORPORATION (DEC)

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

1. Summary of Significant Accounting Policies

Basis of Presentation

These financial statements consolidate the operations and accounts of AK Steel Holding Corporation ("AK Holding") and its 100%-owned subsidiary AK Steel Corporation ("AK Steel," and together with AK Holding, the "Company") and all subsidiaries in which the Company has a controlling interest.

On April 19, 2002, the Company completed the sale of its Sawhill Tubular division. For periods prior to the sale, the results of Sawhill Tubular have been classified as discontinued operations on the consolidated statements of operations and the assets disposed of in the sale transaction have been reclassified to current and noncurrent assets held for sale on the consolidated balance sheets. There were no material liabilities transferred in the sale transaction.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of management estimates and assumptions that affect the amounts reported. These estimates are based on historical experience and information that is available to management about current events and actions the Company may take in the future. Significant items subject to estimates and assumptions include the carrying value of long-lived assets; valuation allowances for receivables, inventories and deferred income tax assets; legal and environmental liabilities; and assets and obligations related to employee benefit plans. There can be no assurance that actual results will not differ from these estimates.

Revenue Recognition

Revenue from sales of products is recognized at the time title and the risks and rewards of ownership passes. This is when the products are shipped per customers' instructions, the sales price is fixed and determinable, and collection is reasonably assured.

Cash Equivalents

Cash equivalents include short-term, highly liquid investments that are readily convertible to known amounts of cash and are of an original maturity of three months or less.

Supplemental Disclosure of Cash Flow Information

	2000	2001	2002
Cash paid (received) during the period for:			
Interest (net of interest capitalized)	$127.1	$139.7	$124.6
Income taxes	(9.0)	(1.1)	(50.8)

Supplemental Cash Flow Information Regarding Non-Cash Investing and Financing Activities

The Company granted to certain employees common stock with values, net of cancellations, of $7.6, $0.1 and $3.3 in 2000, 2001 and 2002, respectively, under its restricted stock award programs.

In the fourth quarter of 2001, the Company received a distribution of shares from Anthem Inc., its primary health insurance provider, upon the demutualization of that company. The shares had a fair value at the date of receipt of $49.9, net of a liability established for the portion of the proceeds deemed to be healthcare assets.

Accounts Receivable

The allowance for doubtful accounts was $7.7 and $4.3 at December 31, 2001 and 2002.

Inventories

Inventories are valued at the lower of cost or market. The cost of the majority of inventories is measured on the last in, first out ("LIFO") method. Other inventories are measured principally at average cost and consist mostly of foreign inventories and certain raw materials.

	2001	2002
Inventories on LIFO:		
Finished and semifinished	$719.3	$729.5
Raw materials and supplies	162.1	152.3
Adjustment to state inventories at LIFO value	(9.7)	(43.0)
Total	871.7	838.8
Other inventories	32.9	31.5
Total inventories	$904.6	$870.3

During 2001, liquidation of LIFO layers generated income of $5.7. In 2002, liquidation of LIFO layers resulted in a loss of $28.8.

Property, Plant and Equipment

Plant and equipment are depreciated under the straight line method over their estimated lives ranging from 2 to 40 years. The Company's property, plant and equipment balances as of December 31, 2001 and 2002 are as follows:

	2001	2002
Land, land improvements and leaseholds	$ 135.8	$ 144.3
Buildings	344.8	354.6
Machinery and equipment	4,154.1	4,227.4
Construction in progress	108.2	85.3
Total	4,742.9	4,811.6
Less accumulated depreciation	(1,974.6)	(2,179.8)
Property, plant and equipment, net	$ 2,768.3	$ 2,631.8

The Company reviews the carrying value of long-lived assets to be held and used and long-lived assets to be disposed of when events and circumstances warrant such a review. If the carrying value of a long-lived asset is considered impaired, a loss is recognized based on the amount by which the carrying value exceeds the fair market value less cost to dispose for assets to be sold or abandoned. Fair market value is

determined primarily using the anticipated cash flows discounted at a rate commensurate with the risk involved.

In June 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("Statement") No. 143, "Accounting for Asset Retirement Obligations," which requires entities to establish liabilities for legal obligations associated with the retirement of tangible long-lived assets. The Company will adopt the Statement in 2003, but does not believe adoption will have a material effect on its financial statements.

Investments

The Company has investments in associated companies that are accounted for under the equity method. Because the operations of these companies are integrated with its basic steelmaking operations, the Company includes its proportionate share of the income (loss) of these associated companies in cost of products sold in its consolidated statements of operations.

The Company has a note receivable of $35.0 due from Combined Metals of Chicago L.L.C., an entity in which it holds an equity interest. The note is subordinate to outstanding bank indebtedness of the entity. In the first quarter of 2002, the Company provided a $4.0 letter of credit to support a portion of the entity's bank indebtedness proportionate to the Company's equity investment. The Company has recorded no liability related to this letter of credit.

The Company guarantees the performance under an equipment lease that terminates in 2009 of AK-ISG Steel Coating Company, another entity in which it holds an equity interest. At December 31, 2002, the Company's maximum liability under this guarantee was approximately $24.1, which was not recorded on its financial statements. Payment of any amounts under this guarantee, if necessary, would be made in monthly installments through early 2009.

The Company's investment in AFSG Holdings, Inc. represents the carrying value of its discontinued insurance and finance leasing businesses, which have been largely liquidated. The activities of the remaining operating companies are being "runoff" and the group is accounted for as a discontinued operation under the liquidation basis of accounting, whereby future cash inflows and outflows are considered. In the fourth quarter of 2001, AFSG Holdings distributed $30.0 of excess funds to the Company, which reduced the carrying value of its AFSG investment. The Company is under no obligation to support the operations or liabilities of this group.

Goodwill and Other Intangible Assets

The Company adopted Statement No. 142, "Goodwill and Other Intangible Assets," as of January 1, 2002. Statement No. 142 requires that goodwill no longer be amortized to earnings, but instead be reviewed annually for possible impairment. During 2002, the Company completed this review, as required, and determined that no impairment was necessary.

As of December 31, 2001 and 2002, goodwill on the consolidated balance sheets was $109.7, of which $107.3 related to Steel Operations and $2.4 related to Snow and Ice Control Products. Other intangible assets on the December 31, 2001 and 2002 consolidated balance sheets were as follows.

	2001	2002
Steel Operations minimum pension liability	$108.2	$90.7
Snow and Ice Control Products other intangible assets	3.7	3.1
Total intangible assets	$111.9	$93.8

The Snow and Ice Control Products' other intangible assets had an original value of $9.6 and are subject to amortization over a period of up to seventeen years. Had the Company adopted Statement No. 142 at the beginning of 2000, net income (loss) in the indicated years would have been adjusted as follows.

	2000	2001	2002
Reported net income (loss)	$132.4	$(92.4)	$(502.4)
Add: goodwill amortization, net of tax	2.2	2.5	—
Adjusted net income (loss)	$134.6	$(89.9)	$(502.4)
Basic and diluted earnings per share:			
Reported net income (loss)	$ 1.20	$(0.87)	$ (4.67)
Goodwill amortization	0.02	0.03	—
Adjusted net income (loss)	$ 1.22	$(0.84)	$ (4.67)

Pension and Other Postretirement Benefits Accounting

Under its method of accounting for pension and other postretirement benefit plans, the Company recognizes into income, as a fourth quarter adjustment, any unrecognized actuarial net gains or losses that exceed 10% of the larger of projected benefit obligations or plan assets, defined as the corridor. Amounts inside this 10% corridor are amortized over the average remaining service life of active plan participants. Actuarial net gains and losses occur when actual experience differs from any of the many assumptions used to value the plans. Differences between the expected and actual returns on plan assets and changes in interest rates, which affect the discount rates used to value projected plan obligations, can have a significant impact on the calculation of pension net gains and losses from year to year. For other postretirement benefit plans, increases in healthcare trend rates that outpace discount rates could cause unrecognized net losses to increase to the point that an outside-the-corridor charge would be necessary. By immediately recognizing net gains and losses outside the corridor, the Company's accounting method limits the amounts by which balance sheet assets and liabilities differ from economic net assets or obligations related to the plans. During 2002, the combination of a 4.8% loss on its pension plan assets compared to an assumed 9.25% return, a decrease in the discount rate from 7.25% to 6.75% to reflect declines in prevailing interest rates, and other actuarial losses resulted in a net actuarial loss in excess of the corridor. As a result, the Company recognized, in the fourth quarter of 2002, a non-cash pre-tax pension corridor charge of $572.8 in operating cost. In addition, during 2002, the decrease in the discount rate and rising healthcare costs resulted in the Company recognizing a non-cash, pre-tax corridor charge of $244.0 related to its other postretirement benefit plans. During 2001, a 6.3% investment

loss on its pension plan assets compared to an assumed 10% return and a 0.75 percentage point decrease in the discount rate caused the Company to recognize a non-cash pre-tax fourth quarter pension charge of $192.2 in operating cost. In addition, because the decline in asset value in 2001 also led to the pension plans becoming underfunded, the Company recorded a non-cash after-tax reduction in equity of approximately $163.4.

Earnings Per Share

Reconciliation of numerators and denominators' for basic and diluted EPS computations is as follows:

	2000	2001	2002
Income (loss) for calculation of basic earnings per share:			
Income (loss) from continuing operations	$134.0	$(91.2)	$(475.6)
Less: Preferred stock dividends	1.0	0.9	1.2
Income (loss) from continuing operations available to common stockholders	133.0	(92.1)	(476.8)
Loss from discontinued operations	1.6	1.2	6.9
Extraordinary loss on retirement of debt	—	—	19.9
Net income (loss) available to common stockholders	$131.4	$(93.3)	$(503.6)
Common shares outstanding (weighted average in millions)	109.5	107.7	107.9
Basic earnings per share:			
Income (loss) from continuing operations	$ 1.21	$(0.86)	$ (4.42)
Loss from discontinued operations	0.01	0.01	0.06
Extraordinary loss on retirement of debt	—	—	0.19
Net income (loss)	$ 1.20	$(0.87)	$ (4.67)
Income (loss) for calculation of diluted earnings per share:			
Income (loss) from continuing operations	$134.0	$(91.2)	$(475.6)
Less: Preferred stock dividends	1.0	0.9	1.2
Income (loss) from continuing operations available to common stockholders	133.0	(92.1)	(476.8)
Loss from discontinued operations	1.6	1.2	6.9
Extraordinary loss on retirement of debt	—	—	19.9
Net income (loss) available to common stockholders	$131.4	$(93.3)	$(503.6)
Shares (weighted average in millions):			
Common shares outstanding	109.5	107.7	107.9
Common stock options outstanding	0.1	—	—
Common shares outstanding as adjusted	109.6	107.7	107.9
Diluted earnings per share:			
Income (loss) from continuing operations	$ 1.21	$ (0.86)	$ (4.42)
Loss from discontinued operations	0.01	0.01	0.06
Extraordinary loss on retirement of debt	—	—	0.19
Net income (loss)	$ 1.20	$ (0.87)	$ (4.67)

At the end of each year, the Company had outstanding stock options and/or convertible preferred stock whose exercise or conversion could, under certain circumstances, further dilute earnings per share. The following shares of potentially issuable common stock were not included in the above weighted average shares outstanding because to do so would have had an antidilutive effect on earnings per share for the years presented.

(Common shares in millions)	2000	2001	2002
Stock options	3.3	3.3	3.8
$3.625 convertible preferred stock	0.7	0.7	—

Common Stock Compensation

Compensation costs related to restricted stock awards granted under the Company's Stock Incentive Plan ("SIP") are charged against income during their vesting period. In 2000, 2001 and 2002, the Company recognized compensation costs of $5.6, $7.4 and $5.2, respectively, related to these awards. The Company applies Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" and related interpretations in accounting for nonqualified stock options granted under its SIP. The Company adopted the pro forma disclosure requirements of Statement No. 123, "Accounting for Stock-Based Compensation" and related pronouncements. Had compensation cost for the Company's stock option plans been determined based

on fair value consistent with the methodology of Statement No. 123, the Company's net income (loss) and earnings per share for each year would have been adjusted to the pro forma amounts indicated below:

	2000	2001	2002
Net income (loss) as reported	$132.4	$(92.4)	$(502.4)
Additional compensation cost based on fair value recognition, net of tax	2.6	1.8	1.8
Pro forma net income (loss)	$129.8	$(94.2)	$(504.2)
Basic and diluted earnings per share as reported	$ 1.20	$(0.87)	$ (4.67)
Pro forma basic and diluted earnings per share	$ 1.18	$(0.88)	$ (4.68)

The fair value of options to purchase shares of AK Holding common stock is estimated on the grant date using a Black-Scholes option pricing model considering the appropriate dividend rates along with the following weighted average assumptions:

	2000	2001	2002
Expected volatility	30.2%	33.9%	35.2%
Risk free interest rates	6.64%	4.87%	5.23%
Expected lives	5.0 yrs.	8.25 yrs.	8.50 yrs.

Research and Development Costs

The Company conducts a broad range of research and development activities aimed at improving existing products and manufacturing processes and developing new products and processes. Research and development costs, which are recorded as expense when incurred, totaled $14.8, $13.4 and $13.6 in 2000, 2001 and 2002, respectively.

Concentrations of Credit Risk

The Company is primarily a producer of flat-rolled carbon, stainless and electrical steels and steel products, which are sold to a number of markets, including automotive, industrial machinery and equipment, construction, power distribution and appliances. During 2002, 20% of the Steel Operations' net sales were to General Motors Corporation. The Company sells domestically to customers primarily in the Midwestern and Eastern United States, while approximately 10% of sales are to foreign customers, primarily in Canada, Mexico and Western Europe. Approximately 37% of trade receivables outstanding at December 31, 2002 are due from businesses associated with the U.S. automotive industry. Except in a few situations where the risk warrants it, collateral is not required on trade receivables; and while it believes its trade receivables will be collected, the Company anticipates that in the event of default it would follow normal collection procedures.

Financial Instruments

Investments in debt securities are classified as held-to-maturity because the Company has the positive intent and ability to hold the securities to maturity. Held-to-maturity securities are stated at amortized cost, adjusted for amortization of premiums and accretion of discounts to maturity. Investments in equity securities are classified as available-for-sale. Available-for-sale securities are carried at fair value, with unrealized gains and losses, net of tax, reported in other comprehensive income. Realized gains and losses on sales of available-for-sale securities are computed based upon initial cost adjusted for any other than temporary declines in fair value. The Company has no investments that are considered to be trading securities.

The carrying value of the Company's financial instruments does not differ materially from their estimated fair value (primarily based on quoted market prices) at the end of 2001 and 2002 with the exception of the Company's long-term debt. At December 31, 2002, the fair value of the Company's long-term debt, including current maturities, was approximately $1,342.7. This amount was determined primarily from quoted market prices. The fair value estimate was based on pertinent information available to management as of December 31, 2002. Management is not aware of any significant factors that would materially alter this estimate since that date. The fair value of the Company's long-term debt, including current maturities, at December 31, 2001 was approximately $1,409.7.

The Company is a party to derivative instruments that are designated and qualify as hedges under Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities" and related pronouncements. The Company's objective in using such instruments is to protect its earnings and cash flows from fluctuations in the fair value of selected commodities and currencies. The Company does not enter into derivative instruments that do not qualify as hedges, except to the extent that derivative instruments may be acquired in limited circumstances to offset the future effects of an instrument formerly used as a hedge, when that instrument is declared to no longer be a hedge.

In the ordinary course of business, the Company's income and cash flows may be affected by fluctuations in the price of certain commodities used in its production processes. The Company generally cannot recover higher energy and raw material costs in its selling prices. For certain commodities where such exposure exists, the Company uses cash settled commodity price swaps, collars and purchased options, with a duration of up to three years, to hedge the price of a portion of its natural gas, nickel, aluminum and zinc requirements. The Company designates these instruments as cash flow hedges and the resulting changes in their fair value are recorded in other comprehensive income. Subsequent gains and losses are recognized into cost of products sold in the same period as the underlying physical transaction. As of December 31, 2002, currently valued outstanding commodity hedges would result in the reclassification into earnings of $1.9 in net-of-tax gains within the next twelve months.

In addition, in the ordinary course of business, the Company is subject to risks associated with exchange rate fluctuations on monies received from its European subsidiaries and other customers invoiced in European currencies. In order to mitigate this risk, the Company has entered into a series of agreements for the forward sale of euros at fixed dollar rates. The forward contracts are entered into with durations of up to a year. A typical contract is used as a cash flow hedge for the period from when an order is taken to when a sale is recognized, at which time it converts into a fair value hedge of a euro-denominated receivable. As a fair value hedge, changes in the fair value of the derivative and the gains or losses on the foreign-denominated receivables are recorded currently in other income and provide an offset to one another.

The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk management objectives and strategies for undertaking various hedge transactions. In this documentation, the Company specifically identifies the asset, liability, firm commitment or forecasted transaction that has been designated as a hedged item and states how the hedging instrument is expected to hedge the risks related to that item. The Company formally measures effectiveness of its hedging relationships both at the hedge inception and on an ongoing basis. The Company discontinues hedge accounting prospectively when it determines that the derivative is no longer effective in offsetting changes in the fair value or cash flows of a hedged item; when the derivative expires or is sold, terminated or exercised; when it is probable that the forecasted transaction will not occur; when a hedged firm commitment no longer meets the definition of a firm commitment; or when management determines that designation of the derivative as a hedge instrument is no longer appropriate.

Comprehensive Income (Loss) and Accumulated Other Comprehensive Loss

Comprehensive income (loss) in the Statement of Comprehensive Income (Loss) are presented net of a 40% tax rate. The components of accumulated other comprehensive loss at December 31 are as follows:

	2000	2001	2002
Foreign currency translation	$(2.7)	$ (2.1)	$ (0.7)
Derivative instrument hedges	—	(28.9)	(0.2)
Unrealized gain/(loss) on investments	(1.0)	8.3	(1.9)
Minimum pension liability	(1.2)	(164.6)	(175.4)
Total	$(4.9)	$(187.3)	$(178.2)

1.59

THE CLOROX COMPANY (JUN)

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

1. Significant Accounting Policies

Nature of Operations and Principles of Consolidation

The Company is principally engaged in the production and marketing of nondurable consumer products through grocery stores, mass merchandisers and other retail outlets. The consolidated financial statements include the statements of the Company and its majority-owned and controlled subsidiaries. Minority investments in foreign entities are accounted for under the equity method, the most significant of which is an equity investment in Henkel Iberica, S.A. of Spain. All significant intercompany transactions and accounts are eliminated in consolidation.

Use of Estimates

The preparation of these consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts and related disclosures. Specific areas, among others, requiring the application of management's estimates and judgment include assumptions pertaining to credit worthiness of customers, future product volume and pricing estimates, accruals for coupon and promotion programs, foreign currency exchange rates, interest rates, discount rates, useful lives of assets, future cost trends, investment returns, tax strategies and other external market and economic conditions. Actual results could differ from estimates and assumptions made.

New Accounting Standards

As of July 1, 2001, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 141, "Business Combinations," and SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 141 requires all business combinations entered into after June 30, 2001 to be accounted for under the purchase method. SFAS No. 142 sets forth new financial accounting and reporting standards for the acquisition of intangible assets, other than those acquired in a business combination, and for goodwill and other intangible assets subsequent to their acquisition. This accounting standard requires that goodwill be reported separately from other identifiable intangible assets and no longer amortized but tested for impairment on an annual basis. The Company's policy is to separately identify, value, and determine the useful lives for all intangible assets acquired in acquisitions occurring after June 30, 2001. Those assets with a definite life shall be amortized over such periods, and those with indefinite lives shall not be amortized, but tested for impairment. The annual impairment tests will be performed at the same time each year unless events suggest an impairment may have occurred in the interim. The Company tests for impairment by comparing the carrying value with the fair value of each reporting unit. An impairment loss is recorded for the excess of the carrying value over the fair value of the goodwill, trademarks and other intangible assets. In connection with the transition provisions for adopting this standard, the Company performed a transitional impairment test and found no impairment, and reviewed the classification of its intangible assets. Amounts determined to be other than goodwill were reallocated as of July 1, 2001. Approximately $301 was assigned to trademarks not subject to amortization and $23 to other intangible assets subject to amortization.

In accordance with SFAS No. 142, the Company discontinued the amortization of goodwill and indefinite-lived trademarks effective July 1, 2001. The financial statement impact was to reduce amortization expense by $47 and increase net earnings by $34 (net of tax benefits of $13), or $0.14 per diluted share for the year ended June 30, 2002 compared to June 30, 2001.

A reconciliation of previously reported net earnings and earnings per share to the amounts adjusted to exclude goodwill and indefinite-lived trademarks amortization, net of the related income tax effect, follows:

	2002	2001	2000
Reported net earnings	$ 322	$ 323	$ 394
Add: Goodwill and indefinite-lived trademarks amortization, net of tax benefits	—	34	31
Adjusted net earnings	$ 322	$ 357	$ 425
Basic earnings per common share:			
Reported net earnings	$1.39	$1.37	$1.67
Add: Goodwill and indefinite-lived trademarks amortization, net of tax benefits	—	0.14	0.13
Adjusted net earnings	$1.39	$1.51	$1.80
Diluted earnings per common share:			
Reported net earnings	$1.37	$1.35	$1.64
Add: Goodwill and indefinite-lived trademarks amortization, net of tax benefits	—	0.14	0.13
Adjusted net earnings	$1.37	$1.49	$1.77

In June 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 143, "Accounting for Asset Retirement Obligations," which addresses financial accounting requirements for retirement obligations associated with tangible long-lived assets. SFAS No. 143 is effective for fiscal year 2003. The Company is evaluating what impact, if any, SFAS No. 143 may have on its consolidated financial statements.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," that replaces SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." SFAS No. 144 requires that long-lived assets to be disposed of by sale, including those of discontinued operations, be measured at the lower of carrying value or fair value less costs to sell, whether reported in continuing operations or in discontinued operations. Discontinued operations will no longer be measured at net realizable value or include amounts for operating losses that have not yet been incurred. SFAS No. 144 also broadens the reporting of discontinued operations to include all components of an entity with operations that can be distinguished from the rest of the entity and will be eliminated from the ongoing operations of the entity in a disposal transaction. The provisions of SFAS No. 144 are effective for fiscal year 2003 and are to be applied prospectively.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities", which addresses accounting for restructuring and similar costs. SFAS No. 146 supersedes previous accounting guidance, principally Emerging Issues Task Force ("EITF") Issue No. 94-3. The Company will adopt the provisions of SFAS No. 146 for restructuring activities, if any, initiated after December 31, 2002. SFAS No. 146 requires that the liability for costs associated with an exit or disposal activity be recognized when the liability is incurred. Under EITF Issue No. 94-3, a liability for an exit cost was recognized at the date of the Company's commitment to an exit plan. SFAS No. 146 also establishes that the liability should initially be measured and recorded at fair value. Accordingly, SFAS No. 146 may affect the timing of recognizing future restructuring costs as well as the amounts recognized.

Cash and Cash Equivalents

Cash equivalents consist of money market and other high quality instruments with an initial maturity of three months of less. Such investments are stated at cost, which approximates market value.

Inventories

Inventories are stated at the lower of cost or market (net realizable value). Cost for the majority of the domestic inventories, approximately 41% and 35% of inventories at June 30, 2002 and 2001, respectively, is determined on the last-in, first-out (LIFO) method. The cost method for all other inventories, including inventories of all international businesses, is determined on the first-in, first-out (FIFO) method. When necessary, the Company provides allowances to adjust the carrying value of its inventory to the lower of cost or net realizable value, including any costs to sell or dispose. Appropriate consideration is given to obsolescence, excessive inventory levels, product deterioration and other factors in evaluating net realizable value.

Property, Plant and Equipment

Property, plant and equipment are stated at cost. Depreciation is calculated by the straight-line method over estimated useful lives generally ranging from 3–40 years. Property, plant and equipment is reviewed periodically for possible impairment in accordance with SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets to be Disposed Of." The Company's impairment review is based on an undiscounted cash flow analysis of assets at the lowest level for which identifiable cash flows exist. Impairment occurs when the carrying value of the asset exceeds the future undiscounted cash flows and the impairment is viewed as other than temporary. When an impairment is indicated, the future cash flows are then discounted to determine the estimated fair value of the asset and an impairment charge is recorded for the difference between the carrying value and the net present value of future cash flows.

Capitalized Software Costs

The Company follows the accounting guidance as specified in Statement of Position (SOP) 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use". The Company capitalizes significant costs incurred in the acquisition or development of software for internal use, including the costs of the software, materials, consultants, interest and payroll and payroll-related costs for employees incurred in developing internal-use computer software once final selection of the software is made. Costs incurred prior to the final selection of software and costs not qualifying for capitalization are charged to expense. Capitalized software amortization expense was $18, $18, and $13, in fiscal years 2002, 2001 and 2000, respectively. The net book value of capitalized software costs included in other assets at June 30, 2002 and 2001 was $102 and $59, respectively.

Employee Benefits

The Company has qualified and non-qualified defined benefit plans that cover substantially all of the Company's domestic employees and certain of its international employees. The Company follows the accounting guidance as specified in SFAS No. 87, "Employers Accounting for Pensions," for the recognition of net periodic pension cost.

The Company provides certain health care benefits for employees who meet age, participation and length of service requirements at retirement. The Company follows the accounting guidance as specified in SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pension," for the recognition of postretirement benefits.

The Company provides for medical, dental, vision, life and other benefits to its employees. The Company accrues for estimated claims incurred but not reported based on estimates provided by its actuaries.

The Company follows the accounting guidance as specified in SFAS No. 112, "Employers Accounting for Postemployment Benefits", for the recognition of certain disability benefits.

The Company has various incentive compensation programs, including a performance unit program and The Clorox Company Retirement Investment Plan (ERIP). Certain payments or contributions under these programs are subject to the Company achieving certain performance targets. The Company reviews these performance targets on a periodic basis and accrues for incentive compensation costs accordingly.

Environmental Costs

The Company is involved in various environmental remediation and on-going compliance activities. As sites are identified and assessed, the Company determines its potential environmental liability. The Company follows the accounting guidance as specified in SOP 96-1, "Environmental Remediation Liabilities". Based on engineering studies and management judgment, the Company has estimated and accrued for future remediation and on-going monitoring costs on an undiscounted basis, and environmental expenditures are included in other expense, net.

Restructuring Liabilities

The Company follows the guidance of Emerging Issues Tasks Force ("EITF") Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)," for recognition of liabilities and expenses associated with exit and disposal costs when facilities are partially or completely closed. Employee termination and severance costs are recognized at the time the group impacted has been notified. Other qualified exit and disposal costs are recognized at the time a plan has been approved by management.

Revenue Recognition

Customer sales are recognized as revenue when the risk of loss and title pass to the customer, generally at the time of shipment. Customer sales are recorded net of allowances for damaged goods returns, trade promotions, coupons and other discounts, which are recognized as a deduction from sales at the time of sale. The Company routinely commits to one-time or on-going trade promotion and coupon programs with customers that require the Company to estimate and accrue the ultimate costs of such programs. The Company records an accrual at the end of each period for the earned, but unpaid costs related to the programs. Trade promotion and coupon costs are recorded as a deduction from sales. The Company also provides for an allowance for estimated damaged goods returns, which is recognized as a deduction from sales at the time of sale.

The Company provides for an allowance for doubtful accounts based on historical experience and a review of its receivables. Receivables are presented net of an allowance for doubtful accounts of $15 at both June 30, 2002 and 2001. The Company's provision for doubtful accounts and deductions for charge-offs of receivables were $11 and $6, respectively, in fiscal year 2002, $5 and $3, respectively, in fiscal year 2001, and $8 and $5, respectively, in fiscal year 2000.

Advertising

The Company expenses advertising costs in the year incurred.

Income Taxes

The Company uses the asset and liability method to account for income taxes, including recognition of deferred tax assets included in other current assets and liabilities for the anticipated future tax consequences attributable to differences between financial statement amounts and their respective tax bases. Income tax expense is recognized currently for taxes payable on remittances of foreign earnings, while no provision for expense is made for taxes on foreign earnings that are deemed to be permanently reinvested. The Company reviews its deferred tax assets for recovery. A valuation allowance is established when the Company believes that it is more likely than not that some portion of its deferred tax assets will not be realized. Changes in valuation allowances from period to period are included in the Company's tax provision in the period of change.

Foreign Currency Translation

Local currencies are the functional currencies for most of the Company's foreign operations. Assets and liabilities are translated using the exchange rates in effect at the balance sheet date. Income and expenses are translated at the average exchange rates during the year. Translation gains and losses not reflected in earnings are reported in accumulated

other comprehensive net losses in stockholders' equity. Deferred taxes are not provided on translation gains and losses where the Company expects earnings of a foreign subsidiary to be permanently reinvested. During fiscal year 2002, the Company has determined that, at this time, foreign earnings from certain countries and joint ventures are no longer permanently reinvested and, therefore, the income tax effects of $119 have been recorded to other assets with an offset to accumulated other comprehensive net losses. Transaction gains and losses where the U.S. dollar is the functional currency are included in other expense (income), net.

Earnings Per Common Share

Basic earnings per share is computed by dividing net earnings by the weighted average number of common shares outstanding each period. Diluted earnings per share is computed by dividing net earnings by the diluted weighted average number of common shares outstanding during the period. Diluted earnings per share reflects the potential dilution from common shares issuable through stock options, restricted stock and share repurchase contracts.

Derivative Instruments

Effective July 1, 2000, the Company adopted SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities," as amended by SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities." SFAS No. 133, as amended, establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. The statement 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 effect of this new standard was a reduction of fiscal year 2001 net earnings of $2 (net of tax benefit of $1), which was recognized as a cumulative effect of a change in accounting principle and an increase in fiscal year 2001 accumulated other comprehensive income of $10 (net of tax benefit of $7). The ongoing effects are dependent on future market conditions and the Company's hedging activities.

The use of derivative instruments, principally swap, forward and option contracts, is limited to non-trading purposes and includes management of interest rate movements, foreign currency exposure and commodity exposure. Most interest rate swaps and commodity purchase and foreign exchange contracts are designated as fair-value or cash-flow hedges of fixed and variable rate debt obligations, raw material purchase obligations, or foreign currency denominated debt instruments, based on certain hedge criteria. The criteria used to determine if hedge accounting treatment is appropriate are (a) the designation of the hedge to an underlying exposure, (b) whether or not overall risk is being reduced and (c) if there is correlation between the value of the derivative instrument and the underlying obligation. Changes in the fair value of such derivatives are recorded as either assets or liabilities in the balance sheet with an offset to current earnings or other comprehensive income, depending on whether the derivative is designated as a hedge transaction and the type of hedge transaction. For fair-value hedge transactions, changes in fair value of the derivative and changes in the fair value of the item being hedged are recorded in earnings. For cash-flow hedge transactions, changes in fair value of derivatives are reported as other comprehensive income and are recognized into earnings in the period or periods during which the hedge transaction effects earnings. The Company also has contracts with no hedging designations. At June 30, 2002 and 2001, the Company held a written put option contract for the purchase of resin that does not qualify for hedge accounting treatment. Additionally, in fiscal year 2002, the Company elected to discontinue hedge accounting treatment for its foreign exchange contracts that are considered immaterial. The financial statement impact of this change to the Company's consolidated statement of earnings and balance sheet as of and for the fiscal year ended June 30, 2002 is insignificant. These contracts are accounted for by adjusting the carrying amount of the contracts to market and recognizing any gain or loss in other expense (income), net.

The Company uses several different methodologies to estimate the fair value of its derivative contracts. The estimated fair values of the Company's interest rate swaps, certain commodity derivative contracts and foreign exchange contracts are based on quoted market prices, traded exchange market prices or broker quotes and represent the estimated amounts that the Company would pay or receive to terminate the contracts. The estimated fair values of the Company's resin commodity contracts were previously determined using valuation models, including a Black-Scholes model for the written option, with forward resin market price curves provided by market makers. Starting in fiscal year 2002, the Company is using forward resin market price curves provided by other external sources because of a lack of available market quotations. Factors used to determine the fair value of the resin forward curve are based on resin market information, which considers many economic factors, including technology, labor, material and capital costs, capacity, world supply and demand.

Stock-Based Compensation

The Company accounts for stock-based compensation using the intrinsic value method prescribed in APB Opinion No. 25 whereby the options are granted at market price, and therefore no compensation costs are recognized. Compensation cost for stock options, if any, would be measured as the excess of the quoted market price of the Company's stock at the date of grant over the amount an employee must pay to acquire the stock. Restricted stock awards are recorded as compensation cost over the requisite vesting periods based on the market value on the date of grant. Unearned compensation cost on restricted stock awards is shown as a reduction to stockholder's equity. SFAS No. 123, "Accounting for Stock-Based Compensation," established accounting and disclosure requirements using a fair-value based method of accounting for stock-based employee compensation plans. The Company has elected to retain its current method of accounting as described above and has adopted the disclosure requirements of SFAS No. 123.

Reclassifications

Certain reclassifications have been made to the prior years' financial statements to conform to the current year's presentation, including the reclassification of income related to the Company's low income housing partnerships to income tax expense, previously reported as a part of other income, to conform to the current year's presentation.

1.60

SARA LEE CORPORATION AND SUBSIDIARIES (JUN)

NOTES TO FINANCIAL STATEMENTS
(Dollars in millions except per share data)

Basis of Presentation

The consolidated financial statements include Sara Lee Corporation and its controlled subsidiaries (the corporation) and have been prepared in accordance with generally accepted accounting principles (GAAP). The preparation of consolidated financial statements in conformity with GAAP requires management to make use of estimates and assumptions that affect the reported amount of assets and liabilities, revenues and expenses and certain financial statement disclosures. Significant estimates in these consolidated financial statements include allowances for doubtful accounts receivable, net realizable value of inventories, the cost of sales incentives, useful lives of property and identifiable intangible assets, the evaluation of impairments of property, identifiable intangible assets and goodwill, income tax and valuation reserves, the valuation of assets and liabilities acquired in business combinations, and assumptions used in the determination of the funded status and annual expense of pension and postretirement employee benefit plans. Actual results could differ from these estimates.

The corporation's fiscal year ends on the Saturday closest to June 30. Unless otherwise stated, references to years relate to 52-week fiscal years. Certain prior year amounts have been reclassified to conform with the current year's presentation.

Summary of Significant Accounting Policies

Principles of Consolidation

The corporation consolidates companies in which it owns or controls more than 50% of the voting shares. The results of companies acquired or disposed of during the year are included in the consolidated financial statements from the effective date of acquisition or up to the date of disposal. All significant intercompany balances and transactions have been eliminated in consolidation. Gains or losses resulting from the issuance of common stock by a subsidiary of the corporation are recognized in earnings in the period realized.

Foreign Currency Translation

Foreign-currency-denominated assets and liabilities are translated into U.S. dollars at exchange rates existing at the respective balance sheet dates. Translation adjustments resulting from fluctuations in exchange rates are recorded as a separate component of other comprehensive income within common stockholders' equity. The corporation translates the results of operations of its foreign subsidiaries at the average exchange rates during the respective periods. Gains and losses resulting from foreign currency transactions, the amounts of which are not material, are included in net income.

Sales Recognition and Incentives

Sales are recognized when title and risk of loss passes to the customer. The corporation offers a variety of sales incentives to resellers and consumers of its products, and the policies regarding the recognition and display of these incentives within the consolidated income statement are as follows:

Discounts, Coupons and Rebates

The cost of these incentives are recognized at the later of the date at which the related sale is recognized or the date at which the incentive is offered. The cost of these incentives is estimated using a number of factors including historical utilization and redemption rates. Substantially all cash incentives of this type are included in the determination of net sales. Incentives offered in the form of free product are included in the determination of cost of sales.

Slotting Fees

Certain retailers require the payment of slotting fees in order to obtain space for the corporation's products on the retailer's store shelves. The cost of these fees is recognized at the earlier of the date cash is paid or a liability to the retailer is created. These amounts are included in the determination of net sales.

Volume-Based Incentives

These incentives typically involve rebates or refunds of a specified amount of cash consideration that are redeemable only if the reseller completes a specified cumulative level of sales transactions. Under incentive programs of this nature, the corporation estimates the anticipated rebate to be paid and allocates a portion of the estimated cost of the rebate to each underlying sales transaction with the customer.

Cooperative Advertising

Under these arrangements the corporation agrees to reimburse the reseller for a portion of the costs incurred by the reseller to advertise and promote certain of the corporation's products. The corporation recognizes the cost of cooperative advertising programs in the period in which the advertising and promotional activity first takes place. The costs of these incentives are generally included in the determination of net sales.

Fixtures and Racks

Store fixtures and racks are given to retailers to display certain of the corporation's products. The cost of these fixtures and racks is recognized in the determination of net income in the period in which they are delivered to the retailer.

During 2002, the corporation adopted the provisions of Emerging Issues Task Force (EITF) Issue 01-9, "Accounting for Consideration Given by a Vendor to a Customer." This EITF statement established requirements for the recognition, measurement and display of certain sales incentives. All prior period financial statements have been restated for the adoption of EITF Issue 01-9. The restatement of prior period financial statements had no impact on income from continuing operations, net income, earnings per share or the financial position of the corporation. The restatement of prior period financial statements did, however, result in the reclassification

of certain amounts within the consolidated statements of income. With these adjustments, in 2001, net sales decreased by $1,115, cost of sales increased by $35 and selling, general and administrative expenses decreased by $1,150. In 2000, net sales decreased by $1,057, cost of sales increased by $24 and selling, general and administrative expenses decreased by $1,081.

Advertising Expense

Advertising costs, which include the development and production of advertising materials and the communication of this material through various forms of media, are expensed in the period the advertising first takes place. Advertising expense is recognized in the selling, general and administrative expenses caption in the consolidated statements of income and was $425 in 2002, $393 in 2001 and $391 in 2000.

Inventory Valuation

Inventories are stated at the lower of cost or market. Cost is determined by the first-in, first-out (FIFO) method for 96% of the corporation's inventories at June 29, 2002, and by the last-in, first-out (LIFO) for the remainder. There was no difference between the FIFO and LIFO inventory valuation at June 29, 2002. Had the FIFO valuation been used for the valuation of all inventories, the book value would have been higher by $7 at June 30, 2001, and $12 at July 1, 2000.

Property

Property is stated at historical cost, and depreciation is computed using the straight-line method over the lives of the assets. Machinery and equipment is depreciated over periods ranging from 3 to 25 years and buildings and building improvements over periods of up to 40 years. Additions and improvements that substantially extend the useful life of a particular asset and interest costs incurred during the construction period of major properties are capitalized. Repairs and maintenance costs are charged to expense. Upon sale or disposition of a property element, the cost and related accumulated depreciation are removed from the accounts.

The corporation periodically tests property for impairment, relying on a number of factors including operating results, business plans and future cash flows. Recoverability of property is evaluated by a comparison of the carrying amount of an asset or asset group to future net undiscounted cash flows expected to be generated by the asset or asset group. If these comparisons indicate that an asset is not recoverable, the impairment loss recognized is the amount by which the carrying amount of the asset exceeds the estimated fair value.

Trademarks and Other Identifiable Intangible Assets

The primary identifiable intangible assets of the corporation are trademarks acquired in business combinations, customer relationships and computer software. The corporation adopted the provisions of Statement of Financial Accounting Standards (SFAS) No. 142, "Goodwill and Other Intangible Assets," at July 1, 2001. Under the provisions of SFAS No. 142, identifiable intangibles with finite lives are amortized and those with indefinite lives are not amortized. The estimated useful life of an identifiable intangible asset to the corporation is based upon a number of factors including the effects of demand, competition, expected changes in distribution channels and the level of maintenance expenditures required to obtain future cash flows. Prior to the start of 2002, the corporation followed the provisions of Accounting Principles Board (APB) Opinion No. 17, which required that all identifiable intangibles be amortized by systematic charges to income over the period expected to be benefited.

The corporation tests identifiable intangible assets for impairment on an annual basis, relying on a number of factors including operating results, business plans and future cash flows. Identifiable intangible assets that are subject to amortization are evaluated for impairment using a process similar to that used to evaluate elements of property. The impairment test for identifiable intangible assets not subject to amortization consists of a comparison of the fair value of the intangible asset with its carrying amount. An impairment loss is recognized for the amount by which the carrying value exceeds the fair value of the asset.

Goodwill

Under the provisions of SFAS No. 142, goodwill is no longer amortized. Prior to the start of 2002, the corporation followed the provisions of APB Opinion No. 17, which required that goodwill be amortized by systematic charges to income over the period expected to be benefited. That period ranged from 5 to 40 years.

The corporation tests goodwill for impairment on an annual basis, relying on a number of factors including operating results, business plans and future cash flows. Recoverability of goodwill is evaluated using a two-step process. The first step involves a comparison of the fair value of a reporting unit with its carrying value. If the carrying amount of the reporting unit exceeds its fair value, the second step of the process involves a comparison of the fair value and carrying value of the goodwill of that reporting unit. If the carrying value of the goodwill of a reporting unit exceeds the fair value of that goodwill, an impairment loss is recognized in an amount equal to the excess.

Stock-Based Compensation

Employee stock options are accounted for under the provisions of APB Opinion No. 25, "Accounting for Stock Issued to Employees." APB No. 25 requires the use of the intrinsic value method, which measures compensation cost as the excess, if any, of the quoted market price of the stock at grant over the amount an employee must pay to acquire the stock. The corporation makes pro forma disclosures of net earnings and earnings per share as if the fair-value-based method of accounting had been applied as required by SFAS No. 123, "Accounting for Stock-Based Compensation."

Income Taxes

Deferred taxes are recognized for the future tax effects of temporary differences between financial and income tax reporting using tax rates in effect for the years in which the differences are expected to reverse. Federal income taxes are provided on that portion of the income of foreign subsidiaries that is expected to be remitted to the United States and be taxable.

Financial Instruments

The corporation uses financial instruments, including forward exchange, option, futures and swap contracts, to manage its

exposures to movements in interest rates, foreign exchange rates and commodity prices. The use of these financial instruments modifies the exposure of these risks with the intent to reduce the risk or cost to the corporation. The corporation does not use derivatives for trading purposes and is not a party to leveraged derivatives.

The corporation formally documents its hedge relationships, including identification of the hedging instruments and the hedged items, as well as its risk management objectives and strategies for undertaking the hedge transaction. This process includes linking derivatives that are designated as hedges of specific assets, liabilities, firm commitments or forecasted transactions. The corporation also formally assesses, both at inception and at least quarterly thereafter, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in either the fair value or cash flows of the hedged item. If it is determined that a derivative ceases to be a highly effective hedge, or if the anticipated transaction is no longer likely to occur, the corporation discontinues hedge accounting, and any deferred gains or losses are recorded in selling, general and administrative expenses.

Derivatives are recorded in the consolidated balance sheets at fair value in other assets and other liabilities. The fair value is based upon either market quotes for actively traded instruments or independent bids for non-exchange traded instruments.

On the date the derivative is entered into, the corporation designates the derivative as one of the following types of hedging instruments and accounts for the derivative as follows:

Fair Value Hedge

A hedge of a recognized asset or liability or an unrecognized firm commitment is declared as a fair value hedge. For fair value hedges, both the effective and ineffective portions of the changes in the fair value of the derivative, along with the gain or loss on the hedged item that is attributable to the hedged risk, are recorded in earnings and reported in the consolidated statements of income on the same line as the hedged item.

Cash Flow Hedge

A hedge of a forecasted transaction or of the variability of cash flows to be received or paid related to a recognized asset or liability is declared as a cash flow hedge. The effective portion of the change in the fair value of a derivative that is declared as a cash flow hedge is recorded in accumulated other comprehensive income. When the hedged item impacts the income statement, the gain or loss included in accumulated other comprehensive income is reported on the same line in the consolidated statements of income as the hedged item. In addition, both the fair value of changes excluded from the corporation's effectiveness assessments and the ineffective portion of the changes in the fair value of derivatives used as cash flow hedges are reported in selling, general and administrative expenses in the consolidated statements of income.

Net Investment Hedge

A hedge of a net investment in a foreign operation is declared as a net investment hedge. The effective portion of the change in the fair value of derivatives, based upon spot rates, used as a net investment hedge of a foreign operation is recorded in the cumulative translation adjustment account within common stockholders' equity. The ineffective portion of the change in the fair value of a derivative or non-derivative instrument designated as a net investment hedge is recorded in selling, general and administrative expenses, or interest expense if the hedging instrument is a swap, in the consolidated statements of income. Non-U.S.-dollar financing transactions are accounted for as net investment hedges when the hedged item is a long-term investment in the corresponding foreign currency.

Natural Hedge

A derivative used as a natural hedging instrument whose change in fair value is recognized to act as an economic hedge against changes in the values of the hedged item is declared as a natural hedge. For derivatives designated as natural hedges, changes in fair value are reported in earnings in the selling, general and administrative expenses line of the consolidated statements of income. Forward exchange contracts are recorded as natural hedges when the hedged item is a recorded asset or liability that is revalued in each accounting period, in accordance with SFAS No. 52, "Foreign Currency Translation."

Business Acquisitions and Dispositions

All business acquisitions completed in 2002 have been accounted for under the provisions of SFAS No. 141, "Business Combinations," which requires the use of the purchase method. All business acquisitions completed in 2001 and 2000 were accounted for under the purchase method as set forth in APB No. 16, "Business Combinations." While the purchase methods as defined in APB No. 16 and SFAS No. 141 are similar in many respects, they differ as to the criteria for the recognition of identifiable intangible assets. For all acquisitions completed in these periods, cash and the fair value of other assets distributed and securities issued unconditionally and amounts of consideration that are determinable at the date of acquisition are included in determining the cost of an acquired business. Consideration that is issued or issuable at the expiration of a contingency period, or that is held in escrow pending the outcome of a contingency, is not recorded as a liability or shown as an outstanding security unless the outcome of the contingency is determinable.

Gains on business dispositions are recognized when the transactions close and the amounts are realized. Losses on business dispositions are realized when the losses are probable and measurable. In measuring gains or losses on the disposition of a business, the consideration received is measured as the amount of cash and the fair value of other assets received and securities transferred unconditionally.

Substantially all consideration associated with business acquisitions and dispositions recognized in 2002, 2001 and 2000 involved the receipt or payment of cash or shares of the corporation's common stock. These amounts are disclosed in the consolidated statements of cash flows and the consolidated statements of common stockholders' equity.

1.61

XEROX CORPORATION (DEC)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in millions, except per-share data and unless otherwise indicated)

Note 1—Summary of Significant Accounting Policies

References herein to "we," "us" or "our" refer to Xerox Corporation and its subsidiaries unless the context specifically requires otherwise.

Description of Business and Basis of Presentation

We are The Document Company®, and a leader in the global document market, developing, manufacturing, marketing, servicing and financing a complete range of document equipment, software, solutions and services.

Liquidity, Financial Flexibility and Funding Plans

We manage our worldwide liquidity using internal cash management practices, which are subject to (1) the statutes, regulations and practices of each of the local jurisdictions in which we operate, (2) the legal requirements of the agreements to which we are parties and (3) the policies and cooperation of the financial institutions we utilize to maintain such cash management practices. In 2000, our operational issues were exacerbated by significant competitive and industry changes, adverse economic conditions, and significant technology and acquisition spending. Together, these conditions negatively impacted our liquidity, which from 2000 to 2002 led to a series of credit rating downgrades, eventually to below investment grade. Consequently, our access to capital and derivative markets has been restricted. The downgrades also required us to cash-collateralize certain derivative and securitization arrangements to prevent them from terminating, and to immediately settle terminating derivative contracts. Further, we are required to maintain minimum cash balances in escrow on certain borrowings and letters of credit. In addition, as discussed in Note 15, the Securities and Exchange Commission (the "SEC") would not allow us to publicly register any securities offerings while its investigation, which commenced in June 2000, was ongoing. This additional constraint essentially prevented us from raising funds from sources other than unregistered capital markets offerings and private lending or equity sources. Consequently, our credit ratings, which were already under pressure, came under greater pressure since credit rating agencies often include access to capital sources in their rating criteria.

While the conclusion of the SEC investigation in 2002 removed our previous inability to access public capital markets, we expect our ability to access unsecured credit sources to remain restricted as long as our credit ratings remain below investment grade, and we expect our incremental cost of borrowing to increase as a result of such credit ratings.

In June 2002, we entered into an Amended and Restated Credit Agreement (the "New Credit Facility") with a group of lenders, replacing our prior $7 billion facility (the "Old Revolver"). At that time, we permanently repaid $2.8 billion of the Old Revolver and subsequently paid $710 million on the New Credit Facility. At December 31, 2002, the New Credit Facility consisted of two tranches of term loans totaling $2.0 billion and a $1.5 billion revolving credit facility that includes a $200 letter of credit subfacility. At December 31, 2002, $3.5 billion was outstanding under the New Credit Facility. At December 31, 2002 we had no additional borrowing capacity under the New Credit Facility since the entire revolving facility was outstanding, including a $10 letter of credit under the subfacility.

The New Credit Facility contains affirmative and negative covenants. The New Credit Facility contains financial covenants that the Old Revolver did not contain. Certain of the more significant covenants under the New Credit Facility are summarized below (this summary is not complete and is in all respects subject to the actual provisions of the New Credit Facility):

- Excess cash of certain foreign subsidiaries and of Xerox Credit Corporation, a wholly-owned subsidiary, must be transferred to Xerox at the end of each fiscal quarter; for this purpose, "excess cash" generally means cash maintained by certain foreign subsidiaries taken as a whole in excess of their aggregate working capital and other needs in the ordinary course of business (net of sources of funds from third parties), including reasonably anticipated needs for repaying debt and other obligations and making investments in their businesses. In certain circumstances, we are not required to transfer cash to Xerox Corporation, the parent company, if the transfer cannot be made in a tax efficient manner or if it would be considered a breach of fiduciary duty by the directors of the foreign subsidiary;
- Minimum EBITDA (a quarterly test that is based on rolling four quarters) ranging from $1.0 to $1.3 billion; for this purpose, "EBITDA" (Earnings before interest, taxes, depreciation and amortization) generally means EBITDA (excluding interest and financing income to the extent included in consolidated net income), less any amounts spent for software development that are capitalized;
- Maximum leverage ratio (a quarterly test that is calculated as total adjusted debt divided by EBITDA) ranging from 4.3 to 6.0;
- Maximum capital expenditures (annual test) of $330 per fiscal year plus up to $75 of any unused amount carried over from the previous year; for this purpose, "capital expenditures" generally mean the amounts included on our Statement of Cash Flows as "additions to land, buildings and equipment," plus any capital lease obligations incurred;
- Minimum consolidated net worth ranging from $2.9 billion to $3.1 billion; for this purpose, "consolidated net worth" generally means the sum of the amounts included on our balance sheet as "Common shareholders' equity," "Preferred stock," "Company-obligated, mandatorily redeemable preferred securities of subsidiary trust holding solely subordinated debentures of the Company," except that the currency translation adjustment effects and the effects of compliance with Statement of Financial Accounting Standards No. 133, "*Accounting for Derivatives and Hedging*" ("SFAS No. 133") occurring after December 31, 2001 are disregarded, the preferred securities (whether or not convertible) issued by us or by our subsidiaries which were outstanding on June 21, 2002 will always be included, and any capital stock or similar equity interest issued after June 21, 2002 which matures or generally becomes

mandatorily redeemable for cash or puttable at holders' option prior to November 1, 2005 is always excluded; and

- Limitations on: (i) issuance of debt and preferred stock; (ii) creation of liens; (iii) certain fundamental changes to corporate structure and nature of business, including mergers; (iv) investments and acquisitions; (v) asset transfers; (vi) hedging transactions other than those in the ordinary course of business and certain types of synthetic equity or debt derivatives, and (vii) certain types of restricted payments relating to our, or our subsidiaries', equity interests, including payment of cash dividends on our common stock; (viii) certain types of early retirement of debt, and (ix) certain transactions with affiliates, including intercompany loans and asset transfers.

The New Credit Facility generally does not affect our ability to continue to monetize receivables under the agreements with General Electric ("GE") and others. Although we cannot pay cash dividends on our common stock during the term of the New Credit Facility, we can pay cash dividends on our preferred stock, provided there is then no event of default. In addition to other defaults customary for facilities of this type, defaults on other debt, or bankruptcy, of Xerox Corporation, or certain of our subsidiaries, would constitute defaults under the New Credit Facility.

At December 31, 2002, we are in compliance with all aspects of the New Credit Facility including financial covenants and expect to be in compliance for at least the next twelve months. Failure to be in compliance with any material provision or covenant of the New Credit Facility could have a material adverse effect on our liquidity and operations.

The New Credit Facility generally does not affect our ability to continue to securitize receivables under the agreements we have with GE and others, as discussed further in Note 5. Although we cannot pay cash dividends on our common stock during the term of the New Credit Facility, we can pay cash dividends on our preferred stock, provided there is then no event of default. In addition to other defaults customary for facilities of this type, defaults on our other debt, or bankruptcy, or certain of our subsidiaries, would constitute defaults under the New Credit Facility.

At December 31, 2002, we are in compliance with all aspects of the New Credit Facility including financial covenants and expect to be in compliance for at least the next twelve months. Failure to be in compliance with any material provision or covenant of the New Credit Facility could have a material adverse effect on our liquidity and operations.

With $2.9 billion of cash and cash equivalents on hand at December 31, 2002, we believe our liquidity (including operating and other cash flows we expect to generate) will be sufficient to meet operating cash flow requirements as they occur and to satisfy all scheduled debt maturities for at least the next twelve months. Our ability to maintain sufficient liquidity going forward is highly dependent on achieving expected operating results, including capturing the benefits from restructuring activities, and completing announced finance receivables securitizations. There is no assurance that these initiatives will be successful. Failure to successfully complete these initiatives could have a material adverse effect on our liquidity and our operations, and could require us to consider further measures, including deferring planned capital expenditures, reducing discretionary spending, selling additional assets and, if necessary, restructuring existing debt.

We also expect that our ability to fully access commercial paper and other unsecured public debt markets will depend upon improvements in our credit ratings, which in turn depend on our ability to demonstrate sustained profitability growth and operating cash generation and continued progress on our vendor financing initiatives. Until such time, we expect some bank credit lines to continue to be unavailable, and we intend to access other segments of the capital markets as business conditions allow, which could provide significant sources of additional funds until full access to the unsecured public debt markets is restored.

Basis of Consolidation

The consolidated financial statements include the accounts of Xerox Corporation and all of our controlled subsidiary companies. All significant intercompany accounts and transactions have been eliminated. Investments in business entities in which we do not have control, but we have the ability to exercise significant influence over operating and financial policies (generally 20 to 50 percent ownership), are accounted for using the equity method of accounting. Upon the sale of stock of a subsidiary, we recognize a gain or loss in our Consolidated Statements of Income equal to our proportionate share of the corresponding increase or decrease in that subsidiary's equity. Operating results of acquired businesses are included in the Consolidated Statements of Income from the date of acquisition. For further discussion of acquisitions, refer to Note 3.

Certain reclassifications of prior year amounts have been made to conform to the current year presentation.

Income (Loss) Before Income Taxes (Benefits), Equity Income, Minorities' Interests and Cumulative Effect of Change in Accounting Principle

Throughout the Notes to the Consolidated Financial Statements, we refer to the effects of certain changes in estimates and other adjustments on Income (Loss) before Income Taxes (Benefits), Equity Income, Minorities' Interests and Cumulative Effect of Change in Accounting Principle. For convenience and ease of reference, that caption in our Consolidated Statements of Income is hereafter referred to as "pre-tax income (loss)."

Use of Estimates

The preparation of our consolidated financial statements in accordance with accounting principles generally accepted in the United States of America requires that we make estimates and assumptions that affect the reported amounts of assets and liabilities, as well as 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. Significant estimates and assumptions are used for, but not limited to: (i) allocation of revenues and fair values in multiple element arrangements; (ii) accounting for residual values; (iii) economic lives of leased assets; (iv) allowance for doubtful accounts; (v) retained interests associated with the sales of accounts or finance receivables; (vi) inventory valuation; (vii) restructuring and other related charges; (viii) asset impairments; (ix) depreciable lives of assets; (x) useful lives of intangible assets and goodwill (in 2002 goodwill is no longer amortized over an estimated useful life, see below for further discussion); (xi) pension and

post-retirement benefit plans; (xii) income tax valuation allowances and (xiii) contingency and litigation reserves. Future events and their effects cannot be predicted with certainty; accordingly, our accounting estimates require the exercise of judgment. The accounting estimates used in the preparation of our consolidated financial statements will change as new events occur, as more experience is acquired, as additional information is obtained and as our operating environment changes. Actual results could differ from those estimates.

The following table summarizes the more significant charges that require management estimates:

(In millions)	2002	2001	2000
Restructuring provisions and asset impairments	$670	$715	$475
Amortization and impairment of goodwill and intangible assets	99	94	86
Provisions for receivables	353	506	613
Provisions for obsolete and excess inventory	115	242	235
Depreciation and obsolecence of equipment on operating leases	408	657	626
Depreciation of buildings and equipment	341	402	417
Amortization of capitalized software	249	179	115
Pension benefits—net periodic benefit cost	168	99	44
Other post-retirement benefits—net periodic benefit cost	120	130	109
Deferred tax asset valuation allowance provisions	15	247	12

Changes in Estimates

In the ordinary course of accounting for items discussed above, we make changes in estimates as appropriate, and as we become aware of circumstances surrounding those estimates. Such changes and refinements in estimation methodologies are reflected in reported results of operations in the period in which the changes are made and, if material, their effects are disclosed in the Notes to the Consolidated Financial Statements.

New Accounting Standards and Accounting Changes

Variable Interest Entities

In January 2003, the FASB issued Interpretation No. 46, "*Consolidation of Variable Interest Entities, an interpretation of ARB 51*" ("FIN 46"). The primary objectives of FIN 46 are to provide guidance on the identification of entities for which control is achieved through means other than through voting rights ("VIEs") and how to determine when and which business enterprise should consolidate the VIE. This new model for consolidation applies to an entity which either (1) the equity investors (if any) do not have a controlling financial interest or (2) the equity investment at risk is insufficient to finance that entity's activities without receiving additional subordinated financial support from other parties. We do not expect the adoption of this standard to have any impact on our results of operations, financial position or liquidity.

Guarantees

In November 2002, the FASB issued Interpretation No. 45, "*Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*" ("FIN 45"). This interpretation expands the disclosure requirements of guarantee obligations and requires the guarantor to recognize a liability for the fair value of the obligation assumed under a guarantee. In general, FIN 45 applies to contracts or indemnification agreements that contingently require the guarantor to make payments to the guaranteed party based on changes in an underlying instrument that is related to an asset, liability, or equity security of the guaranteed party. Other guarantees are subject to the disclosure requirements of FIN 45 but not to the recognition provisions and include, among others, a guarantee accounted for as a derivative instrument under SFAS 133, a parent's guarantee of debt owed to a third party by its subsidiary or vice versa, and a guarantee which is based on performance. The disclosure requirements of FIN 45 are effective as of December 31, 2002, and require information as to the nature of the guarantee, the maximum potential amount of future payments that the guarantor could be required to make under the guarantee, and the current amount of the liability, if any, for the guarantor's obligations under the guarantee. The recognition requirements of FIN 45 are to be applied prospectively to guarantees issued or modified after December 31, 2002. Significant guarantees that we have entered are disclosed in Note 15. We do not expect the requirements of FIN 45 to have a material impact on our results of operations, financial position or liquidity.

Stock-Based Compensation

In 2002, the FASB issued Statement of Financial Accounting Standards No. 148 "*Accounting for Stock-Based Compensation—Transition and Disclosure, an amendment of FASB Statement No. 123*" ("SFAS No. 148") which provides alternative methods of transition for an entity that voluntarily changes to the fair value based method of accounting for stock-based employee compensation. It also amends the disclosure provisions of SFAS No. 123 to require prominent disclosure about the effects on reported net income of an entity's accounting policy decisions with respect to stock-based employee compensation. Finally, this Statement amends APB Opinion No. 28, "*Interim Financial Reporting,*" to require disclosure about those effects in interim financial information. We adopted SFAS No. 148 in the fourth quarter of 2002. Since we have not changed to a fair value method of stock-based compensation, the applicable portion of this statement only affects our disclosures.

We do not recognize compensation expense relating to employee stock options because we only grant options with an exercise price equal to the fair value of the stock on the effective date of grant. If we had elected to recognize compensation expense using a fair value approach, and therefore determined the compensation based on the value as determined by the modified Black-Scholes option pricing model, the pro forma net income (loss) and earnings (loss) per share would have been as follows:

	2002	2001	2000
Net income (loss)—as reported	$ 91	$ (94)	$ (273)
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of tax	(83)	(93)	(112)
Net income (loss)—pro forma	$ 8	$ (187)	$ (385)
Basic EPS—as reported	$ 0.02	$ (0.15)	$ (0.48)
Basic EPS—pro forma	(0.09)	(0.28)	(0.65)
Diluted EPS—as reported	0.02	(0.15)	(0.48)
Diluted EPS—pro forma	(0.09)	(0.28)	(0.65)

As reflected in the pro forma amounts in the previous table, the fair value of each option granted in 2002, 2001 and 2000 was $6.34, $2.40 and $7.50, respectively. The fair value of each option was estimated on the date of grant using the following weighted average assumptions:

	2002	2001	2000
Risk-free interest rate	4.8%	5.1%	6.7%
Expected life in years	6.5	6.5	7.1
Expected price volatility	61.5%	51.4%	37.0%
Expected dividend yield	—%	2.7%	3.7%

Costs Associated With Exit or Disposal Activities

In 2002, the FASB issued Statement of Financial Accounting Standards No. 146, "*Accounting for Costs Associated with Exit or Disposal Activities*" ("SFAS No. 146"). This standard requires companies to recognize costs associated with exit or disposal activities when they are incurred, rather than at the date of a commitment to an exit or disposal plan. Examples of costs covered by the standard include lease termination costs and certain employee severance costs that are associated with a restructuring, plant closing, or other exit or disposal activity. SFAS No. 146 is required to be applied prospectively to exit or disposal activities initiated after December 31, 2002, with earlier application encouraged. We adopted SFAS No. 146 in the fourth quarter of 2002. Refer to Note 2 for further discussion.

Gains From Extinguishment of Debt

On April 1, 2002, we adopted the provisions of Statement of Financial Accounting Standards No. 145, "*Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections*" ("SFAS No. 145"). The portion of SFAS No. 145 that is applicable to us resulted in the reclassification of extraordinary gains on extinguishment of debt previously reported in the Consolidated Statements of Income as extraordinary items to Other expenses, net. The effect of this reclassification in the accompanying Consolidated Statements of Income was a decrease to Other expenses, net of $63 and an increase to Income taxes of $25, from amounts previously reported, for the year ended December 31, 2001.

Impairment or Disposal of Long-Lived Assets

In 2001, the FASB issued Statement of Financial Accounting Standards No. 144, "*Accounting for the Impairment or Disposal of Long-Lived Assets*" ("SFAS No. 144"). SFAS No. 144 retains the previously existing accounting requirements related to the recognition and measurement of the impairment of long-lived assets to be held and used, while expanding the measurement requirements of long-lived assets to be disposed of by sale to include discontinued operations. It also expands on the previously existing reporting requirements for discontinued operations to include a component of an entity that either has been disposed of or is classified as held for sale. We adopted SFAS No. 144 on January 1, 2002. The adoption of this standard did not have a material effect on our financial position or results of operations.

Asset Retirement Obligations

In 2001, the FASB issued Statement of Financial Accounting Standards No. 143, "*Accounting for Asset Retirement Obligations*" ("SFAS No. 143"). This statement addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and associated asset retirement costs. We will adopt SFAS No. 143 on January 1, 2003 and do not expect this standard to have any effect on our financial position or results of operations.

Business Combinations

In 2001, the FASB issued Statement of Financial Accounting Standards No. 141, "*Business Combinations*" ("SFAS No. 141"), which requires the use of the purchase method of accounting for business combinations and prohibits the use of the pooling of interests method. We have not historically engaged in transactions that qualify for the use of the pooling of interests method and therefore, this aspect of the new standard will not have an impact on our financial results. SFAS No. 141 also changes the definition of intangible assets acquired in a purchase business combination, providing specific criteria for the initial recognition and measurement of intangible assets apart from goodwill. As a result, the purchase price allocation of future business combinations may be different than the allocation that would have resulted under the previous rules. SFAS No. 141 also requires that upon adoption of Statement of Financial Accounting Standards No. 142 "*Goodwill and Other Intangible Assets*" ("SFAS No. 142"), we reclassify the carrying amounts of certain intangible assets into or out of goodwill, based on certain criteria. Upon adoption of SFAS No. 142, we reclassified $61 of intangible assets related to acquired workforce to goodwill that was required by this standard.

Goodwill and Other Intangible Assets

Goodwill represents the cost of acquired businesses in excess of the fair value of identifiable tangible and intangible net assets purchased, and prior to 2002 was amortized on a straight-line basis over periods ranging from 5 to 40 years. Other intangible assets represent the fair value of identifiable intangible assets acquired in purchase business

combinations and include an acquired customer base, distribution network, technology and trademarks. Intangible assets are amortized on a straight-line basis over periods ranging from 7 to 25 years. We adopted SFAS No. 142 on January 1, 2002 and as a result, goodwill is no longer amortized.

SFAS No. 142 addresses financial accounting and reporting for acquired goodwill and other intangible assets subsequent to their initial recognition. This statement recognizes that goodwill has an indefinite life and will no longer be subject to periodic amortization. However, goodwill is to be tested at least annually for impairment, using a fair value methodology, in lieu of amortization. The provisions of this standard also required that amortization of goodwill related to equity investments be discontinued, and that these goodwill amounts continue to be evaluated for impairment in accordance with Accounting Principles Board Opinion No. 18 "*The Equity Method of Accounting for Investments in Common Stock.*"

SFAS No. 142 also requires performance of annual and transitional impairment tests on goodwill using a two-step approach. The first step is to identify a potential impairment and the second step is to measure the amount of any impairment loss. The first step requires a comparison of the carrying value of reporting units, as defined, to the fair value of these units. The standard requires that if a reporting unit's fair value is below its carrying value, a potential goodwill impairment exists and we would be required to complete the second step of the transitional impairment test to quantify the amount of the potential goodwill impairment charge. Based on the results of the first step of the transitional impairment test, we identified potential goodwill impairments in the reproting units included in our Developing Markets Operations ("DMO") operating segment. We subsequently completed the second step of the transitional goodwill impairment test, which required us to estimate the implied fair value of goodwill for each DMO reporting unit by allocating the fair value of each reporting unit to all of the reporting unit's assets and liabilities. The fair value of the reporting units giving rise to the transitional impairment loss was estimated using the present value of future expected cash flows. Because the carrying amount of each reporting unit's assets and liabilities (excluding goodwill) exceeded the fair value of each reporting unit, we recorded a goodwill impairment charge of $63. This non-cash charge was recorded as a cumulative effect of change in accounting principle, in the accompanying Consolidated Statements of Income, as of January 1, 2002.

The following tables illustrate the pro forma impact of the adoption of SFAS No. 142. Net Loss for the years ended December 31, 2001 and 2000, as adjusted for the exclusion of amortization expense, were as follows:

	2001	2000
Reported net loss	$(94)	$(273)
Add: Amortization of goodwill, net of income taxes	59	58
Adjusted net loss	$(35)	$(215)

Basic and Diluted Earnings per Share for the years ended December 31, 2001 and 2000, as adjusted for the exclusion of amortization expense, were as follows:

	2001	2000
Reported net loss per share (basic and diluted)	$(0.15)	$(0.48)
Add: Amortization of goodwill, net of income taxes	0.09	0.09
Adjusted net loss per share (basic and diluted)	$(0.06)	$(0.39)

Intangible assets totaled $360 and $457, net of accumulated amortization of $98 and $62 as of December 31, 2002 and 2001, respectively. All intangible assets relate to the Office operating segment and were comprised of the following as of December 31, 2002:

	Amortization Period	Gross Carrying Amount[1]	Accumulated Amortization	Net Amount
Installed customer base	17.5 years	$209	$33	$176
Distribution network	25 years	123	15	108
Existing technology	7 years	103	41	62
Trademarks	7 years	23	9	14
		$458	$98	$360

[1] Balances exclude the amount of $61 related to acquired workforce intangible asset, that was classified to goodwill as of January 1, 2002.

Amortization expense related to intangible assets was $36, $40 and $55 for the years ended December 31, 2002, 2001 and 2000, respectively (including $4 of amortization in 2001 on the acquired workforce prior to reclassification). Amortization expense related to these intangible assets is expected to remain approximately $36 annually through 2007.

The following table presents the changes in the carrying amount of goodwill, by operating segment, for the year ended December 31, 2002:

	Production	Office	DMO	Other	Total
Balance at January 1, 2002[1]	$605	$710	$ 70	$121	$1,506
Foreign currency translation adjustment	82	55	(3)	—	134
Impairment charge	—	—	(63)	—	(63)
Divestitures	(4)	—	(1)	—	(5)
Other	—	(5)	(3)	—	(8)
Balance at December 31, 2002	$683	$760	$ —	$121	$1,564

[1] Balances include the amount of $61 related to acquired workforce intangible asset, that was classified to goodwill as of January 1, 2002.

Derivatives and Hedging

Effective January 1, 2001, we adopted Statement of Financial Accounting Standards, No. 133, "*Accounting for Derivative Instruments and Hedging Activities*" ("SFAS No. 133"), which requires companies to recognize all derivatives as assets or

liabilities measured at their fair value, regardless of the purpose or intent of holding them. Gains or losses resulting from changes in the fair value of derivatives are recorded each period in current earnings or other comprehensive income, depending on whether a derivative is designated as part of a hedge transaction and, if it is, depending on the type of hedge transaction. Changes in fair value for derivatives not designated as hedging instruments and the ineffective portions of hedges are recognized in earnings in the current period. The adoption of SFAS No. 133 resulted in a net cumulative after-tax loss of $2 in the accompanying Consolidated Statement of Income and a net cumulative after-tax loss of $19 in Accumulated Other Comprehensive Income which is included in the accompanying Consolidated Balance Sheet. Further, as a result of recognizing all derivatives at fair value, including the differences between the carrying values and fair values of related hedged assets, liabilities and firm commitments, we recognized a $361 increase in assets and a $382 increase in liabilities. Refer to Note 12 to the Consolidated Financial Statements for further discussion.

Revenue Recognition

In the normal course of business, we generate revenue through the sale and rental of equipment, service, and supplies and income associated with the financing of our equipment sales. Revenue is recognized when earned. More specifically, revenue related to sales of our products and services is recognized as follows:

Equipment

Revenues from the sale of equipment, including those from sales-type leases, are recognized at the time of sale or at the inception of the lease, as appropriate. For equipment sales that require us to install the product at the customer location, revenue is recognized when the equipment has been delivered to and installed at the customer location. Sales of customer installable and retail products are recognized upon shipment or receipt by the customer according to the customer's shipping terms. Revenues from equipment under other leases and similar arrangements are accounted for by the operating lease method and are recognized as earned over the lease term, which is generally on a straight-line basis.

Service

Service revenues are derived primarily from maintenance contracts on our equipment sold to customers and are recognized over the term of the contracts. A substantial portion of our products are sold with full service maintenance agreements for which the customer typically pays a base service fee plus a variable amount based on usage. As a consequence, we do not have any significant product warranty obligations, including any obligations under customer satisfaction programs.

Supplies

Supplies revenue generally is recognized upon shipment or utilization by customer in accordance with sales terms.

Revenue Recognition Under Bundled Arrangements

We sell most of our products and services under bundled contract arrangements, which contain multiple deliverable elements. These contractual lease arrangements typically include equipment, service, supplies and financing components for which the customer pays a single negotiated price for all elements. These arrangements typically also include a variable component for page volumes in excess of contractual minimums, which are often expressed in terms of price per page, which we refer to as the "cost per copy." In a typical bundled arrangement, our customer is quoted a fixed minimum monthly payment for (1) the equipment, (2) the associated services and other executory costs and (3) the financing element. The fixed minimum monthly payments are multiplied by the number of months in the contract term to arrive at the total fixed minimum payments that the customer is obligated to make ("Fixed Payments") over the lease term. The payments associated with page volumes in excess of the minimums are contingent on whether or not such minimums are exceeded ("Contingent Payments"). The minimum contractual committed copy volumes are typically negotiated to equal the customer's estimated copy volume at lease inception. In applying our lease accounting methodology, we consider the Fixed Payments for purposes of allocating to the fair value elements of the contract. We do not consider the Contingent Payments for purposes of allocating to the elements of the contract or recognizing revenue on the sale of the equipment, given the inherent uncertainties as to whether such amounts will ever be received. Contingent Payments are recognized as revenue in the period when the customer exceeds the minimum copy volumes specified in the contract.

When separate prices are listed in multiple element customer contracts, such prices may not be representative of the fair values of those elements, because the prices of the different components of the arrangement may be modified through customer negotiations, although the aggregate consideration may remain the same. Therefore, revenues under these arrangements are allocated based upon estimated fair values of each element. Our revenue allocation methodology first begins by determining the fair value of the service component, as well as other executory costs and any profit thereon and second, by determining the fair value of the equipment based on comparison of the equipment values in our accounting systems to a range of cash selling prices or, if applicable, other verifiable objective evidence of fair value. We perform extensive analyses of available verifiable objective evidence of equipment fair value based on cash selling prices during the applicable period. The cash selling prices are compared to the range of values included in our lease accounting systems. The range of cash selling prices must support the reasonableness of the lease selling prices, taking into account residual values that accrue to our benefit, in order for us to determine that such lease prices are indicative of fair value. Our interest rates are developed based upon a variety of factors including local prevailing rates in the marketplace and the customer's credit history, industry and credit class. These rates are recorded within our pricing systems. The resultant implicit interest rate, which is the same as our pricing interest rate, unless adjustment to equipment values is required, is then compared to fair market value rates to assess the reasonableness of the fair value allocations to the multiple elements.

Determination of Appropriate Revenue Recognition for Leases

Our accounting for leases involves specific determinations under Statement of Financial Accounting Standards No. 13 "*Accounting for Leases*" ("SFAS No. 13") which often involve complex provisions and significant judgments. The two primary criteria of SFAS No. 13 which we use to classify transactions as sales-type or operating leases are (1) a review of the lease term to determine if it is equal to or greater than 75 percent of the economic life of the equipment and (2) a review of the minimum lease payments to determine if they are equal to or greater than 90 percent of the fair market value of the equipment. Under our current product portfolio and business strategies, a non-cancelable lease of 45 months or more generally qualifies as a sale. Certain of our lease contracts are customized for larger customers, which results in complex terms and conditions and requires significant judgment in applying the above criteria. In addition to these, there are also other important criteria that are required to be assessed, including whether collectibility of the lease payments is reasonably predictable and whether there are important uncertainties related to costs that we have yet to incur with respect to the lease. In our opinion, our sales-type lease portfolios contain only normal credit and collection risks and have no important uncertainties with respect to future costs. Our leases in our Latin America operations have historically been recorded as operating leases since a majority of these leases are terminated significantly prior to the expiration of the contractual lease term. Specifically, because we generally do not collect the receivable from the initial transaction upon termination or during any subsequent lease term, the recoverability of the lease investment is deemed not to be predictable at lease inception. We continue to evaluate economic, business and political conditions in the Latin American region to determine if certain leases will qualify as sales-type leases in future periods.

The critical estimates and judgments that we consider with respect to our lease accounting are the determination of the economic life and the fair value of equipment, including the residual value. Those estimates are based upon historical experience with all our products. For purposes of estimating the economic life, we consider the most objective measure of historical experience to be the original contract term, since most equipment is returned by lessees at or near the end of the contracted term. The estimated economic life of most of our products is five years since this represents the most frequent contractual lease term for our principal products and only a small percentage of our leases have original terms longer than five years. We believe that this is representative of the period during which the equipment is expected to be economically usable, with normal service, for the purpose for which it is intended. We continually evaluate the economic life of both existing and newly introduced products for purposes of this determination. Residual values are established at lease inception using estimates of fair value at the end of the lease term. Our residual values are established with due consideration to forecasted supply and demand for our various products, product retirement and future product launch plans, end of lease customer behavior, remanufacturing strategies, used equipment markets if any, competition and technological changes.

The vast majority of our leases that qualify as sales-type are non-cancelable and include cancellation penalties approximately equal to the full value of the leased equipment. Certain of our governmental contracts may have cancellation provisions or renewal clauses that are required by law, such as (1) those dependant on fiscal funding outside of a governmental unit's control, (2) those that can be cancelled if deemed in the taxpayer's best interest or (3) those that must be renewed each fiscal year, given limitations that may exist on entering multi-year contracts that are imposed by statute. In these circumstances and in accordance with the relevant accounting literature, we carefully evaluate these contracts to assess whether cancellation is remote or the renewal option is reasonably assured of exercise because of the existence of substantive economic penalties for the customer's failure to renew. Certain of our commercial contracts for multiple units of equipment may include clauses that allow for a return of a limited portion of such equipment (up to 10 percent of the value of equipment). These return clauses are only available in very limited circumstances as negotiated at lease inception. We account for our estimate of equipment to be returned under these contracts as operating leases.

Aside from the initial lease of equipment to our customers, we may enter subsequent transactions with the same customer whereby we extend the term. We evaluate the classification of lease extensions of sales-type leases using the originally determined economic life for each product. There may be instances where we have lease extensions for periods that are within the original economic life of the equipment. These are accounted for as sales-type leases only when the extensions occur in the last three months of the lease term and they otherwise meet the appropriate criteria of SFAS No. 13. All other lease extensions of this type are accounted for as direct financing leases. We generally account for lease extensions that go beyond the economic life as operating leases because of important uncertainties as to the amount of servicing and repair costs that we may incur.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand and investments with original maturities of three months or less.

Restricted Cash and Investments

Due to our credit ratings, many of our derivative contracts and several other material contracts require us to post cash collateral or maintain minimum cash balances in escrow. These cash amounts are reported in our Consolidated Balance Sheets within Other current assets or Other long-term assets, depending on when the cash will be contractually released. At December 31, 2002 and 2001, such restricted cash amounts were as follows:

	2002	2001
Escrow and cash collections related to the secured borrowings with GE—U.S. and Canada	$349	$199
Escrow related to distribution payments for the 2001 trust preferred securities	155	229
Collateral related to swaps and letters of credit	77	111
Escrow and cash collections related to our asset-backed security transactions and other restricted cash	97	47
Total	$678	$586

Of these amounts, \$263 and \$235 were included in Other current assets and \$415 and \$351 were included in Other long-term assets, as of December 31, 2002 and 2001, respectively. The current amounts are expected to be avilable for our use within one year. The total increase in restricted cash during 2002 of \$92 is included in the Consolidated Statement of Cash Flows as a use of cash of \$104 in other, net of Operating Activities and a source of cash of \$12 in investing activities (of the total \$41).

Securitizations and Transfers of Receivables

From time to time, in the normal course of business, we may securitize or sell finance and accounts receivable with or without recourse and/or discounts. The receivables are removed from the Consolidated Balance Sheet at the time they are sold and the risk of loss has transferred to the purchaser. However, we maintain risk of loss on our retained interest in such receivables. Sales and transfers that do not meet the criteria for surrender of control or were sold to a consolidated special purpose entity (non-qualified special purpose entity) are accounted for as secured borrowings. When we sell receivables in securitizations of finance receivables or accounts receivable, we retain servicing rights, beneficial interests, and, in some cases, a cash reserve account, all of which are retained interests in the securitized receivables. The value assigned to the retained interests in securitized trade receivables is based on the relative fair values of the interest retained and sold in the securitization. We estimate fair value based on the present value of future expected cash flows using management's best estimates of the key assumptions, consisting of receivable amounts, anticipated credit losses and discount rates commensurate with the risks involved. Gains or losses on the sale of the receivables depend in part on the previous carrying amount of the financial assets involved in the transfer, allocated between the assets sold and the retained interests based on their relative fair value at the date of transfer.

Provisions for Losses on Uncollectible Receivables

The provisions for losses on uncollectible trade and finance receivables are determined principally on the basis of past collection experience applied to ongoing evaluations of our receivables and evaluations of the risks of repayment. Allowances for doubtful accounts on accounts receivable balances were \$282 and \$306, as of December 31, 2002 and 2001, respectively. Allowances for doubtful accounts on finance receivables were \$324 and \$368 at December 31, 2002 and 2001, respectively.

Inventories

Inventories are carried at the lower of average cost or realizable values.

Land, Buildings and Equipment and Equipment on Operating Leases

Land, buildings and equipment are recorded at cost. Buildings and equipment are depreciated over their estimated useful lives. Leasehold improvements are depreciated over the shorter of the lease term or the estimated useful life. Equipment on operating leases is depreciated to its estimated residual value over the term of the lease. Depreciation is computed using principally the straight-line method. Significant improvements are capitalized and maintenance and repairs are expensed. Refer to Notes 6 and 7 for further discussion.

Internal-Use Software

We capitalize direct costs incurred during the application development stage and the implementation stage for developing, purchasing or otherwise acquiring software for internal use. These costs are amortized over the estimated useful lives of the software, generally three to five years. All costs incurred during the preliminary project stage, including project scoping, identification and testing of alternatives, are expensed as incurred. During 2002 we wrote off \$106 of permanently impaired internal-use capitalized software. Refer to Note 7 for further discussion.

Impairment of Long-Lived Assets

We review the recoverability of our long-lived assets, including buildings, equipment, internal-use software and other intangible assets, when events or changes in circumstances occur that indicate that the carrying value of the asset may not be recoverable. The assessment of possible impairment is based on our ability to recover the carrying value of the asset from the expected future pre-tax cash flows (undiscounted and without interest charges) of the related operations. If these cash flows are less than the carrying value of such asset, an impairment loss is recognized for the difference between estimated fair value and carrying value. The measurement of impairment requires management to make estimates of these cash flows related to long-lived assets, as well as other fair value determinations.

Research and Development Expenses

Research and development costs are expensed as incurred.

Pension and Post-Retirement Benefit Obligations

We sponsor pension plans in various forms and in various countries covering substantially all employees who meet certain eligibility requirements. Post-retirement benefit plans cover primarily U.S. employees for retirement medical costs. As required by existing accounting rules, we employ a delayed recognition feature in measuring the costs and obligations of pension and post-retirement benefit plans. This allows for changes in the benefit obligations and changes in the value of assets set aside to meet those obligations to be recognized, not as they occur, but systematically and gradually over subsequent periods. All changes are ultimately recognized, except to the extent they may be offset by subsequent changes. At any point, changes that have been identified and quantified await subsequent accounting recognition as net cost components and as liabilities or assets.

Several statistical and other factors that attempt to anticipate future events are used in calculating the expense, liability and asset values related to our pension and post-retirement benefit plans. These factors include assumptions we make about the discount rate, expected return on plan assets, rate of increase in healthcare costs, the rate of future compensation increases, and mortality, among others. Actual returns on plan assets are not immediately recognized in our income statement, due to the afore-mentioned delayed recognition feature that we follow in accounting for pensions. In calculating the expected return on the plan asset component of our net periodic pension cost, we apply our

estimate of the long-term rate of return to the plan assets that support our pension obligations, after deducting assets that are specifically allocated to Transitional Retirement Accounts (which are accounted for based on specific plan terms).

For purposes of determining the expected return on plan assets, we utilize a calculated value approach in determining the value of the pension plan assets, as opposed to a fair market value approach. The primary difference between the two methods relates to systematic recognition of changes in fair value over time (generally two years) versus immediate recognition of changes in fair value. Our expected rate of return on plan assets is then applied to the calculated asset value to determine the amount of the expected return on plan assets to be used in the determination of the net periodic pension cost. The calculated value approach reduces the volatility in net periodic pension cost that results from using the fair market value approach.

The difference between the actual return on plan assets and the expected return on plan assets is added to, or subtracted from, any cumulative differences that arose in prior years. This amount is a component of the unrecognized net actuarial (gain) loss and is subject to amortization of net periodic pension cost over the remaining service lives of the employees participating in the pension plan.

An additional significant assumption affecting our pension and post-retirement benefit obligations and the net periodic pension and other post-retirement benefit cost is the rate that we use to discount our future anticipated benefit obligations. In estimating this rate, we consider rates of return on high quality fixed-income investments currently available, and expected to be available, during the period to maturity of the pension benefits.

Foreign Currency Translation

The functional currency for most foreign operations is the local currency. Net assets are translated at current rates of exchange, and income, expense and cash flow items are translated at the average exchange rate for the year. The translation adjustments are recorded in Accumulated Other Comprehensive Income. The U.S. dollar is used as the functional currency for certain subsidiaries that conduct their business in U.S. dollars or operate in hyperinflationary economies. A combination of current and historical exchange rates is used in remeasuring the local currency transactions of these subsidiaries, and the resulting exchange adjustments are included in income. Aggregate foreign currency losses were $77 in 2002 and gains were $29 and $103 in 2001 and 2000, respectively, and are included in Other expenses, net in the accompanying Consolidated Statements of Income. Effective January 1, 2002, we changed the functional currency of our Argentina operation from the U.S. dollar to the Peso as a result of operational changes made subsequent to the government's new economic plan.

ACCOUNTING CHANGES

1.62 APB Opinion No. 20, *Accounting Changes,* "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.

1.63 Examples of accounting change disclosures follow.

1.64

TABLE 1-8: ACCOUNTING CHANGES

	Number of Companies			
	2002	2001	2000	1999
Goodwill and other intangibles (SFAS 142)	465	19	N/C*	N/C*
Impairment or disposal of long-lived assets (SFAS 144)	156	N/C*	N/C*	N/C*
Business combinations (SFAS 141)	54	73	N/C*	N/C*
Gains or losses from debt extinguishments (SFAS 145)	54	N/C*	N/C*	N/C*
Derivatives and hedging activities (SFAS 133)	29	342	6	3
Consideration given by a vendor to customer or reseller (EITF 01-09)	23	N/C*	N/C*	N/C*
Sales incentives (EITF 00-14)	18	14	N/C*	N/C*
Costs of exit or disposal activities (SFAS 146)	18	N/C*	N/C*	N/C*
Stock compensation (FASB Interpretation 44)	16	5	5	N/C*
Vendor income statement characterization or consideration paid to a reseller (EITF 00-25)	12	N/C*	N/C*	N/C*
Income statement characterization of reimbursements received for out of pocket expenses (EITF 01-14)	11	N/C*	N/C*	N/C*
Asset retirement obligation (SFAS 143)	7	N/C*	N/C*	N/C*
Revenue recognition (SAB 101)	6	60	68	5
Inventories	5	3	9	5
Depreciable lives	5	3	3	4
Shipping and handling (EITF 00-10)	2	38	20	N/C*
Software development costs	0	2	13	66
Start-up costs	0	0	39	29
Other	25	27	34	27

* N/C = Not compiled. Line item was not included in the table for the year shown.

Goodwill and Other Intangibles

1.65

AVERY DENNISON CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Goodwill and Other Intangibles Resulting From Business Acquisitions (In Part)

The Company adopted SFAS No. 142, "Goodwill and Other Intangible Assets," at the beginning of fiscal 2002. As required, the Company identified its reporting units and the amounts of goodwill, other intangible assets, and other assets and liabilities allocated to those reporting units. This Statement addresses the accounting and reporting of goodwill and other intangible assets subsequent to their acquisition. SFAS No. 142 provides that (i) goodwill and indefinite-lived intangible assets will no longer be amortized, (ii) impairment will be measured using various valuation techniques based on discounted cash flows, (iii) goodwill will be tested for impairment at least annually at the reporting unit level, (iv) intangible assets deemed to have an indefinite life will be tested for impairment at least annually, and (v) intangible assets with finite lives will be amortized over their useful lives.

SFAS No. 142 requires that goodwill be tested for impairment upon adoption of the Statement, as well as annually thereafter. The Company completed its transitional goodwill impairment test during the first quarter of 2002 and had no impairment losses. Other intangible assets deemed to have an indefinite life are tested for impairment by comparing the fair value of the asset to its carrying amount. The Company does not have other intangible assets with indefinite lives. See Note 3 "Goodwill and Other Intangibles Resulting from Business Acquisitions" for more information.

Note 3. Goodwill and Other Intangibles Resulting From Business Acquisitions

Changes in the net carrying amount of goodwill for the year ended December 28, 2002, by reportable segment, are as follows:

(In millions)	Consumer and Converted Products	Pressure-Sensitive Adhesives and Materials	Total
Balance as of December 29, 2001	$148.9	$144.3	$293.2
Goodwill acquired during the period	176.2	150.3	326.5
Translation adjustments	11.3	(2.3)	9.0
Balance as of December 28, 2002	$336.4	$292.3	$628.7

Amortization expense on goodwill was $14.8 million and $13.2 million for the years ended December 29, 2001 and December 30, 2000, respectively.

The following table sets forth the Company's acquired other intangible assets at December 28, 2002 and December 29, 2001, which will continue to be amortized:

	2002			2001		
(In millions)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Amortizable other intangible assets:						
Tradenames and trademarks	$ 36.6	$11.4	$ 25.2	$ 23.4	$ 6.8	$ 16.6
Patented and other acquired technology	65.4	9.2	56.2	63.6	5.8	57.8
Customer relationships	70.1	6.1	64.0	47.6	3.6	44.0
Other intangibles	4.0	1.5	2.5	2.3	.7	1.6
Total	$176.1	$28.2	$147.9	$136.9	$16.9	$120.0

Amortization expense on intangible assets resulting from business acquisitions was $9.7 million for the year ended December 28, 2002, $7.3 million for the year ended December 29, 2001 and $6.3 million for the year ended December 30, 2000. The weighted-average amortization periods for intangible assets resulting from business acquisitions are thirteen years for tradenames and trademarks, nineteen years for patented and other acquired technology, twenty-two years for customer relationships, seven years for other intangibles and nineteen years in total. Based on current information, estimated amortization expense for such acquired intangible assets for each of the next five succeeding fiscal years is expected to be approximately $12 million, $12 million, $12 million, $11 million and $8 million, respectively.

As required by SFAS No. 142, the results for the prior years have not been restated. Had the Company applied the non-amortization provisions related to goodwill under SFAS No. 142 for all periods presented, the Company's net income and earnings per share would have been as follows:

(In millions, except per share amounts)	2002	2001	2000
Reported net income	$257.2	$243.2	$283.5
Goodwill amortization, net of tax	—	13.8	12.9
Adjusted net income	$257.2	$257.0	$296.4
Basic earnings per share:			
As reported	$ 2.61	$ 2.49	$ 2.88
Goodwill amortization	—	.14	.13
Adjusted basic earnings per share	$ 2.61	$ 2.63	$ 3.01
Diluted earnings per share:			
As reported	$ 2.59	$ 2.47	$ 2.84
Goodwill amortization	—	.14	.13
Adjusted diluted earnings per share	$ 2.59	$ 2.61	$ 2.97

1.66

NORTHROP GRUMMAN CORPORATION (DEC)

Consolidated Statements of Income

($In millions, except per share)	2002	2001	2000
Income from continuing operations before cumulative effect of accounting change	$ 697	$ 459	$ 625
Income (loss) from discontinued operations, net of federal income taxes	(181)	(32)	39
Loss on disposal of discontinued operations, net of federal income taxes	(20)		(56)
Income before cumulative effect of accounting change	496	427	608
Cumulative effect of accounting change	(432)		
Net income	$ 64	$ 427	$ 608
Weighted average common shares outstanding, in millions	115.5	84.5	70.6
Basic earnings (loss) per share			
Continuing operations	$ 5.82	$5.22	$8.86
Discontinued operations	(1.57)	(.38)	.55
Disposal of discontinued operations	(.17)		(.80)
Before cumulative effect of accounting change	4.08	4.84	8.61
Accounting change	(3.73)		
Basic earnings per share	$ .35	$4.84	$8.61
Diluted earnings (loss) per share			
Continuing operations	$ 5.72	$5.17	$8.82
Discontinued operations	(1.54)	(.37)	.55
Disposal of discontinued operations	(.17)		(.79)
Before cumulative effect of accounting change	4.01	4.80	8.58
Accounting change	(3.67)		
Diluted earnings per share	$ .34	$4.80	$8.58

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (In Part)

Goodwill and Other Purchased Intangible Assets

Effective January 1, 2002, the company adopted Statement of Financial Accounting Standards (SFAS) No. 142—*Goodwill and Other Intangible Assets,* which changed the accounting for goodwill and "indefinite lived" intangibles from an amortization method to an impairment-only approach. Accordingly, amortization of goodwill, including goodwill recorded in past business combinations, ceased on December 31, 2001. Beginning in 2002, impairment tests are performed at least annually as of April 30, and more often as circumstances require. When it is determined that an impairment has occurred, an appropriate charge to operations is recorded.

Goodwill and other purchased intangible assets balances are included in the identifiable assets of the industry segment to which they have been assigned. Any goodwill impairment, as well as the amortization of other purchased intangible assets, is charged against the respective industry segment operating margin.

New Accounting Standards (In Part)

In June 2001, the Financial Accounting Standards Board issued SFAS No. 141—*Business Combinations,* and SFAS No. 142—*Goodwill and Other Intangible Assets.* SFAS No. 141 requires the purchase method of accounting for business combinations initiated after June 30, 2001 and eliminates the pooling-of-interests method. Adoption of SFAS No. 141 did not have a significant effect on the company's financial position, results of operations, or cash flows. SFAS No. 142 changes the accounting for goodwill from an amortization method to an impairment-only approach. Upon adoption of this statement, amortization of goodwill, including goodwill recorded in past business combinations, ceased and an initial impairment assessment of goodwill was performed. Annual impairment tests are required thereafter. The company adopted SFAS No. 142 on January 1, 2002 and recorded an initial goodwill impairment charge of $432 million, which is reported under the income statement caption "Cumulative effect of accounting change."

1.67

SUNOCO, INC. AND SUBSIDIARIES (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Goodwill and Indefinite-Lived Intangible Assets

Effective January 1, 2002, Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" ("SFAS No. 142"), was adopted. SFAS No. 142 requires the testing of goodwill, which represents the excess of the purchase price over the fair value of net assets acquired, and indefinite-lived intangible assets for impairment rather than amortizing them. Sunoco ceased amortizing goodwill effective January 1, 2002 and determined during 2002 that its goodwill is not impaired. Prior to January 1, 2002, goodwill was amortized on a straight-line basis over its estimated useful life. Sunoco's amortization of goodwill and indefinite-lived intangible assets amounted to $5 and $4 million after tax during 2001 and 2000, respectively.

Impairment or Disposal of Long-Lived Assets

1.68

NAVISTAR INTERNATIONAL CORPORATION AND CONSOLIDATED SUBSIDIARIES (OCT)

Statement of Income

(Millions of dollars, except share data)	2002	2001	2000
Income (loss) from continuing operations	$ (476)	$ (9)	$ 174
Discontinued operations (Note 12):			
Loss from discontinued operations (less applicable income taxes of $2, $0 and $0, respectively)	(14)	(14)	(15)
Loss on disposal	(46)	—	—
Loss from discontinued operations	(60)	(14)	(15)
Net income (loss)	$ (536)	$ (23)	$ 159
Basic earnings (loss) per share			
Continuing operations	$(7.88)	$(0.15)	$(2.87)
Discontinued operations	(1.00)	(0.24)	(0.25)
Net income (loss)	$(8.88)	$(0.39)	$ 2.62
Diluted earnings (loss) per share			
Continuing operations	$(7.88)	$(0.15)	$ 2.83
Discontinued operations	(1.00)	(0.24)	(0.25)
Net income (loss)	$(8.88)	$(0.39)	$ 2.58
Average shares outstanding (millions)			
Basic	60.3	59.5	60.7
Diluted	60.3	59.5	61.5

NOTES TO FINANCIAL STATEMENTS

1 (In Part): Summary of Accounting Policies

New Accounting Pronouncements (In Part)

In August 2001, the FASB issued Statement of Financial Accounting Standards No. 144 (SFAS 144), "Accounting for the Impairment or Disposal of Long-Lived Assets," which is effective for fiscal years beginning after December 15, 2001, and interim periods within those fiscal years. The company has early adopted SFAS 144 effective November 1, 2001. In accordance with the provisions of SFAS 144, the results of operations for the current and prior periods of the company's domestic Brazilian truck business, including the $46 million after tax loss on disposal, have been reported as discontinued operations. See Note 12. In addition, as part of the 2002 Plan of Restructuring, the company reviewed its long-term assets for impairment in accordance with the provisions of SFAS 144 and recorded an impairment charge of $68 million, using a discounted cash flows basis. See Note 11.

11 (In Part): Restructuring and Other Non-Recurring Charges

2002 Restructuring and Other Non-Recurring Charges (In Part)

In October 2002, the company's board of directors approved a separate restructuring plan (2002 Plan of Restructuring) and the company incurred charges for restructuring, asset and inventory writedowns and other exit costs totaling $372 million. In addition, the company incurred non-recurring charges of $170 million related to its V-6 diesel engine program and $60 million in losses (net of tax) from discontinued operations associated with its exit of the Brazil domestic truck market which is discussed in Note 12.

2002 Plan of Restructuring

The following are the major restructuring, integration and cost reduction initiatives included in the 2002 Plan of Restructuring:

- Closure of facilities and exit of certain activities including the Chatham, Ontario heavy truck assembly facility, the Springfield, Ohio body plant and a manufacturing production line within one of the company's plants
- Offer of an early retirement program to certain union represented employees
- Completion of the launch of the HPV and NGD product programs

Pursuant to the 2002 Plan of Restructuring, 3,500 positions will be eliminated throughout the company. Severance and other benefit costs of $94 million relate to the reduction of these employees from the workforce, primarily in North America. Substantially all of the workforce reductions are represented production related employees. No payments for severance and other benefit costs relating to the 2002 Plan of Restructuring were made as of October 31, 2002. The workforce reductions will be substantially complete by mid-2003. Benefit costs will extend beyond the completion of the workforce reductions due to the company's contractual severance obligations.

The restructuring charge includes a curtailment loss of $157 million related to the company's postretirement plans. The curtailment loss is a result of the announcement and anticipated acceptance of an early retirement program for certain union represented employees and the planned closure of the Chatham, Ontario assembly plant. The curtailment liability has been classified as a postretirement benefits liability on the Statement of Financial Condition.

As a result of the planned closure of certain production facilities and operations, the company has recorded a $68 million charge for asset write-downs. As part of the 2002 Plan of Restructuring, the company announced that both the Chatham Assembly Plant and Springfield Body Plant will be closed. The decision to close these plants resulted in a charge of $39 million for the impairment of certain production assets. The remainder of the asset write-downs of $29 million primarily relates to assets that were disposed of or abandoned as a direct result of the completion of the introduction of the new HPV and NGD product programs. In addition, a charge of $23 million was recorded for the write-down of inventory attributable to prior engine and vehicle models that will be replaced.

Other exit costs of $30 million principally include $25 million of contractually obligated exit, closure and environmental liabilities incurred as a result of the planned closure of both the Chatham Assembly Plant and Springfield Body Plant.

12. Discontinued Operations

In October 2002, the company announced its decision to discontinue the domestic truck business in Brazil (Brazil Truck) effective October 31, 2002. In connection with this discontinuance, the company recorded a loss on disposal of $46 million. The loss relates to the write-down of assets to fair value, contractual settlement costs for the termination of the dealer contracts, severance and other benefits costs, and the write-off of Brazil Truck's cumulative translation adjustment due to the company's substantial liquidation of its investment in Brazil Truck.

The disposal of Brazil Truck has been accounted for as discontinued operations in accordance with SFAS 144. Accordingly, the operating results of Brazil Truck have been classified as "Discontinued operations" and prior periods have been restated.

Net sales and loss from the discontinued operation for Brazil Truck for the years ended October 31, are as follows, in millions:

	2002	2001	2000
Net sales	$ 20	$ 23	$ 24
Loss from discontinued operations	(12)	(14)	(15)
Loss on disposal	(46)	—	—
Income tax expense	(2)	—	—
Net loss from discontinued operations	$(60)	$(14)	$(15)

Assets and liabilities of Brazil Truck as of October 31, are as follows, in millions:

	2002	2001
Current assets	$ 3	$33
Long-term assets	2	8
Current liabilities	2	21
Long-term liabilities	22	—

1.69

PHELPS DODGE CORPORATION (DEC)

Statement of Consolidated Operations

(In millions)	2002	2001	2000
Sales and other operating revenues	$3,722.0	$4,002.4	$4,525.1
Operating costs and expenses			
Cost of products sold (exclusive of items shown separately below)	3,120.5	3,459.1	3,572.0
Depreciation, depletion and amortization	410.2	439.9	440.3
Selling and general administrative expense	123.9	116.5	136.0
Exploration and research expense	40.3	56.3	56.8
Special items and provisions, net (see Note 3)	236.4	(40.6)	51.8
	3,931.3	4,031.2	4,256.9
Operating income (loss)	$ (209.3)	$ (28.8)	$ 268.2

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollar amounts in tables stated in millions except as noted)

1 (In Part): Summary of Significant Accounting Policies

Impairments

We evaluate our long-term assets to be held and used for impairment when events or changes in economic circumstances indicate the carrying amount of such assets may not be recoverable. Goodwill and our identifiable intangible assets are evaluated at least annually for impairment. We use an estimate of the future undiscounted net cash flows of the related asset or asset grouping over the remaining life to measure whether the assets are recoverable and measure any impairment by reference to fair value. Fair value is generally estimated using the Company's expectation of discounted net cash flows. Long-term assets to be disposed of are carried at the lower of cost or fair value less the costs of disposal. (Refer to further discussion in this note under New Accounting Standards—SFAS Nos. 141, 142 and 144.)

New Accounting Standards (In Part)

In August 2001, FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." This Statement supersedes SFAS No. 121 and the accounting and reporting provisions of APB Opinion No. 30, and also amends Accounting Research Bulletin (ARB) No. 51. This Statement requires that one accounting model be used for long-lived assets to be disposed of by sale, whether previously held and used or newly acquired, and will broaden the presentation of discontinued operations to include more disposal transactions. This Statement was adopted by the Company on January 1, 2002, and was applied in the determination of our Wire and Cable segment's asset impairment charge in the 2002 third quarter and PDMC's impairment charge in the 2002 fourth quarter.

3 (In Part): Special Items and Provisions

Special items and provisions are unpredictable and atypical of the Company's operations in a given period. This supplemental information is not a substitute for any U.S. GAAP measure and should be evaluated within the context of our U.S. GAAP results.

Note: Supplemental Data

The following table summarizes special items and provisions for the year ended December 31, 2002:

Statement of Consolidated Operations Line Item	Pre-Tax Earnings	After-Tax Earnings	$/Share After-Tax
Special items and provisions, net:*			
PDMC—			
December 2002 impairments and provisions:			
Asset impairment charges	$(146.5)	(146.5)	(1.74)
Accrued closure costs	(7.0)	(7.0)	(0.08)
Environmental provisions, net	(1.6)	(1.6)	(0.02)
October 2001 restructuring:			
Reassessment of employee activities and take-or-pay contracts	5.1	5.1	0.06
Additional retirement benefits	(6.4)	(6.4)	(0.08)
Environmental insurance recoveries, net	16.9	14.3	0.17
Sale of non-core real estate	22.6	22.6	0.27
	(116.9)	(119.5)	(1.42)
PDI—			
September 2002 restructuring programs	(23.6)	(23.0)	(0.27)
Environmental provisions, net	0.3	0.3	—
Reassessment of prior restructuring programs	1.3	1.3	0.02
	(22.0)	(21.4)	(0.25)
Corporate and other—			
Environmental provisions, net	(12.7)	(12.7)	(0.15)
Environmental insurance recoveries, net	17.4	14.8	0.18
Historic Cyprus Amax lawsuit settlements	(54.7)	(53.0)	(0.63)
Historic Cyprus Amax arbitration award	(46.5)	(45.0)	(0.54)
Legal loss contingency	(1.0)	(1.0)	(0.01)
	(97.5)	(96.9)	(1.15)
	(236.4)	(237.8)	(2.82)

(continued)

Statement of Consolidated Operations Line Item	Pre-Tax Earnings	After-Tax Earnings	$/Share After-Tax
Miscellaneous income and expense, net:			
Cost investment write-downs	(1.2)	(1.2)	(0.01)
Taxes:			
Release of taxes provided with regard to Plateau Mining	—	13.0	0.15
Tax benefit for 2001 net operating loss carryback	—	66.6	0.79
	—	79.6	0.94
Extraordinary loss—debt extinguishment	(31.3)	(26.6)	(0.32)
Cumulative effect of accounting change	(33.0)	(22.9)	(0.27)
	$(301.9)	(208.9)	(2.48)

* Refer to Note 21, Business Segment Data, for special items and provisions by segment.

In December 2002, PDMC recorded special, pre-tax charges for asset impairments and closure provisions of $153.5 million (before and after taxes) at Cobre, Hidalgo and Ajo. The Company recognized an impairment charge to write-down Cobre's assets by $115.5 million (before and after taxes). We took this action after revising mine plans and assessing recoverability. The impairment assessment used a copper price lower than the prior-year assumption, reflecting moving average historical copper prices representing full economic and pricing cycles. The amount of Cobre's impairment was determined through an assessment of the discounted cash flows of the remaining ore reserves. The Hidalgo impairment included a $12.9 million (before and after taxes) write-down of assets. As a result of the Company's ability to use acid more efficiently and an updated assessment of PDMC's long-term acid production and consumption balance, the Company determined that Hidalgo will probably not be reconfigured to produce acid as originally anticipated and that the net book value of Hidalgo assets would probably not be recovered. Hidalgo's power facilities will continue to generate electricity when needed, and the facility will continue to be a backup alternative as a reliable producer of acid if conditions warrant. The remaining Hidalgo assets were written down to their estimated fair value. The Company also recognized a $7.0 million (before and after taxes) charge for the estimated remaining costs of its closure obligation at Hidalgo. Phelps Dodge has reclassified material previously characterized as reserves at Ajo to mineralized material and, as a result, recognized an impairment charge to write down Ajo's assets by $18.1 million (before and after taxes). This action resulted from updating mine plans at this prospective development property. The amount of Ajo's impairment was determined through an assessment of the fair value of its assets.

On September 10, 2002, we announced the temporary closure of two U.S. wire and cable plants and other actions to improve efficiencies and consolidate certain wire and cable operations. These temporary closures and internal changes are expected to reduce our costs and align our business with current market conditions. The actions included: (i) the temporary closure of the Laurinburg, North Carolina, magnent wire plant at the end of 2002, with production being shifted to the El Paso, Texas, and Fort Wayne, Indiana, facilities; (ii) the temporary closure of the West Caldwell, New Jersey, High Performance Conductors facility pending recovery of markets served by this location, with production of certain products relocated to our Inman, South Carolina, facility; (iii) operational and production support at other High Performance Conductors facilities being streamlined in order to reduce costs and increase operating efficiencies; and (iv) the restructuring and consolidation of certain administrative functions. These actions resulted in special, pre-tax charges of $23.6 million ($23.0 million after-tax). Of these amounts, $16.9 million (before and after taxes) was recognized as asset impairments and $6.7 million ($6.1 million after-tax) was recognized for severance-related and relocation expenses associated with the restructuring and temporary closures. The amount of the asset impairment was determined through an assessment of fair market value, which was based on independent appraisals, of the existing assets at the wire and cable plants. We also performed an event-driven impairment test on the goodwill at our wire and cable plants through a comparison of the carrying value to the respective fair value (using an estimate of discounted cash flows) and determined that an additional impairment loss was not required. The restructuring plan includes the reduction of approximately 300 positions and charges associated with employee severance and relocation ($3.9 million) and pension and other postretirement obligations ($2.8 million).

Business Combinations

1.70

BURLINGTON COAT FACTORY WAREHOUSE CORPORATION AND SUBSIDIARIES (MAY)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A (In Part): Summary of Significant Accounting Policies

23 (In Part): Recent Accounting Pronouncements

In June 2001, the FASB issued SFAS No. 141, *Business Combinations* and SFAS No. 142, *Goodwill and Other Intangible Assets.* SFAS No. 141 requires that all business combinations initiated after June 30, 2001 be accounted for under the purchase method and addresses the initial recognition and measurement of goodwill and other intangible assets acquired in a business combination. SFAS No. 142 addresses the initial recognition and measurement of intangible assets acquired outside of a business combination and the accounting for goodwill and other intangible assets subsequent to their acquisition. SFAS No. 142 provides that intangible assets with finite useful lives be amortized and that goodwill and intangible assets with indefinite lives will not be amortized, but will rather be tested at least annually for impairment. Under the provisions of SFAS No. 142, any impairment loss identified upon adoption of this standard is recognized as a cumulative effect of a change in accounting principle. Any impairment loss incurred subsequent to initial adoption of SFAS No. 142 is recorded as a charge to current period earnings. SFAS 142 is effective for fiscal years beginning after December 15, 2001 to all goodwill and other intangible assets recognized in an entity's balance sheet at that date regardless of when those assets were initially recognized. The Company adopted SFAS

No. 141 on August 1, 2001 and determined that the adoption had no effect on the Company's earnings or financial position. The Company adopted SFAS No. 142 on June 2, 2002 and determined that the adoption will not have a material effect on the Company's earnings or financial position.

1.71

WHX CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2 (In Part): Accounting Changes and Recently Issued Accounting Pronouncements

In July 2001, the FASB issued SFAS 141 and 142, "Business Combinations" ("SFAS 141") and "Goodwill and Other Intangible Assets" ("SFAS 142"), respectively. SFAS 141 supercedes Accounting Principles Board Opinion No. 16 ("APB 16"), "Business Combinations." The most significant changes made by SFAS 141 are: (1) requiring that the purchase method of accounting be used for all business combinations initiated after June 30, 2001, (2) establishing specific criteria for the recognition of intangible assets separately from goodwill, and (3) requiring unallocated negative goodwill to be written off immediately as an extraordinary gain, instead of being amortized.

SFAS 142 supercedes APB 17, "Intangible Assets". SFAS 142 primarily addresses the accounting for goodwill and intangible assets subsequent to their acquisition (i.e., post-acquisition accounting). The provisions of SFAS 142 are effective for fiscal years beginning after December 15, 2001 and must be adopted at the beginning of a fiscal year. The most significant changes made by SFAS 142 are 1) goodwill and indefinite lived intangible assets will no longer be amortized, (2) goodwill will be tested for impairment at least annually at the reporting unit level, (3) intangible assets deemed to have an indefinite life will be tested for impairment at least annually, and (4) the amortization period of intangible assets with finite lives will no longer be limited to forty (40) years.

The Company has adopted the provisions of SFAS 142 and has changed its accounting accordingly effective January 1, 2002. As a result of the adoption of SFAS 142, the Company did not record amortization expense for existing goodwill during the year ending December 31, 2002. The Company recorded amortization expense of $7.4 million and $8.0 million on this goodwill for the years ended December 31, 2001 and 2000, respectively. Any intangible assets acquired or goodwill arising from transactions after June 30, 2001 are subject to the amortization and non-amortization provisions of SFAS 141 and SFAS 142. The Company recorded a $44.0 million non-cash goodwill impairment charge related to the H&H Wire Group in the first quarter of 2002. This charge is shown as a cumulative effect of an accounting change. The Company recorded this charge because the fair value of this reporting unit, as determined by estimated cash flow projections, was less than the reporting unit's carrying value. The Company is still committed to this business and expects improved performance from this Group in future periods as a result of management changes, cost reductions, restructuring, and improving economic conditions.

Gains or Losses From Debt Extinguishment

1.72

JLG INDUSTRIES, INC. (JUL)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (In Part)

Recent Accounting Pronouncements (In Part)

In May 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections." This statement requires, among other things, that gains and losses on the early extinguishment of debt be classified as extraordinary only if it meets the criteria for extraordinary treatment set forth in Accounting Principles Board Opinion No. 30. We adopted SFAS No. 145 effective June 1, 2002. As a result, $0.1 million of deferred financing costs related to our former $83 million senior credit facility that was expensed during the fourth quarter of fiscal 2002 is included in interest expense on our Consolidated Statements of Income.

1.73

SANMINA-SCI CORPORATION (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Recent Accounting Pronouncements (In Part)

In May 2002, the Financial Accounting Standards Board issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections." This Statement rescinds FASB Statement No. 4, "Reporting Gains and Losses from Extinguishment of Debt," and an amendment of that Statement, FASB Statement No. 64, "Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements." This Statement also rescinds FASB Statement No. 44, "Accounting for Intangible Assets of Motor Carriers." This Statement amends FASB Statement No. 13, "Accounting for Leases" to eliminate an inconsistency between the required accounting for sale-leaseback transactions and the required accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions. This Statement also amends other existing authoritative pronouncements to make certain technical corrections, clarify meanings, or describe their applicability under changed conditions. The provisions of SFAS No. 145 are effective in fiscal years beginning after May 15, 2002, with early adoption permitted and, in general, are to be applied prospectively. In the fourth quarter of fiscal 2002, we elected to apply the provisions of SFAS No. 145 related to the rescission of SFAS No. 4. Accordingly, gains or losses resulting from the early retirement of debt during fiscal 2002 have been reflected as other income (expense) on the accompanying statements of operations (see Note 4). Gains or losses for prior periods previously reflected

as extraordinary items have been reclassified to other income (expense) in accordance with SFAS No. 145.

Note 4 (In Part): Revolving Credit Agreements and Long-Term Debt

Zero Coupon Convertible Subordinated Debentures Due 2020

On September 12, 2000, Sanmina-SCI issued $1.66 billion in aggregate principal amount at maturity of zero coupon convertible subordinated debentures, or Zero Coupon Debentures, due on September 12, 2020 at an issue price of $452.89 per $1,000 debenture, resulting in gross proceeds of $751.8 million. The Zero Coupon Debentures are subordinated to the prior payment of all senior indebtedness, as defined, of Sanmina-SCI. There will be no cash interest payments prior to maturity. The issue price of each Zero Coupon Debenture represents a yield to maturity of 4% per year, computed on a semi-annual basis. The issue discount is amortized using the effective interest method over the term of the notes. The Zero Coupon Debentures are convertible into common stock, at any time at the option of the note holder, at the conversion ratio of approximately 6.48 shares per $1,000 principal amount at maturity, subject to adjustment in certain events. The Zero Coupon Debentures are redeemable at the option of Sanmina-SCI on or after September 12, 2005. The Zero Coupon Debentures may also be subject to repurchase, at the option of the holder, on September 12, 2005, September 12, 2010, and September 12, 2015 at $552.08, $672.98, and $820.35, respectively per $1,000 note.

During the fourth quarter of fiscal 2002, Sanmina-SCI repurchased approximately $150.0 million of the Zero Coupon Debentures through open market transactions of which $23.8 million was traded prior to our fiscal year end but was settled in early October 2002. As a result of the transactions, Sanmina-SCI recorded a $47.3 million gain, net of $2.8 million in unamortized financing fees, from the early extinguishment of this debt. The gain is reflected in other income in the accompanying consolidated statement of operations.

Derivatives and Hedging Activities

1.74

STANDARD COMMERCIAL CORPORATION (MAR)

Consolidated Statements of Income and Comprehensive Income (Loss)

(In thousands)	2002	2001	2000
Net income	$19,797	$21,125	$ 10,338
Other comprehensive income (loss):			
Translation adjustment	(1,087)	(8,959)	(10,568)
Reclassification for translation adjustment recognized in net income	4,462	8,934	—
Cumulative effect of change in accounting for derivative financial instruments	(2,067)	—	—
Derivative financial instruments	1,888	—	—
Total other comprehensive income (loss)	3,196	(25)	(10,568)
Comprehensive income (loss)	$22,993	$21,100	$ (230)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Significant Accounting Policies (In Part)

1) Derivative Financial Instruments

On April 1, 2001 the Company adopted SFAS 133 *"Accounting for Derivative Instruments and Hedging Activities:,* as amended by SFAS 137 and SFAS 138. SFAS 133 establishes new accounting and disclosure requirements for most derivative instruments and hedge transactions involving derivatives. SFAS 133 also requires formal documentation procedures for hedging relationships and effectiveness testing when hedge accounting is to be applied.

In accordance with the transition provisions of SFAS 133, in the year ended March 31, 2002 the Company recorded a cumulative effect loss adjustment of $2.1 million, net of applicable taxes, in other comprehensive income to recognize the fair value of all derivatives designated as cash flow hedging instruments. The Company's derivative usage is principally foreign currency forwards. These contracts typically have maturities of less than one year. As a matter of policy, the Company does not use derivative instruments unless there is an underlying exposure. The Company's foreign currency forwards have been designated and qualify as cash flow hedges under the criteria of SFAS 133. SFAS 133 requires that changes in fair values of derivatives that qualify as cash flow hedges be recognized in other comprehensive income, while the ineffective portion of change in derivatives in fair value be recognized immediately in earnings. At March 31, 2002 the Company had foreign exchange contracts outstanding with a notional value of $32.4 million and a fair value of $32.2 million.

Consideration Given by a Vendor to a Customer

1.75

AMERICAN BILTRITE INC. AND SUBSIDIARIES (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Significant Accounting Policies

Recently Issued Accounting Principles (In Part)

In November 2001, Emerging Issues Task Force (EITF) issue 01-9, *Accounting for Consideration Given by Vendor to Customer or Reseller of the Vendor's Products,* was issued. The Company adopted EITF 01-9 effective January 1, 2002 as required. This issue addresses the manner in which companies account for sales incentives to their customers. The Company's current accounting policies for the recognition of costs related to these programs, which is to accrue for costs as benefits are earned by the Company's customers, are in accordance with the consensus reached in this issue. The Company has reclassified amounts previously recorded in selling, general and administrative expense as a reduction in net sales. The impact for the twelve month's ending December 31, 2002, 2001 and 2000 was a reduction of net sales and of selling, general and administrative expenses $4.1 million, $4.5 million and $5.1 million respectively.

Sales Incentives

1.76

DARDEN RESTAURANTS (MAY)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollar amounts in thousands)

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

Accounting Change

In July 2000, the Emerging Issues Task Force (EITF) of the FASB reached a consensus on EITF Issue 00-14, "Accounting for Certain Sales Incentives." EITF Issue 00-14 is effective for all annual or interim financial statements for periods beginning after December 15, 2001. The Company adopted EITF Issue 00-14 in the fourth quarter of fiscal 2002. EITF Issue 00-14 addresses the recognition, measurement, and income statement classification for sales incentives offered to customers. Sales incentives include discounts, coupons, and generally any other offers that entitle a customer to receive a reduction in the price of a product by submitting a claim for a refund or rebate. Under EITF Issue 00-14, the reduction in or refund of the selling price of the product resulting from any sales incentives should be classified as a reduction of revenue. Prior to adopting this pronouncement, the Company recognized sales incentives as either selling, general, and administrative expenses or restaurant expenses. As a result of adopting EITF Issue 00-14, sales incentives were reclassified as a reduction of sales for all fiscal periods presented. Amounts reclassified were $28,847, $28,738, and $25,795, in fiscal 2002, 2001, and 2000, respectively. This pronouncement did not have any impact on net earnings.

Costs of Exit or Disposal Activities

1.77

THE GAP, INC. (JAN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Accounting Pronouncements (In Part)

In June 2002, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 146 ("SFAS 146"), "Accounting for Costs Associated with Exit or Disposal Activities," which addresses accounting for restructuring and similar costs. SFAS 146 supercedes previous accounting guidance, principally Emerging Issues Task Force Issue No. 94-3 ("Issue 94-3"), "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (Including Certain Costs Incurred in a Restructuring)," We adopted the provisions as required by SFAS 146 for restructuring activities initiated after December 31, 2002. The adoption of SFAS 146 did not have a significant impact on our financial statements. SFAS 146 requires that the liability for costs associated with an exit or disposal activity be recognized when the liability is incurred. Under Issue 94-3, a liability for an exit cost was recognized at the date of our commitment to an exit plan. SFAS 146 also establishes that the liability should initially be measured and recorded at fair value. Accordingly, SFAS 146 may affect the timing of recognizing exit and restructuring costs, if any, as well as the amounts recognized.

Stock Compensation

1.78

THE COCA-COLA COMPANY AND SUBSIDIARIES (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Stock-Based Compensation

Our Company currently sponsors stock option plans and restricted stock award plans. Refer to Note 13. Prior to 2002, our Company accounted for those plans under the recognition and measurement provisions of APB Opinion No. 25, "Accounting for Stock Issued to Employees" (APB No. 25) and related interpretations. No stock-based employee compensation expense for stock options was reflected in net income for the years ended December 31, 2001 and 2000, as all stock options granted under those plans had

an exercise price equal to the fair market value of the underlying common stock on the date of grant. Effective January 1, 2002, our Company adopted the preferable fair value recognition provisions of Statement of Financial Accounting Standards (SFAS) No. 123, "Accounting for Stock-Based Compensation." Our Company selected the modified prospective method of adoption described in SFAS No. 148, "Accounting for Stock-Based Compensation—Transition and Disclosure." Compensation cost recognized in 2002 is the same as that which would have been recognized had the fair value method of SFAS No. 123 been applied from its original effective date. In accordance with the modified prospective method of adoption, results for prior years have not been restated.

The following table illustrates the effect on net income and earnings per share as if the fair value method had been applied to all outstanding and unvested awards in each period (in millions, except per share amounts):

	2002	2001	2000
Net income, as reported	$3,050	$3,969	$2,177
Add: Stock-based compensation expense included in reported net income, net of related tax effects	267	29	28
Deduct: Total stock-based compensation expense determined under fair value method for all awards, net of related tax effects	(267)	(231)	(210)
Pro forma net income	$3,050	$3,767	$1,995
Earnings per share:			
Basic—as reported	$ 1.23	$ 1.60	$ .88
Basic—pro forma	$ 1.23	$ 1.51	$ .81
Diluted—as reported	$ 1.23	$ 1.60	$ .88
Diluted—pro forma	$ 1.23	$ 1.51	$ .80

Note 13 (In Part): Restricted Stock, Stock Options and Other Stock Plans

Prior to 2002, our Company accounted for our stock option plans and restricted stock plans under the recognition and measurement provisions of APB No. 25 and related interpretations. Effective January 1, 2002, our Company adopted the preferable fair value recognition provisions of SFAS No. 123. Our Company selected the modified prospective method of adoption described in SFAS No. 148. Compensation cost recognized in 2002 is the same as that which would have been recognized had the fair value method of SFAS No. 123 been applied from its original effective date. Refer to Note 1.

In accordance with the provisions of SFAS No. 123 and SFAS No. 148, $365 million was recorded for total stock-based compensation expense in 2002. In accordance with APB No. 25, total stock-based compensation expense was $41 million and $43 million, respectively, for the years ended December 31, 2001 and 2000.

1.79

GENERAL ELECTRIC COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Accounting Changes (In Part)

In 2002, we adopted the stock option expense provisions of SFAS 123, *Accounting for Stock-Based Compensation,* resulting in a $27 million charge to net earnings. We first measure the total cost of each option grant at the grant date, using market-based option trading models. We then recognize each grant's total cost over the period that the options vest. Under this approach, our 2002 option grants had a total value of approximately $200 million, after tax; we charged $27 million to net earnings in 2002, and after-tax expense from this grant for the next three years will be about $80 million, $50 million and $30 million. A comparison of reported and pro-forma net earnings, including effects of expensing stock options, follows.

(In millions; per-share amounts in dollars)	2002	2001	2000
Net earnings, as reported	$14,118	$13,684	$12,735
Earnings per share, as reported			
Diluted	1.41	1.37	1.27
Basic	1.42	1.38	1.29
Stock option expense included in net earnings	27	—	—
Total stock option expense[(a)]	330	296	233
Pro-forma effects			
Net earnings, on pro-forma basis	13,815	13,388	12,502
Earnings per share, on pro-forma basis			
Diluted	1.38	1.33	1.24
Basic	1.39	1.35	1.26

2002 and 2001 net earnings and earnings per share amounts include effects of accounting changes.

[(a)] As if we had applied SFAS 123 to expense stock options in all periods. Includes $27 million actually recognized in 2002 earnings.

Consideration Paid to Reseller

1.80

CONAGRA FOODS INC. AND SUBSIDIARIES (MAY)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Accounting Changes (In Part)

Also in the first quarter of fiscal 2002, the company adopted Emerging Issues Task Force ("EITF") Issue No. 00-25, *Vendor Income Statement Characterization of Consideration Paid to a Reseller of the Vendor's Products.* As a result, the company now classifies the costs associated with sales incentives provided to retailers as a reduction in net sales; these costs were previously included in selling, general and

administrative expenses. All periods presented reflect this reclassification. This reclassification had an immaterial impact on net sales and no impact on income before income taxes and cumulative effect of changes in accounting, net income or earnings per share amounts.

Asset Retirement Obligation

1.81

CLEVELAND-CLIFFS INC AND CONSOLIDATED SUBSIDIARIES (DEC)

Statement of Consolidated Operations

(In millions, except per share amounts)	2002	2001	2000
Income (loss) from continuing operations	$ (66.4)	$ (19.5)	$ 26.7
(Loss) from discontinued operation	(108.5)	(12.7)	(8.6)
Income (loss) before cumulative effect of accounting change	(174.9)	(32.2)	18.1
Cumulative effect of accounting change	(13.4)	9.3	
Net income (loss)	$(188.3)	$ (22.9)	$ 18.1
Net income (loss) per common share—basic			
Continuing operations	$ (6.58)	$ (1.93)	$ 2.57
Discontinued operation	(10.72)	(1.26)	(.83)
Cumulative effect of accounting change	(1.32)	.92	
Net income (loss)	$(18.62)	$ (2.27)	$ 1.74
Net income (loss) per common share—diluted			
Continuing operations	$ (6.58)	$ (1.93)	$ 2.55
Discontinued operation	(10.72)	(1.26)	(.82)
Cumulative effect of accounting change	(1.32)	.92	
Net income (loss)	$(18.62)	$ (2.27)	$ 1.73
Average number of shares (In thousands)			
Basic	10,117	10,073	10,393
Diluted	10,117	10,073	10,439

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Accounting Policies (In Part)

Accounting and Disclosure Changes (In Part)

Effective January 1, 2002, the Company implemented SFAS No. 143, "Accounting for Asset Retirement Obligations," which addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the related asset retirement costs. The statement requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred and capitalized as part of the carrying amount of the long-lived asset. When a liability is initially recorded, the entity capitalizes the cost by increasing the carrying value of the related long-lived asset. Over time, the liability is accreted to its present value each period, and the capitalized cost is depreciated over the useful life of the related asset. Upon settlement of the liability, a gain or loss is recorded. The cumulative effect of this accounting change related to prior years was a one-time non-cash charge to income of $13.4 million (net of $3.3 million recorded under the Company's previous mine closure accrual method) recognized as of January 1, 2002. The net effect of the change was $1.9 million of additional expense in year 2002 results. The pro forma effect of this charge, as if it had been made for 2001 and 2000, would be to decrease net income by $.8 million and $.8 million, respectively. (Note 5—"Environmental and Mine Closure Obligation").

Note 5—Environmental and Mine Closure Obligations

At December 31, 2002, the Company, including its share of unconsolidated ventures, had environmental and mine closure liabilities of $95.5 million, of which $9.8 million was classified as current. Payments in 2002 were $8.3 million (2001—$5.6 million; 2000—$1.9 million). Following is a summary of the obligations:

(In millions)	2002	2001
Environmental	$18.3	$20.1
Mine closure		
LTV Steel Mining Company	41.1	47.2
Operating mines	36.1	3.3
Total mine closure	77.2	50.5
Total environmental and mine closure	$95.5	$70.6

Environmental

Included in the obligation are environmental liabilities of $18.3 million. The Company's obligations for known environmental remediation exposures at active and closed mining operations, and other sites have been recognized based on the estimated cost of investigation and remediation at each site. If the cost can only be estimated as a range of possible amounts with no specific amount being most likely, the minimum of the range is accrued in accordance with SFAS No. 5. Future expenditures are not discounted, and potential insurance recoveries have not been reflected. Additional environmental exposures could be incurred, the extent of which cannot be assessed.

The environmental liability includes the Company's obligations related to seven sites which are independent of the Company's iron mining operations. These include three State and Clean Water Act sites where the Company is named as a potentially responsible party, the Rio Tinto mine site in Nevada, where significant site cleanup activities have taken place, and the Kipling and Deer Lake sites in Michigan.

In 1984, the Company entered into a Consent Judgment with the State of Michigan regarding mercury contamination in Deer Lake. Although the Company has not admitted liability for the alleged contamination, it has been working with the State of Michigan since 1984 to evaluate the environmental and resource impacts of mercury at the site. The Company incurred costs totaling an estimated $2 million since 1984. In 1985, Deer Lake was designated as a "Great Lakes Area of Concern," a designation which identifies the site as a beneficial use impairment to be remediated. The Company has

worked closely with the State of Michigan and its Department of Environmental Quality ("MDEQ") in evaluating the nature and sources of mercury at the site. In the fourth quarter of 2002, the Company and MDEQ came to conceptual agreement on the scale of a remedial action plan, which would not include dredging of the contaminated sediments. Details of the agreement have yet to be negotiated; however, the Company expects that the remediation costs will approximate $3 million.

Additionally, in September 2002, the Company received a draft of a proposed Administrative Consent Order from the United States Environmental Protection Agency for cleanup and reimbursement of costs associated with the Milwaukee Solvay Coke plant site in Milwaukee, Wisconsin. This plant was last operated by a predecessor of the Company during the years 1973 to 1983, which predecessor was acquired by the Company in 1986. In January 2003, the Company completed the sale of the plant site and property to a third party who will assume obligations for both removal under the Administrative Consent Order with the EPA ("Consent Order"), which Consent Order was executed by the Company and the third party, and remediation. As a result, the Company has substantially eliminated its obligations related to this site, and has adjusted its December 31, 2002, reserve accordingly.

Also, the environmental obligation includes non-operating locations in Michigan, including 10 former iron ore-related sites and 12 leased land sites and miscellaneous remediation obligations at the Company's operating units.

Mine Closure

The mine closure obligation of $77.2 million represents the accrued obligation at December 31, 2002 for the closed operation formerly known as the LTV Steel Mining Company (LTVSMC), $41.1 million, and for the Company's five operating mines. The LTVSMC closure obligation results from an October 2001 transaction where subsidiaries of the Company and Minnesota Power, a business of Allete, Inc. acquired LTV's assets of LTVSMC in Minnesota for $25 million (Company share $12.5 million). As a result of this transaction, the Company received a payment of $62.5 million from Minnesota Power and assumed environmental and certain facility closure obligations of $50.0 million, which at December 31, 2002 have declined to $41.1 million, reflecting activity to date.

The accrued closure obligation for the Company's active mining operations of $36.1 million reflects the adoption of SFAS No. 143, effective January 1, 2002, to provide for contractual and legal obligations associated with the eventual closure of the mining operations and the effects of mine ownership increases in 2002. The Company determined the obligations, based on detailed estimates, adjusted for factors that an outside third party would consider (i.e., inflation, overhead and profit), escalated to the estimated closure dates, and then discounted using a credit adjusted risk-free interest rate of 10.25 percent. The closure date for each location was determined based on the exhaustion date of the remaining economic iron ore reserves. The accretion of the liability and amortization of the property and equipment will be recognized over the estimated mine lives for each location. Upon adoption on January 1, 2002, the Company's share of obligation, including its unconsolidated ventures, was a present value liability, $17.1 million; a net increase to plant and equipment, $.4 million; and net cumulative effect charge, $13.4 million. The net cumulative effect charge reflected the offset of $3.3 million of accruals made under the Company's previous mine closure accrual method. The net effect of adopting the asset retirement obligation on January 1, 2002 on current-year results was $1.9 million. The pro forma effect, as if it had been made for 2001 and 2000, is as follows:

	Pro Forma	
(In millions)	2001	2000
Net income (loss) as reported	$(22.9)	$18.1
Effect of adoption	(.8)	(.8)
Net income (loss)	$(23.7)	$17.3
Per share (diluted) as reported	(2.27)	1.73
Effect of adoption	(.08)	(.07)
Total	$(2.35)	$1.66

CONSOLIDATION POLICIES

1.82 Accounting Research Bulletin (ARB) No. 51, *Consolidated Financial Statements,* 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.

1.83 SFAS No. 94, *Consolidation of All Majority-Owned Subsidiaries,* amends *ARB No. 51* by requiring the consolidation of subsidiaries having nonhomogenous operations. Consequently, with rare exception, the survey companies consolidate nonhomogenous operations. Table 1-9 shows the nature of nonhomogenous operations consolidated by the survey companies.

1.84 *SFAS No. 131,* amends *SFAS No. 94* to eliminate the requirement to disclose additional information about subsidiaries that were not consolidated prior to the effective date of *SFAS No. 94.*

1.85 Examples of consolidation practice disclosures follow.

1.86

TABLE 1-9: NONHOMOGENEOUS OPERATIONS—CONSOLIDATED

	Number of Companies			
	2002	2001	2000	1999
Credit	54	47	34	32
Insurance	12	20	18	13
Leasing	9	8	5	2
Banks	2	5	5	—
Real Estate	3	5	4	5

1.87

NACCO INDUSTRIES, INC. AND SUBSIDIARIES (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (In Part): Principles of Consolidation and Nature of Operations

The Consolidated Financial Statements include the accounts of NACCO Industries, Inc. ("NACCO," the parent company) and its wholly owned subsidiaries (NACCO Industries, Inc. and Subsidiaries—the "Company"). Intercompany accounts and transactions are eliminated. The Company's subsidiaries operate in three principal industries: lignite mining, lift trucks and housewares. The Company manages its subsidiaries primarily by industry; however, the Company manages its lift truck operations as two reportable segments: wholesale manufacturing and retail distribution.

During the period of ownership, the Company applied the equity method of accounting for NMHG's 25% ownership in QFS Holdings (Queensland) Pty Limited ("QFS"), a forklift parts depot located in Australia, which was purchased in May 2000 and sold in December 2002. Investments in Sumitomo NACCO Materials Handling Company, Ltd. ("SN"), a 50% owned joint venture, and NMHG Financial Services, Inc. ("NFS"), a 20% owned joint venture, are also accounted for by the equity method. SN operates manufacturing facilities in Japan and the Philippines from which NMHG purchases certain components and internal combustion engine and electric forklift trucks. Sumitomo Heavy Industries, Inc. owns the remaining 50% interest in SN. Each shareholder of SN is entitled to appoint directors representing 50% of SN's board of directors. All matters related to policies and programs of operation, manufacturing and sales activities require mutual agreement between the Company and Sumitomo Heavy Industries, Inc. prior to a vote of SN's board of directors. NFS is a joint venture with GE Capital Corporation, formed primarily for the purpose of providing financial services to independent and wholly owned Hyster and Yale lift truck dealers and national account customers in the United States. The Company's percentage share of the net income or loss from its equity investments is reported on the line Income (loss) from unconsolidated affiliates in the Other income (expense) portion of the Consolidated Statements of Operations and Comprehensive Income (Loss).

1.88

NCR CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Basis of Consolidation

The consolidated financial statements include the accounts of NCR and its majority-owned subsidiaries. Long-term investments in affiliated companies in which NCR owns between 20% and 50%, and therefore exercises significant influence, but which it does not control, are accounted for using the equity method. Investments in which NCR does not exercise significant influence (generally, when NCR has an investment of less than 20% and no representation on the Company's Board of Directors) are accounted for using the cost method. All significant inter-company transactions and accounts have been eliminated. The Company does not have any special purpose entities whose financial results are not included in the consolidated financial statements.

1.89

PHELPS DODGE CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Basis of Consolidation

The consolidated financial statements include the accounts of Phelps Dodge Corporation (the Company, which may be referred to as Phelps Dodge, PD, we, us or ours), and its majority-owned subsidiaries. Our business consists of two divisions, Phelps Dodge Mining Company (PDMC) and Phelps Dodge Industries (PDI). Investments in undivided interests and unincorporated mining joint ventures that are limited to the extraction of minerals are accounted for using the proportional consolidation method. These investments include the Morenci mine, located in Arizona, in which we hold an 85 percent undivided interest; the Chino mine, located in New Mexico, in which we hold a two-thirds partnership interest; and the Candelaria and El Abra mines, located in Chile, in which we hold 80 percent and 51 percent partnership interests, respectively. Interests in other majority-owned subsidiaries are reported using the full consolidation method; the consolidated financial statements include 100 percent of the assets and liabilities of these subsidiaries and the ownership interests of minority participants are recorded as "Minority interests in consolidated subsidiaries." All material intercompany balances and transactions are eliminated.

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

1.90

SCHLUMBERGER LIMITED (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Summary of Accounting Policies (In Part)

Principles of Consolidation

The Consolidated Financial Statements include the accounts of majority-owned subsidiaries. Significant 20%—50% owned companies are carried on the equity method and classified in *Investments in Affiliated Companies.* The pro rata share of Schlumberger after-tax earnings is included in *Interest and Other Income.* All inter-company accounts and transactions have been eliminated.

1.91

UNIVERSAL CORPORATION (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Consolidation

The financial statements include the accounts of all controlled domestic and foreign subsidiaries. All material intercompany items and transactions have been eliminated. The fiscal years of foreign subsidiaries generally end March 31 or April 30 to facilitate timely reporting. The Company uses the equity method of accounting for its investments in affiliates, which are owned 50% or less.

1.92

WEYERHAEUSER COMPANY (DEC)

NOTES TO FINANCIAL STATEMENTS

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

Consolidation

The consolidated financial statements include the accounts of Weyerhaeuser Company and all of its majority-owned domestic and foreign subsidiaries (the company). As discussed in Note 21: Acquisitions, the accounts of Willamette Industries, Inc. (Willamette), are included beginning February 11, 2002. Intercompany transactions and accounts are eliminated. Investments in and advances to equity affiliates that are not majority owned or controlled are accounted for using the equity method with taxes provided on undistributed earnings.

Certain of the consolidated financial statements and notes to financial statements are presented in two groupings: (1) Weyerhaeuser, principally engaged in the growing and harvesting of timber and the manufacture, distribution and sale of forest products, and (2) Real estate and related assets, principally engaged in real estate development and construction and other real estate related activities. The term "company" refers to Weyerhaeuser Company and all of its majority-owned domestic and foreign subsidiaries. The term "Weyerhaeuser" excludes the real estate and related assets operations.

1.93

WHIRLPOOL CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

01 (In Part): Summary of Principal Accounting Policies

Principles of Consolidation

The consolidated financial statements include all majority-owned subsidiaries. Investments in affiliated companies, consisting principally of direct voting interests of 40% and 49% in two other international companies principally engaged in the manufacture and sale of major home appliances or related component parts, are accounted for by the equity method. All intercompany transactions have been eliminated upon consolidation.

BUSINESS COMBINATIONS

1.94 SFAS No. 141, *Business Combinations,* issued in June 2001, supersedes APB Opinion No. 16, *Business Combinations,* as the authoritative pronouncement on business combinations. *SFAS No. 141* requires that the purchase method be used for all business combinations initiated after June 30, 2001. The provisions of *SFAS No. 141* apply to all business combinations accounted for using the purchase method for which the date of acquisition is July 1, 2001 or later. Paragraphs 51–58 set forth required disclosures for business combinations.

1.95 During 2002, 314 survey companies used the purchase method to account for a business combination.

1.96 The nature of information commonly disclosed for business combinations occurring during 2002 is listed in Table 1-10. Examples of disclosures made by survey companies for business combinations accounted for by the purchase method and for the formation of jointly owned entities follow.

1.97

TABLE 1-10: BUSINESS COMBINATION DISCLOSURES—2002

Method of payment	
Cash only	196
Cash and stock	44
Stock only	22
Other-described	13
Intangible assets not subject to amortization	167
Intangible assets subject to amortization	124
Supplemental pro forma information	85
Preliminary allocation of acquisition cost	80
Contingent payments	29
Purchased research and development costs	25

Purchase Method

1.98

ABBOTT LABORATORIES (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 14—Business Combinations and Technology Acquisition

In the second quarter 2002, Abbott acquired the cardiovascular stent business of Biocompatibles International plc and certain cardiovascular stent technology rights from Medtronic, Inc. In addition, Abbott acquired an additional 28.8 percent of the issued common shares of Hokuriku Seiyaku Co., Ltd., resulting in Abbott owning substantially all of the common shares of Hokuriku Seiyaku Co., Ltd. The aggregate cash purchase price ($586 million) of these strategic business and technology acquisitions resulted in a pretax charge for acquired in-process research and development of approximately $108 million, intangible assets of approximately $145 million and non-tax deductible goodwill of approximately $257 million. Acquired intangible assets, primarily product technology, will be amortized over 4 to 13 years (average of approximately 8 years). Had these acquisitions taken place on January 1 of the previous year, consolidated sales and income would not have been significantly different from reported amounts.

On March 2, 2001, Abbott acquired, for cash, the pharmaceutical business of BASF, which included the global operations of Knoll Pharmaceuticals, for approximately $7.2 billion. This acquisition was financed primarily with short- and long-term borrowings. The acquisition is accounted for under the purchase method of accounting. The allocation of the acquisition cost is as follows (*in billions of dollars*):

Acquired intangible assets, primarily product rights for marketed products	$ 3.5
Goodwill	2.4
Acquired in-process research and development	1.2
Deferred income taxes resulting primarily from nondeductible intangibles	(0.4)
Acquired net tangible assets	0.5
Total allocation of acquisition cost	$ 7.2

The acquisition cost has been allocated to intangible assets, goodwill, acquired in-process research and development, and net tangible assets based on an independent appraisal of fair values. Product rights for marketed products are amortized on a straight-line basis over 10 to 16 years (average 13 years), and goodwill was amortized in 2001 on a straight-line basis over 20 years. Acquired in-process research and development was charged to expense in 2001. The net tangible assets acquired consist primarily of property and equipment of approximately $630 million, trade accounts receivable of approximately $402 million, and inventories of approximately $275 million, net of assumed liabilities, primarily trade accounts payable and other liabilities.

Prior to the date of acquisition, Abbott began to plan for the integration and restructuring of the business. In 2001 and 2002, Abbott formally approved several restructuring plans and certain costs of implementing formally approved plans have been included in the reported amount of goodwill above.

The following unaudited pro forma financial information reflects the consolidated results of operations of Abbott as if the acquisition of the pharmaceutical business of BASF had taken place on January 1, 2000. The pro forma information includes primarily adjustments for acquired in-process research and development, amortization of product rights for marketed products, interest expense for estimated acquisition debt, and amortization of goodwill. The pro forma financial information is not necessarily indicative of the results of operations as it would have been had the transaction been effected on the assumed date.

(In billions except per share amounts)	2001 Pro Forma	2000 Pro Forma
Net sales	$16.7	$16.1
Net income	2.3	2.5
Diluted earnings per common share	1.46	1.62

In 2001, Abbott acquired, for cash, all of the outstanding common stock of Vysis, Inc., a leading genomic disease management company. Of the cash acquisition cost of approximately $362 million, $162 million was allocated to developed technology, which is amortized over 15 years, and $143 million was charged against earnings in 2001 for acquired in-process research and development. The remaining acquisition cost was allocated to net tangible assets and goodwill. Had this acquisition taken place on January 1 of the previous year, consolidated sales and income would not have been significantly different from reported amounts.

1.99

B/E AEROSPACE, INC. (FEB)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (In millions, except per share data)

2 (In Part): Acquisitions and Disposition

The company has completed a number of acquisitions and a disposition. The following is a summary of these transactions:

2002 Acquisitions

Effective May 8, 2001, the company acquired the outstanding common stock of Nelson Aero Space, Inc. for approximately $20.0. Effective July 18, 2001, the company acquired the outstanding common stock of Denton Jet Interiors, Inc. for approximately $16.0. Both of the transactions have been accounted for using purchase accounting. The assets purchased and liabilities assumed have been reflected in the accompanying balance sheet as of February 23, 2002.

On September 14, 2001, the company acquired M&M Aerospace Hardware, Inc. ("M&M") for $184.7. M&M is a leading distributor of aerospace fasteners. The M&M acquisition was completed by issuing to the former shareholders a total of approximately 1.9 million shares of B/E stock valued at $32.7, paying them $152.0 in cash and assuming current liabilities of approximately $8.8. The company financed this acquisition through cash on hand and approximately $100.0 of borrowings under its bank credit facility. This transaction has been accounted for using purchase accounting and has been included in the company's operations since the date of acquisition.

The company has not yet completed the evaluation and allocation of the purchase price for the 2002 acquisitions as the appraisals associated with the valuation of certain tangible assets are not yet complete. The company does not believe that the appraisals will materially modify the preliminary purchase price allocation.

The initial purchase price of M&M has been allocated based on independent appraisals and management's estimates as follows:

Accounts receivable	$ 13.4
Inventories	53.8
Other current assets	0.2
Property and equipment	16.7
Goodwill, (non-amortizing, tax deductible)	88.3
Trademark (indefinite life, non-amortizing)	19.4
Noncompete agreement (useful life of 8 years)	1.7
Current liabilities	(8.8)
	$184.7

The company believes that the M&M acquisition resulted in the recognition of goodwill primarily because of its industry position, management strength and potential to serve as a platform for the consolidation of the business segment.

The following pro forma unaudited financial data for 2002 is presented to illustrate the estimated effects of the 2002 acquisitions and 2001 acquisitions as if the transactions had occurred as of the beginning of each fiscal period presented. These results for fiscal 2002 include approximately $40.0 of inventory adjustments recorded by M&M in the period prior to the acquisition.

	2002	2001
Net sales	$ 741.4	$824.0
Net (loss) earnings before extraordinary item	123.9	36.3
Diluted (loss) earnings per share before extraordinary item	$ (3.67)	$ 1.18
Net (loss) earnings	(133.2)	36.3
Diluted (loss) earnings per share	$ (3.95)	$ 1.18

The company recorded costs and expenses associated with the acquisition of M&M of approximately $6.8 which is included as a component of selling, general and administrative expenses in the accompanying Consolidated Statements of Operations for the year ended February 23, 2002.

1.100

SENSIENT TECHNOLOGIES CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Amounts in thousands)

2. Acquisitions

During 2002, the Company acquired four businesses for cash in an aggregate amount of $48,450 (net of cash acquired). The businesses acquired were Cardre, Inc., a manufacturer of specialty ingredients used in cosmetics, ECS Specialty Inks and Dyes, a producer and marketer of inks for specialty printing applications, the flavors and essential oils operations of C. Melchers GmbH & Company, and SynTec GmbH, a manufacturer of specialty dyes and chemicals for the imaging industry. The Company may be required to pay up to €4,600 Euro ($4,800) of additional cash consideration for the 2002 acquisitions subject to specific performance targets in the first two years following the acquisitions. The preliminary allocation of the purchase prices resulted in finite-lived intangibles of $9,306 amortizable over a period of 19 years and goodwill of $37,157. The Company has not yet obtained all information required to complete the purchase price allocation related to these acquisitions. The final allocation will be completed in 2003.

In the fourth quarter of 2001, the Company acquired two businesses for cash in an aggregate amount of $50,749 (net of cash acquired). Acquisitions made during 2001 were Formulabs, a manufacturer of specialty inks for ink-jet and industrial applications, and the technical dye business of Crompton Colors Incorporated, a manufacturer of technical dyes and colors for paper, ink-jet printing applications, plastics and a number of specialty markets. The allocation of the purchase prices resulted in finite-lived intangibles of $4,400 amortizable over a period of 19 years and goodwill of $51,334, which includes final purchase price allocations made in 2002. The finite-lived intangibles were primarily customer lists and technology. The Company is still evaluating the amount of any additional consideration that it may be required to pay, up to $9,000 subject to specific 2002 performance targets.

During 2000, the Company acquired two businesses for cash of $49,425. The allocation of purchase price resulted in goodwill of $43,505. Acquisitions made during 2000 were Dr. Marcus GmbH, a leading manufacturer of natural colors, and Monarch Food Colors, L.P., a color manufacturer for the food, pharmaceutical and cosmetic industries.

All acquisitions have been accounted for as purchases and, accordingly, their results of operations have been included in the consolidated financial statements since their respective dates of acquisition. On an unaudited pro-forma basis, the effects of the acquisitions were not significant to the Company's results of operations.

1.101

SMITHFIELD FOODS, INC. AND SUBSIDIARIES (APR)

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

Note 2: Acquisitions

In October of fiscal 2002, the Company acquired Packerland Holdings, Inc. (Packerland) and its affiliated companies for 6.3 million shares of the Company's common stock plus assumed debt and other liabilities. The preliminary balance of the purchase price in excess of the fair value of the assets acquired and the liabilities assumed at the date of the acquisition was recorded as goodwill totaling $103,964.

In June of fiscal 2002, the Company acquired Moyer Packing Company (Moyer) for $90,491 in cash plus assumed debt. The preliminary balance of the purchase price in excess of the fair value of the assets acquired and the liabilities assumed at the date of the acquisition was recorded as goodwill totaling $6,665.

Had the acquisitions of Packerland and Moyer occurred at the beginning of fiscal 2001, sales, net income and net income per diluted share would have been $8,220,010, $202,460 and $1.78, respectively, for fiscal 2002 and $7,957, 954, $235,283 and $2.02, respectively, for fiscal 2001.

In September of fiscal 2002, the Company acquired the remaining common shares of Schneider Corporation (Schneider) for 2.8 million shares of the Company's common stock. Prior to this transaction, the Company owned approximately 63% of the outstanding shares of Schneider. The balance of the purchase price in excess of the fair value of the assets acquired and the liabilities assumed at the date of acquisition was recorded as goodwill totaling $13,670.

In July of fiscal 2002, the Company acquired substantially all of the assets and business of Gorges/Quik-to-Fix Foods, Inc. (Quik-to-Fix) for $31,038 in cash.

In the Company's third quarter of fiscal 2001, Schneider increased its investment in Saskatchewan-based Mitchell's Gourmet Foods Inc. (Mitchell's) to 54%, requiring the Company to consolidate Mitchell's accounts and to discontinue using the equity method of accounting for Mitchell's. The balance of the purchase price in excess of the fair value of assets acquired and liabilities assumed at the date of acquisition was recorded as goodwill totaling $21,457.

In January of fiscal 2000, the Company acquired Murphy Farms, Inc. (Murphy) and its affiliated companies for 22.6 million shares of the Company's common stock and the assumption of approximately $203,000 in debt, plus other liabilities. Had the acquisition of Murphy occurred at the beginning of fiscal 2000, sales, net income and net income per diluted share would have been $5,329,074, $77,633 and $.65, respectively.

In May of fiscal 2000, the Company acquired Carroll's Foods, Inc. (Carroll's) and its affiliated companies and partnership interests for 8.7 million shares of the Company's common stock and the assumption of approximately $231,000 in debt, plus other liabilities.

In August of fiscal 2000, the Company acquired the capital stock of Société Financière de Gestion et de Participation S.A. (SFGP), a private-label processed meats manufacturer in France.

Each of these acquisitions was accounted for using the purchase method of accounting and, accordingly, the accompanying consolidated financial statements include the financial position and results of operations from the dates of acquisition. Had the acquisitions of Quik-to-Fix, Mitchell's, SFGP and the purchase of the remaining shares of Schneider occurred at the beginning of the fiscal years in which they were acquired, there would not have been a material effect on sales, net income or net income per diluted share for such fiscal years.

The following table provides information on the amounts added to the Consolidated Balance Sheets for acquisitions in fiscal 2002. Total assets acquired in fiscal 2001 were approximately $87,000.

	Working Capital	Total Assets	Long-Term Debt
Packerland	$62,213	$349,446	$122,927
Moyer	27,609	132,525	7,559
Other	24,962	76,057	3,321

1.102

THE WALT DISNEY COMPANY AND SUBSIDIARIES (SEP)

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

Note 3 (In Part): Significant Acquisitions and Dispositions

On October 24, 2001, the Company acquired Fox Family Worldwide, Inc. (FFW) for $5.2 billion, funded with $2.9 billion of new long-term borrowings plus the assumption of $2.3 billion of FFW long-term debt. Upon the closing of the acquisition, the Company changed FFW's name to ABC Family Worldwide, Inc. (ABC Family). Among the businesses acquired were the Fox Family Channel, which has been renamed ABC Family Channel, a programming serice that currently reaches approximately 85 million cable and satellite television subscribers throughout the U.S.; a 76% interest in Fox Kids Europe, which reaches more than 31 million subscribers across Europe; Fox Kids channels in Latin America,

and the Saban library and entertainment production businesses.

Our motivation for the acquisition was to acquire a fully integrated cable channel as well as a significant international cable presence and therefore increase shareholder value. We believe that we can reach this objective through the use of new strategies that include cross promotion with our other television properties, repurposing a portion of the programming of the ABC Television Network, utilizing programming from the Disney and ABC libraries, developing original programming and by reducing operating costs.

The acquisition of ABC Family has been accounted for in accordance with SFAS 141. The cost of the acquisition was allocated to the assets acquired and liabilities assumed based on estimates of their respective fair values at the date of acquisition. Fair values were determined by internal studies and independent third party appraisals.

The following table summarizes the final purchase price allocation of ABC Family's assets acquired and liabilities assumed at the date of acquisition.

Receivables	$ 182
Programming costs	309
Other assets	535
Intangible assets	47
Goodwill	4,996
Total assets	6,069
Accounts payable and accrued liabilities	(555)
Other liabilities	(269)
Minority interest	(49)
Total liabilities	(873)
Fair value of net assets acquired	5,196
Borrowings and preferred stock assumed	(2,371)
Cash purchase price, net of cash acquired	$ 2,825

The excess of the purchase price over the fair value of the identifiable net assets acquired of approximately $5.0 billion was allocated to goodwill that was assigned to the Cable Networks reporting unit within the Media Networks segment. None of this amount is expected to be deductible for tax purposes.

The Company's consolidated results of operations have incorporated ABC Family's activity on a consolidated basis from October 24, 2001, the date of acquisition. On an unaudited pro forma basis, adjusting only for the assumption that the acquisition of ABC Family and related incremental borrowings had occurred at the beginning of fiscal 2001, revenues for the year ended September 30, 2002 and 2001 were $25,360 million and $25,803 million, respectively. As-reported and unaudited pro forma net income (loss) and earnings (loss) per share for fiscal 2002 were approximately the same. The unaudited pro forma earnings per share impact on fiscal 2001 was approximately $0.01 dilutive, assuming that the incremental acquisition goodwill had not been amortized in the prior year pursuant to the new goodwill accounting rules. The unaudited pro forma information is not necessarily indicative of the results of operations had the acquisition actually occurred at the beginning of fiscal 2001, nor is it necessarily indicative of future results.

Formation of Jointly Owned Companies

1.103

RAYTHEON COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note H (In Part): Other Assets

In 2002, the Company formed a joint venture with Flight Options, Inc. whereby the Company contributed its Raytheon Travel Air fractional ownership business and loaned the new entity $20 million. The Company's investment in and other assets related to the joint venture totaled $107 million at December 31, 2002, which includes equity losses the Company has recorded since the formation of the joint venture. There was approximately $59 million of collateral value underlying amounts due from Flight Options at December 31, 2002. In addition, there was approximately $88 million of additional transaction-related receivables that the Company recorded at zero due to the uncertainty of the ultimate realization of those amounts, due to the fact that the new entity, Flight Options LLC(FO), has been unprofitable to date and has not been generating adequate cash flow to finance current operations. Given these operating results, the Company has loaned FO an additional $10 million since December 31, 2002.

FO had been pursuing additional equity financing, but was not successful in that regard. As a result, the Company offered to exchange the FO debt it currently holds for additional equity in the joint venture, restructure other debt, and invest additional funds for additional equity. If this restructuring is completed, the Company will be responsible for FO's operations, own a majority of FO's stock, and consolidate FO's results in the Company's financial statements. Negotiations related to the restructuring offer are ongoing. If the Company consolidates Flight Options, it is not expected to have a material effect on the Company's financial position or results of operations. Flight Options' customers, in certain instances, have the contractual ability to require Flight Options to buy back their fractional share based on its current fair market value. The estimated value of this potential obligation was approximately $530 million at December 31, 2002.

CONTINGENCIES

1.104 SFAS No. 5, *Accounting for Contingencies,* 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. During 2002, 309 survey companies presented a caption for contingencies in the balance sheet. Table 1-11 lists the loss and gain contingencies disclosed in the annual reports of the survey companies.

1.105 Examples of contingency disclosures, except for tax carryforwards, follow. Examples of operating loss carryforwards are presented in section 3.

1.106

TABLE 1-11: CONTINGENCIES

	Number of Companies			
	2002	**2001**	**2000**	**1999**
Loss Contingencies				
Litigation	514	461	468	469
Environmental	261	249	249	261
Insurance	116	76	58	67
Government investigations	96	61	45	51
Possible tax assessments	54	44	47	45
Other—described	76	69	47	51
Gain Contingencies				
Operating loss carryforward	390	350	353	333
Tax credits and other tax credit carryforwards	166	128	122	86
Alternative minimum tax carryforward	70	79	80	80
Capital loss carryforward	56	29	28	25
Plaintiff litigation	41	25	29	27
Investment credit carryforward	21	23	39	49
Other—described	17	6	5	5

LOSS CONTINGENCIES

Litigation

1.107

BAXTER INTERNATIONAL INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 12: Legal Proceedings

Baxter International Inc. and certain of its subsidiaries are named as defendants in a number of lawsuits, claims and proceedings, including product liability claims involving products now or formerly manufactured or sold by the company or by companies that were acquired by the company. These cases and claims raise difficult and complex factual and legal issues and are subject to many uncertainties and complexities, including, but not limited to, the facts and circumstances of each particular case and claim, the jurisdiction in which each suit is brought, and differences in applicable law. Baxter has established reserves in accordance with GAAP for certain of the matters discussed below. For these matters, there is a possibility that resolution of the matters could result in an additional loss in excess of presently established reserves. Also, there is a possibility that resolution of certain of the company's legal contingencies for which there is no reserve could result in a loss. Management is not able to estimate the amount of such loss or additional loss (or range of loss or additional loss). However, management believes that, while such a future charge could have a material adverse impact on the company's net income and net cash flows in the period in which it is recorded or paid, no such charge would have a material adverse effect on Baxter's consolidated financial position.

Based on recent developments and a review of additional information, the liabilities and related insurance receivables pertaining to the company's mammary and plasma-based therapies litigation described below, were adjusted at various points during 2002 and 2001 based primarily on more favorable insurance recoveries. The pre-tax impact was recorded as a reduction of marketing and administrative expenses in the consolidated statements of income, decreasing the expenses as a percentage of sales by 0.7% in 2002 and 0.3% in 2001.

Mammary Implant Litigation

The company, together with certain of its subsidiaries, is a defendant in various courts in a number of lawsuits brought by individuals, all seeking damages for injuries of various types allegedly caused by silicone mammary implants formerly manufactured by the Heyer-Schulte division (Heyer-Schulte) of American Hospital Supply Corporation (AHSC). AHSC, which was acquired by the company in 1985, divested its Heyer-Schulte division in 1984.

Settlement of a class action on behalf of all women with silicone mammary implants was approved by the U.S. District Court (U.S.D.C.) for the Northern District of Alabama in December 1995. The monetary provisions of the settlement provide compensation for all present and future plaintiffs and claimants through a series of specific funds and a disease-compensation program involving certain specified medical conditions. In addition to the class action, there are a number of individual suits currently pending against the company, primarily consisting of plaintiffs who have opted-out of the class action.

Baxter believes that a substantial portion of its liability and defense costs for mammary implant litigation will be covered by insurance, subject to self-insurance retentions, exclusions, conditions, coverage gaps, policy limits and insurer solvency.

Plasma-Based Therapies Litigation

Baxter is a defendant in a number of claims and lawsuits brought by individuals who have hemophilia, all seeking damages for injuries allegedly caused by antihemophilic factor concentrates VIII or IX derived from human blood plasma (factor concentrates) processed by the company from the late 1970s to the mid-1980s. The typical case or claim alleges that the individual was infected with the HIV virus by factor concentrates which contained the HIV virus. None of these case involves factor concentrates currently processed by the company.

In addition, Immuno International AG (Immuno), a company acquired by Baxter in 1997, has unsettled claims for damages for injuries allegedly caused by its plasma-based therapies. A portion of the liability and defense costs related to these claims will be covered by insurance, subject to exclusions, conditions, policy limits and other factors. Pursuant to the stock purchase agreement between the company and Immuno as revised in April 1999, 26 million Swiss Francs of the purchase price is being withheld to cover these contingent liabilities.

Baxter is also a defendant in a number of claims and lawsuits, including one certified class action in the U.S.D.C.

for the Central District of California, brought by individuals who infused the company's Gammagard IVIG (intravenous immunoglobulin), all of whom are seeking damages for Hepatitis C infections allegedly caused by infusing Gammagard IVIG. In September 2000, the U.S.D.C. for the Central District of California approved a settlement of the class action that would provide financial compensation for U.S. individuals who used Gammagard IVIG between January 1993 and February 1994.

Baxter believes that a substantial portion of the liability and defense costs related to its plasma-based therapies litigation will be covered by insurance, subject to self-insurance retentions, exclusions, conditions, coverage gaps, policy limits and insurer solvency.

Other

In August 2002, six purported class action lawsuits were filed in the U.S.D.C. for the Northern District of Illinois naming Baxter and its Chief Executive Officer and Chief Financial Officer as defendants. These lawsuits, which have been consolidated and seek recovery of unspecified damages, allege that the defendants violated the federal securities laws by making misleading statements that allegedly caused Baxter common stock to trade at inflated levels. In December 2002, plaintiffs filed their consolidated amended class action complaint, which named nine additional Baxter officers as defendants. On January 24, 2003 all defendants moved for dismissal of the consolidated amended complaint. In October 2002, Baxter and members of its board of directors were named as defendants in a lawsuit filed in the U.S.D.C. for the Northern District of Illinois by an alleged participant in the Baxter Incentive Investment Plan (the Plan), purportedly on behalf of the Plan and a class of Plan participants who purchased shares of Baxter common stock. This lawsuit is based on allegations similar to those made in the securities lawsuits described above and has been consolidated with the other actions described above.

As of December 31, 2002, Baxter and certain of its subsidiaries were defendants in six civil lawsuits seeking damages on behalf of persons who allegedly died or were injured as a result of exposure to Baxter's Althane series dialyzers. The U.S. Government is investigating the matter and Baxter has received a subpoena to provide documents. A government criminal investigation concerning the patient deaths is pending in Spain. Other lawsuits and claims may be filed in the United States and elsewhere.

As of December 31, 2002, Baxter and certain of its subsidiaries were named as defendants, along with others, in lawsuits pending in federal and state court brought on behalf of various classes of purchasers of Medicare and Medicaid eligible drugs alleged to have been injured as a result of pricing practices for such drugs, the prices of which are alleged to be artificially inflated. In addition, the Attorney General of Nevada and the Attorney General of Montana have filed separate civil suits against a subsidiary of Baxter alleging that prices for Medicare and Medicaid eligible drugs were artificially inflated in violation of various state laws. Various state and federal agencies are conducting civil investigations into the marketing and pricing practices of Baxter and others with respect to Medicare and Medicaid reimbursement.

As of December 31, 2002, Baxter and certain of its subsidiaries have been served as defendants, along with others, in lawsuits filed in various state and U.S. federal courts, some of which are purported class actions, on behalf of claimants alleged to have contracted autism or other attention deficit disorders as a result of exposure to vaccines for childhood diseases containing Thimerosal. Additional Thimerosal cases may be filed in the future against Baxter and other companies that marketed Thimerosal-containing products.

Allegiance Corporation (Allegiance) was spun off from the company in a tax-free distribution to shareholders on September 30, 1996. As of September 30, 1996, Allegiance assumed the defense of litigation involving claims related to its businesses, including certain claims of alleged personal injuries as a result of exposure to natural rubber later gloves. Although Allegiance has not been named in most of this litigation, it will be defending and indemnifying Baxter pursuant to certain contractual obligations for all expenses and potential liabilities associated with claims pertaining to latex gloves.

In addition to the cases discussed above, Baxter is a defendant in a number of other claims, investigations and lawsuits, including certain environmental proceedings. Based on the advice of counsel, management does not believe that, individually or in the aggregate, these other claims, investigations and lawsuits will have a material adverse effect on the company's consolidated results of operations, cash flows or financial position.

1.108

BOSTON SCIENTIFIC CORPORATION AND SUBSIDIARIES (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note A (In Part): Significant Accounting Policies

Legal Costs

The Company accrues costs of settlement, damages and, under certain conditions, costs of defense when such costs are probable and estimable. Otherwise, such costs are expensed as incurred.

Note L—Commitments and Contingencies

The Company is involved in various legal proceedings, including patent infringement and product liability suits, from time to time in the normal course of business. In management's opinion, the Company is not currently involved in any legal proceeding other than those specifically identified below which, individually or in the aggregate, could have a material effect on the financial condition, operations and/or cash flows of the Company. Additionally, legal costs associated with asserting the Company's patent portfolio and defending against claims that the Company's products infringe the intellectual property of others are significant, and legal costs associated with non-patent litigation and compliance activities are rising. Depending on the prevalence, significance and complexity of these matters, the Company's legal provision could be adversely affected in the future. As of December 31, 2002, the potential exposure for litigation-related accruable costs is estimated to range from $4 million to $10 million. The Company's total accrual for litigation-related reserves as of December 31, 2002 and 2001 was approximately $4 million and $6 million, respectively. As of December 31, 2002, the

range of loss for reasonably possible contingencies that can be estimated is not material.

During the third quarter of 2002, the Company entered into an agreement to settle a number of patent infringement lawsuits between the Company and Medtronic, Inc. (Medtronic). The settlement resolved the Company's damage claims against Medtronic arising out of a German court case and a U.S. arbitration proceeding involving Medtronic rapid exchange stent delivery systems and angioplasty dilatation balloon catheters. In accordance with the settlement agreement, during the third quarter of 2002, Medtronic paid the Company approximately $175 million to settle damage award claims for past infringement. In addition, during the third quarter of 2002, the Company recorded a net charge of approximately $76 million for settlement of litigatin related to rapid exchange catheter technology.

Litigation With Johnson & Johnson

On October 22, 1997, Cordis Corporation (Cordis), a subsidiary of Johnson & Johnson, filed a suit for patent infringement against the Company and SCIMED Life Systems, Inc. (SCIMED), a subsidiary of the Company, alleging that the importation and use of the NIR® stent infringes two patents owned by Cordis. On April 13, 1998, Cordis filed a suit for patent infringement against the Company and SCIMED alleging that the Company's NIR® stent infringes two additional patents owned by Cordis. The suits were filed in the U.S. District Court for the District of Delaware seeking monetary damages, injunctive relief and that the patents be adjudged valid, enforceable and infringed. A trial on both actions was held in late 2000. A jury found that the NIR® stent does not infringe three Cordis patents, but does infringe one claim of one Cordis patent and awarded damages of approximately $324 million to Cordis. On March 28, 2002, the Court set aside the damage award, but upheld the remainder of the verdict, and held that two of the four patents had been obtained through inequitable conduct in the U.S. Patent and Trademark Office. On May 16, 2002, the Court also set aside the verdict of infringement, requiring a new trial. The case has been stayed pending the outcome of a related case.

On March 13, 1997, the Company (through its subsidiaries) filed suits against Johnson & Johnson (through its subsidiaries) in The Netherlands and Belgium, and on March 17, 1997 filed suit in France, seeking a declaration of noninfringement for the NIR® stent relative to two European patents licensed to Ethicon, Inc. (Ethicon), a Johnson & Johnson subsidiary, as well as a declaration of invalidity with respect to those patents. On October 28, 1998, the Company's motion for a declaration of noninfringement in France was dismissed for failure to satisfy statutory requirements; the French invalidity suits were not affected. A hearing related to the French invalidity suits was held on November 19, 2001. On January 16, 2002, the French Court found one of the patents to be valid and the other to be invalid. The Company filed an appeal on November 4, 2002.

On March 21, 1997, the Company (through its subsidiaries) filed a suit against Johnson & Johnson (through its subsidiaries) in Italy seeking a declaration of noninfringement for the NIR® stent relative to one of the European patents licensed to Ethicon and a declaration of invalidity. A technical expert was appointed by the Court and a hearing was held on January 30, 2002. Both parties have had an opportunity to comment on the expert report. On May 8, 2002, the Court closed the evidentiary phase of the case and set the next hearing for December 13, 2003.

Ethicon and other Johnson & Johnson subsidiaries filed a cross-border suit in The Netherlands on March 17, 1997, alleging that the NIR® stent infringes one of the European patents licensed to Ethicon. In this action, the Johnson & Johnson entities requested relief, including provisional relief (a preliminary injunction), covering Austria, Belgium, France, Greece, Italy, The Netherlands, Norway, Spain, Sweden and Switzerland. On April 2, 1997, the Johnson & Johnson entities filed a similar cross-border proceeding in The Netherlands with respect to a second European patent licensed to Ethicon. In October 1997, Johnson & Johnson's request for provisional cross-border relief on both patents was denied by the Dutch Court, on the ground that it is "very likely" that the NIR® stent will be found not to infringe the patents. Johnson & Johnson appealed this decision with respect to the second patent; the appeal has been denied on the grounds that there is a "ready chance" that the patent will be declared null and void. In January 1999, Johnson & Johnson amended the claims of the second patent, changed the action from a cross-border case to a Dutch national action, and indicated its intent not to pursue its action on the first patent. On June 23, 1999, the Dutch Court affirmed that there were no remaining infringement claims with respect to either patent. In late 1999, Johnson & Johnson appealed this decision. A hearing on the appeal has not yet been scheduled.

On May 6, 1997, Ethicon Endosurgery, Inc., a subsidiary of Johnson & Johnson, sued the Company in Dusseldorf, Germany, alleging that the Company's NIR® stent infringes one of Ethicon's patents. On June 23, 1998, the case was stayed following a decision in an unrelated nullity action in which the Ethicon patent was found to be invalid.

On August 22, 1997, Johnson & Johnson filed a suit for patent infringement against the Company alleging that the sale of the NIR® stent infringes certain Canadian patents owned by Johnson & Johnson. Suit was filed in the federal court of Canada seeking a declaration of infringement, monetary damages and injunctive relief. The Company has answered, denying the allegations of the complaint. A trial is expected to begin in late 2003.

On April 14, 2000, the Company (through its subsidiaries) and Medinol Ltd. (Medinol) filed suit for patent infringement against Johnson & Johnson, Cordis and a subsidiary of Cordis alleging that a patent owned by Medinol and exclusively licensed to the Company is infringed by Cordis' BX Velocity™ stent delivery system. The complaint was filed in the U.S. District Court for the District of Delaware seeking monetary and injunctive relief. On June 7, 1999, the Company, SCIMED, and Medinol filed suit for patent infringement against Johnson & Johnson, Johnson & Johnson interventional Systems and Cordis, alleging two U.S. patents owned by Medinol and exclusively licensed to the Company are infringed by Cordis' Crown,™ MINICrown™ and CORINTHIAN™ stents. The suit was filed in the U.S. District Court for the District of Minnesota seeking injunctive and monetary relief. The Minnesota action was transferred to the U.S. District Court for the District of Delaware and consolidated with the Delaware action filed by the Company. A trial was held in August 2001 on both actions. On September 7, 2001, a jury found that Cordis' BX Velocity, Crown, and MINICrown stents do not infringe the patents, and that the asserted claims of those patents are invalid. The jury also found that Cordis' CORINTHIAN stent infringes a valid Medinol

patent claim and awarded the Company and Medinol $8.3 million in damages. On January 25, 2002, the Court entered final judgment on the CORINTHIAN stent in favor of the Company. On September 27, 2002, final judgment was entered in favor of Cordis on the BX Velocity, Crown and MINICrown stents, and the Company's motion for a new trial was denied. On November 26, 2002, Medinol filed an appeal. The Company has withdrawn from the action.

On March 24, 2000, the Company (through its subsidiaries) and Medinol filed a cross-border suit against Johnson & Johnson, Cordis and certain of their foreign subsidiaries in The Netherlands alleging Cordis' BX Velocity stent delivery system infringes one of Medinol's European patents. In this action, the Company and Medinol requested monetary and injunctive relief covering The Netherlands, Austria, Belgium, Switzerland, Germany, Denmark, Spain, France, Greece, Ireland, Italy, Liechtenstein, Luxembourg, Monaco, Portugal and Sweden. On March 19, 2001, the Company's request for preliminary injunction was denied by the Court. On May 11, 2001, the Company appealed this decision. A hearing on the appeal is expected to be held February 20, 2003 before the Dutch Court of Appeals.

On March 30, 2000, the Company (through its subsidiary) filed suit for patent infringement against two subsidiaries of Cordis alleging that Cordis' BX Velocity stent delivery system infringes a published utility model owned by Medinol and exclusively licensed to the Company. The complaint was filed in the District Court of Dusseldorf, Germany seeking monetary and injunctive relief. A hearing was held on March 15, 2001, and on June 6, 2001, the Court issued a written decision that Cordis' BX Velocity stent delivery system infringes the Medinol published utility model. Cordis appealed the decision of the German court. A hearing on the appeal has been scheduled for April 3, 2003.

On March 25, 1996, Cordis filed a suit for patent infringement against SCIMED alleging the infringement of five U.S. patents by SCIMED's Leap™ balloon material used in certain SCIMED catheter products, including SCIMED's Bandit™ and Express Plus™ catheters. The suit was filed in the U.S. District Court for the District of Minnesota and seeks monetary and injunctive relief. SCIMED has answered, denying the allegations of the complaint. Pursuant to an agreement between the parties, this action has been stayed.

On March 27, 1997, SCIMED filed suit for patent infringement against Cordis, alleging willful infringement of several SCIMED U.S. patents by Cordis' Trackstar 14,™ Trackstar 18,™ Olympix,™ Powergrip,™ Sleek,™ Sleuth,™ Thor,™ Titan™ and Valor™ Catheters. The suit was filed in the U.S. District Court for the District of Minnesota, seeking monetary and injunctive relief. The parties have agreed to add Cordis' Charger™ and Helix™ catheters to the suit. Cordis has answered, denying the allegations of the complaint. Pursuant to an agreement between the parties, this action has been stayed.

On February 14, 2002, the Company and certain of its subsidiaries filed suit for patent infringement against Johnson & Johnson and Cordis alleging certain balloon catheters, stent delivery systems, and guide catheters sold by Johnson & Johnson and Cordis infringe five U.S. patents owned by the Company. The complaint was filed in the U.S. District Court for the Northern District of California seeking monetary and injunctive relief. On October 15, 2002, Cordis filed a counterclaim alleging certain balloon catheters and stent delivery systems sold by the Company infringe three U.S. patents owned by Cordis and seeking monetary and injunctive relief.

On December 6, 2002, the Company filed an Amended Complaint alleging two additional patents owned by the Company are infringed by the Cordis products. Trial is expected to begin in mid-2004.

On March 26, 2002, the Company and Target Therapeutics, Inc. (Target), a wholly owned subsidiary of the Company, filed suit for patent infringement against Cordis alleging certain detachable coil delivery systems and/or pushable coil vascular occlusion systems (coil delivery systems) infringe three U.S. patents, owned by or exclusively licensed to Target. The complaint was filed in the U.S. District Court for the Northern District of California seeking monetary and injunctive relief. Trial is scheduled to begin in June 2004.

On January 13, 2003, Cordis filed suit for patent infringement against the Company and SCIMED alleging the Company's Express^{2}™ coronary stent infringes a U.S. patent owned by Cordis. The suit was filed in the U.S. District Court for the District of Delaware seeking monetary and injunctive relief. The Company has not yet answered, but intends to vigorously deny the allegations of the complaint.

Litigation With Medtronic, Inc.

On March 10, 1999, the Company (through its subsidiary Schneider (Europe) AG) filed suit against Medtronic AVE, Inc. (Medtronic AVE), a subsidiary of Medtronic, Inc. (Medtronic), alleging that Medtronic AVE's AVE GFX, AVE GFX2, AVE LTX, CALYPSO RELY,™ PRONTO SAMBA™ and SAMBA RELY™ rapid exchange catheters and stent delivery systems infringe one of the Company's German patents. The suit was filed in the District Court of Dusseldorf, Germany seeking injunctive and monetary relief. An expert's report was submitted to the Court on November 6, 2001 and a hearing was held on May 2, 2002. On June 11, 2002, the Court ruled that the Medtronic AVE products infringed the Company's patents. Medtronic AVE filed an appeal. Medtronic AVE is obligated to dismiss its appeal pursuant to a Settlement Agreement between the parties dated September 18, 2002. On November 26, 2002, the Company filed an enforcement action seeking a decision from the Court that Medtronic AVE is violating the Court's injunction through the sale of its S670 and S7 rapid exchange stent systems.

On April 6, 1999, Medtronic AVE filed suit against SCIMED and another subsidiary of the Company alleging that the Company's NIR® stent infringes one of Medtronic AVE's European patents. The suit was filed in the District Court of Dusseldorf, Germany seeking injunctive and monetary relief. A hearing was held in Germany on September 23, 1999, and on November 4, 1999, the Court dismissed the complaint. On December 21, 1999, Medtronic AVE appealed the dismissal. The appeal is stayed pending the outcome of a related nullity action.

On August 13, 1998, Medtronic AVE filed a suit for patent infringement against the Company and SCIMED alleging that the Company's NIR® stent infringes two patents owned by Medtronic AVE. The suit was filed in the U.S. District Court for the District of Delaware seeking injunctive and monetary relief. On May 25, 2000, Medtronic AVE amended the complaint to include a third patent. The Company and SCIMED have answered denying the allegations of the complaint. The parties have filed a stipulation requesting the Court to stay the case.

Litigation With Guidant Corporation

On June 7, 2002, Advanced Cardiovascular Systems, Inc. (ACS), and Guidant Ltd., subsidiaries of Guidant Corporation (Guidant), filed suit against the Company and certain of its subsidiaries alleging that the Company's Express™ stent infringes two patents owned by ACS. The suit was filed in the United Kingdom, but has not been served upon the Company.

On October 15, 2002, ACS filed suit for patent infringement against the Company and SCIMED alleging the Company's Express stent infringes a U.S. patent owned by ACS. The suit was filed in the U.S. District Court for the Northern District of California seeking monetary damages and injunctive relief. On December 6, 2002, the Company answered, denying the allegations of the complaint and counterclaimed seeking a declaration of invalidity, noninfringement and unenforceability.

On December 3, 2002, ACS filed suit for patent infringement against the Company and SCIMED alleging the Company's Express stent infringes a U.S. patent owned by ACS. The suit was filed in the U.S. District Court for the Northern District of California seeking monetary, and injunctive relief. The Company has answered, denying the allegations of the complaint.

On January 28, 2003, ACS filed suit for patent infringement against the Company and SCIMED alleging the Company's Express stent infringes a U.S. patent owned by ACS. The suit was filed in the U.S. District Court for the Northern District of California seeking monetary and injunctive relief. The Company has not yet answered, but intends to vigorously deny the allegations of the complaint.

On December 30, 2002, the Company and certain of its subsidiaries filed suit for patent infringement against Guidant, and Guidant Sales Corporation and ACS alleging that certain stent delivery systems (Multi-Link Zeta™ and Multi-Link Penta™) and balloon catheter products (Agil-Trac™) sold by Guidant and ACS infringe nine U.S. patents owned by the Company. The complaint was filed in the U.S. District Court for the Northern District of California seeking monetary and injunctive relief.

Litigation Relating to Cook, Inc.

On September 10, 2001, the Company delivered a Notice of Dispute to Cook, Inc. (Cook) asserting that Cook breached the terms of a certain License Agreement among Angiotech Pharmaceuticals, Inc. (Angiotech), Cook and the Company (the Agreement) relating to an improper arrangement between Cook and Guidant. On December 13, 2001, Cook filed suit in the U.S. District Court for the Northern District of Illinois seeking declaratory and injunctive relief. The Company answered the complaint on December 26, 2001, denying the allegations and filed counterclaims seeking declaratory and injunctive relief. On June 27, 2002, the Court found in favor of the Company, ruling that Cook breached the Agreement. On October 1, 2002, the Court granted the Company's request for a permanent injunction prohibiting certain activities under the Agreement and enjoining the use of the clinical data and technologies developed by Cook or Guidant in violation of the Agreement. Cook appealed the decision to the U.S. Court of Appeals for the Seventh Circuit.

On July 30, 2002, Guidant and Cook Group Incorporated, the parent of Cook, announced their agreement to merge Cook Group Incorporated into a wholly owned subsidiary of Guidant. On the same day, Guidant filed suit against the Company seeking a declaratory judgment that upon completion of the merger, the license under the Agreement may be assigned or sublicensed by Cook to ACS and that ACS is entitled to use the information, data or technology generated or gathered for the purposes of obtaining regulatory approval for a coronary stent utilizing the Angiotech technology. The Company has answered the complaint and counterclaimed for declaratory and injunctive relief alleging that Guidant is tortiously interfering with Cook's performance under the Agreement.

On June 30, 1998, Cook filed suit in the Regional Court, Dusseldorf Division for Patent Disputes, in Dusseldorf, Germany against the Company alleging that the Company's Passager™ peripheral vascular stent graft and Vanguard™ endovascular aortic graft products infringe the same Cook patent. A hearing was held on July 22, 1999, and a decision was received in September 1999 finding that the Company's products infringe the Cook patent. The Company appealed the decision. A hearing is scheduled for March 27, 2003.

On March 18, 1999, Cook filed suit against the Company and SCIMED, alleging that SCIMED's Radius™ coronary stent infringes a certain U.S. patent owned by Cook. The suit was filed in the U.S. District Court for the Southern District of Indiana seeking monetary damages and injunctive relief. On July 14, 1999, Cook filed an amended complaint adding Meadox Medicals, Inc. (Meadox), a wholly owned subsidiary of the Company, as a party to the suit, and adding a breach of contract claim. The Company, SCIMED and Meadox have answered, denying the allegations of the complaint. A trial date has not yet been set.

On May 23, 2001, Cook filed suit against the Company alleging that the Company's VortX® embolization coils infringe a patent owned by Cook. The suit was filed in the U.S. District Court for the Southern District of Indiana seeking monetary damages and injunctive relief. On July 24, 2001, the Company answered, denying the allegations of the complaint, and countersued Cook, alleging that certain Cook products infringe a patent owned by the Company. On November 14, 2001, the Company amended its complaint against Cook to include two additional patents exclusively licensed to the Company. Cook answered and denied the allegations of the counterclaim. A trial date has not yet been set.

On March 7, 1996, Cook filed suit in the Regional Court, Munich Division for Patent Disputes, in Munich, Germany against MinTec, Inc. Minimally Invasive Technologies, alleging that the Cragg EndoPro™ System I and Stentor™ endovascular device infringe a certain Cook patent. Following the purchase of the assets of the Endotech/MinTec companies by the Company, the Company assumed control of the litigation. A final hearing was held on May 12, 1999, and the court held no infringement of the Cook patents. The case was dismissed in June 1999. Cook has appealed the decision. On July 27, 2000, the Court stayed the action pending the outcome of a nullity action filed by the Company against the patent.

On August 2, 1999, the Company filed suit against Cook and a subsidiary of Cook alleging that Cook's Zenith stent infringed a German utility model held by the Company. The suit was filed in the District Court for Dusseldorf, Germany. On May 5, 2000, judgment was rendered in favor of the Company and on June 20, 2000, Cook appealed the decision. The case has been suspended until a final decision is rendered in related German Federal Patent Court cancellation proceedings.

Other Patent Litigation

On July 28, 2000, Dr. Tassilo Bonzel filed a complaint naming certain of the Company's Schneider Worldwide subsidiaries and Pfizer Inc. (Pfizer) and certain of its affiliates as defendants, alleging that Pfizer failed to pay Dr. Bonzel amounts owed under a license agreement involving Dr. Bonzel's patented Monorail™ technology. The suit was filed in the District Court for the State of Minnesota seeking monetary relief. On September 26, 2001, Dr. Bonzel and the Company reached a contingent settlement involving all but one claim asserted in the complaint. The contingency has been satisfied and the settlement is now final. On December 17, 2001, the remaining claim was dismissed without prejudice with leave to refile the suit in Germany. Dr. Bonzel has filed an appeal of the dismissal of the remaining claim.

On September 12, 2002, EV3 filed suit against The Regents of the University of California and a subsidiary of the Company in the District Court of The Hague, Netherlands, seeking a declaration that EV3's EDC II and VDS embolic coil products do not infringe three patents licensed by the Company from The Regents of the University of California. The Company answered, denying the allegations of the complaint. A hearing has been scheduled for May 16, 2003.

On January 21, 2003, Dendron GmbH, EV3 Ltd., EV3 International, Inc., Microvena Corporation and Microtherapeutics, Inc. (the EV3 Parties) filed suit against The Regents of the University of California in the United Kingdom seeking a declaration that certain of the EV3 Parties' detachable coil and microcatheter products do not infringe a patent licensed by the Company from The Regents of the University of California and revocation of the patent. The Company has not yet answered, but intends to vigorously deny the allegations of the complaint.

On August 27, 2001, RITA Medical Systems, Inc. (RITA) filed suit against RadioTherapeutics Corporation (RTC) alleging that RTC's LeVeen™ radiofrequency ablation devices infringe six patents owned by RITA. The suit was filed in the U.S. District Court for the Northern District of California seeking monetary damages and injunctive relief. RTC answered, denying the allegations of the complaint. On December 11, 2001, the Company acquired RTC and assumed defense of the litigation.

On April 11, 2002, RTC, SCIMED and The Board of Regents of the University of Nebraska UNEMED Corp. (the University) filed suit against RITA alleging that certain of its products infringe a patent owned by SCIMED and other patents owned by the University and licensed to RTC. The suit was filed in the U.S. District Court for the Northern District of California seeking monetary and injunctive relief.

On July 9, 2002, the Company and University of Kansas filed suit against RITA alleging that certain of its products infringe a patent owned by the University and licensed to the Company. The suit was filed in the U.S. District Court for the Northern District of California seeking monetary and injunctive relief.

On October 16, 2002, RTC filed an appeal to the U.S. District Court for the Northern District of California regarding a U.S. Patent and Trademark Office (USPTO) decision in an earlier interference proceeding involving a patent owned by RITA. The USPTO had found that neither RTC nor RITA was entitled to the contested claim.

On August 13, 2001, Joseph Grayzel filed suit against the Company in the U.S. District Court of New Jersey alleging that the Company's Cutting Balloon® catheter infringes a patent owned by him. The suit requests monetary and injunctive relief. The Company has answered, denying the allegations of the complaint.

On November 26, 2002, the Company filed suit against Artes Medical USA, Inc. (Artes) alleging that the Company's Contour SE embolic agent does not infringe a certain patent owned by Artes, and that the patent is not valid. The suit was filed in the U.S. District Court for the District of Massachusetts seeking monetary and injunctive relief.

Litigation With Medinol Ltd.

On April 5, 2001, Medinol Ltd. (Medinol) filed a complaint against the Company and certain of its current and former employees alleging breaches of contract, fraud and other claims. The suit was filed in the U.S. District Court for the Southern District of New York seeking monetary and injunctive relief. On April 26, 2001, Medinol amended its complaint to add claims alleging misappropriation of trade secrets in relation to the Company's Express™ stent development program. Medinol seeks monetary and injunctive relief, as well as an end to the Company's right to distribute Medinol stents and to gain access to certain Company intellectual property. On April 30, 2001, the Company answered and countersued Medinol and its principals, seeking monetary and injunctive relief. During the last quarter of 2001, the Court dismissed several of the individuals from the case. A trial date has not yet been set.

On June 11, 2001, the Company filed suit in the Jerusalem District Court in Israel against Medinol and its controlling shareholders, alleging among other things, loss of faith among Medinol's shareholders, breach of duty by Medinol management and misappropriation of corporate opportunities, including trade secrets and intellectual property. The suit seeks, among other things, monetary relief and costs. Preliminary motions were heard on October 29, 2001. Medinol and its shareholders requested the Court to strike the claim on the grounds of lack of jurisdiction. The Court rejected the motion except for the nomination of a director to Medinol, which was referred to the District Court of New York. A preliminary hearing is scheduled for May 11, 2003.

On April 22, 2002, Medinol filed suit against Boston Scientific Medizintechnik GmbH, a German subsidiary of the Company, alleging the Company's Express stent infringes certain German patents and utility models owned by Medinol. The suit was filed in Dusseldorf, Germany. On July 11, 2002, a default judgment was entered against the subsidiary and on July 12, 2002, the subsidiary appealed the judgment and requested that the case be heard on the merits. On August 1, 2002, the Court agreed to hear the case. Hearings have been scheduled for May 15 and 27, 2003.

On January 21, 2003, Medinol filed suit against several of the Company's international subsidiaries in the District Court of The Hague, Netherlands seeking cross-border, monetary and injunctive relief covering The Netherlands, Austria, Belgium, United Kingdom, Ireland, Switzerland, Sweden, Spain, France, Portugal and Italy, alleging the Company's Express™ stent infringes four European patents owned by Medinol. A hearing is scheduled for October 10, 2003.

On September 10, 2002, the Company filed suit against Medinol alleging Medinol's NIRFlex™ and NIRFlex™ Royal products infringe two patents owned by the Company. The suit was filed in Dusseldorf, Germany seeking monetary and injunctive relief. A hearing is scheduled for February 4, 2003.

On September 25, 2002, the Company filed suit against Medinol alleging Medinol's NIRFlex™ and NIRFlex™ Royal products infringe a patent owned by the Company. The suit was filed in the District Court of The Hague, Netherlands seeking cross-border, monetary and injunctive relief. A hearing has been scheduled for June 13, 2003.

Other Proceedings

In October 1998, the Company recalled its NIR ON® Ranger™ with Sox™ coronary stent delivery system following reports of balloon leaks. In November 1998, the U.S. Department of Justice began an investigation regarding the shipment and sale of the NIR ON® Ranger™ with Sox™ stent delivery system and other aspects of the Company's relationship with Medinol, the vendor of the stent. The Company and two senior officials have been advised that they are targets of the federal grand jury investigation, but that no final decision has been made as to whether any potential charges would be brought. The Company believes that the statute of limitations for certain charges, which could potentially arise from the investigation, may expire during the year 2003 and that this may serve as a catalyst for activity during the year. There can be no assurance that the investigation will result in an outcome favorable to the Company; that charges would not be brought; or that the Company would not agree to an extension of the statute. The Company believes that it will ultimately be demonstrated that the Company and its officials acted responsibly and appropriately.

On October 31, 2000, the Federal Trade Commission (FTC) filed suit against the Company for alleged violations of a Consent Order dated May 5, 1995, pursuant to which the Company had licensed certain intravascular ultrasound technology to Hewlett-Packard Company (HP). The suit was filed in the U.S. District Court for the District of Massachusetts seeking civil penalties and injunctive relief. The Company filed a motion to dismiss the complaint and the FTC filed a motion for summary judgment. On October 5, 2001, the Court dismissed three of the five claims against the Company and granted summary judgment of liability in favor of the FTC on the two remaining claims. A trial on a civil penalty, together with post-trial briefing, has been completed. A decision has not yet been rendered.

On January 10, 2002 and January 15, 2002, Alan Schuster and Antoinette Loeffler, respectively, putatively initiated shareholder derivative lawsuits for and on behalf of the Company in the U.S. District Court for the Southern District of New York against the Company's then current directors and the Company as nominal defendant. Both complaints allege, among other things, that with regard to the Company's relationship with Medinol, the defendants breached their fiduciary duties to the Company and its shareholders in the management and affairs of the Company, and in the use and preservation of the Company's assets. The suits seek a declaration of the directors' alleged breach, damages sustained by the Company as a result of the alleged breach, monetary and injunctive relief. On October 18, 2002, the plaintiffs filed a consolidated amended complaint naming two senior officials as defendants and the Company as nominal defendant. On November 15, 2002, defendants moved to dismiss the complaint and, alternatively, for a stay of this litigation pending resolution of a separate lawsuit brought by Medinol against the Company. Plaintiffs have consented to the stay sought by defendants.

Further, product liability claims against the Company may be asserted in the future related to events not known to management at the present time. As a result of current economic factors impacting the insurance industry, at the beginning of the third quarter of 2002, the Company elected to become substantially self-insured with respect to general and product liability claims. Losses for claims in excess of the limits of purchased insurance would be recorded at the time and to the extent they are probable and estimable. Management believes that the Company's risk management practices, including limited insurance coverage, are reasonably adequate to protect against anticipated general and product liability losses. However, unanticipated catastrophic losses could have a material adverse impact on the Company's financial position, results of operations and liquidity.

1.109

GUIDANT CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 14 Contingencies

A discussion of the Company's policies with respect to legal proceedings and other loss contingencies is provided in "Significant Accounting Policies" of "Management's Discussion and Analysis of Results of Operations and Financial Condition."

On October 3, 1997, Cordis Corporation (Cordis), a subsidiary of Johnson & Johnson, filed suit against the Company alleging that the sale of the Company's stent products infringes the Palmaz/Schatz patents owned by Cordis. On April 3, 2000, the parties agreed to dismiss all patent litigation between them and resolve remaining disputes in arbitration proceedings. As part of the agreement, each party received licenses to the other's patents involved in the disputes. The arbitration proceeding regarding the Palmaz/Schatz patents will resolve whether Cordis is entitled to damages based on a limited number of remaining claims under U.S. patent 4,733,762. A ruling is expected in mid 2003. In a separate arbitration, Guidant has asserted claims against Cordis under Guidant's Lau/Lam patents. The arbitration process commenced in the first quarter of 2002, with Guidant asserting claims under U.S. patents 5,514,154 and 6,066,167 relating to Cordis' BX VELOCITY and OMNI BX stents. An arbitration decision is expected in early 2004.

On February 18, 1998, Arterial Vascular Engineering, Inc. (now known as Medtronic AVE, Inc.), filed suit against the Company's subsidiary, Advanced Cardiovascular Systems, Inc. (ACS), in the District Court for Delaware alleging that the sale of the ACS MULTI-LINK Coronary Stent System infringes certain patents owned by Medtronic AVE. The suit is consolidated with a suit by ACS alleging infringement by Medtronic AVE of certain ACS stent patents. The Medtronic AVE complaint also alleges misappropriation of trade secrets and breach of a confidentiality agreement by ACS. In the lawsuit,Medtronic AVE is seeking injunctive relief and monetary damages and to invalidate ACS stent patents asserted against Medtronic AVE. The court approved a joint motion to stay the litigation until March 2003.

On December 30, 2002, Boston Scientific Corporation (Boston Scientific) filed suit against the Company in the Northern District of California alleging that the sale of the Company's stent delivery systems and balloon catheter angioplasty products sold commercially beginning after May 16, 2000, including the MULTI-LINK ZETA, MULTI-LINK PENTA and AGIL-TRAC products, infringe certain patents owned by Boston Scientific. In the lawsuit, Boston Scientific is seeking injunctive relief and monetary damages.

On December 3, 2002, the Company filed suit in the Northern District of California claiming that Boston Scientific's Express 2 Monorail stent system infringes the Company's Lau patent directed to a rapid exchange stent delivery system. Boston Scientific subsequently filed a counterclaim alleging that the Company infringes five of Boston Scientific's patents. These patents relate to tri-fold balloons and balloons with stepped compliance. The counterclaim does not specify which products are being accused of infringement.

Except with respect to the matters described above, the outcomes of which could be material to the Company, the ultimate liability in excess of reserves associated with other matters (including the previously disclosed matters described below) is not expected to have a material effect on consolidated financial position or liquidity, but could possibly be material to the consolidated results of operations of any one period.

Guidant has been informed that it is a target of an investigation by the U.S. Department of Justice and the Office of Criminal Investigations of the FDA into matters relating to the Company's ANCURE ENDOGRAFT System for the treatment of AAA. In March 2001, the Company voluntarily halted production and sale of the product and performed a voluntary recall following the discovery of certain regulatory compliance deficiencies in the business unit responsible for the sales of the product. The product was returned to full market release in August 2001 with FDA approval. The Company is cooperating fully in the investigation.

The Company has also been served with a number of individual suits and is aware of the filing of additional suits alleging product liability related causes of action relating to the ANCURE System.

On June 15, 2000, Medtronic, Inc. (Medtronic) filed a declaratory judgment action against the Company and its subsidiary, Cardiac Pacemakers, Inc. (CPI), in the District Court for Minnesota requesting that the court rule that Medtronic does not infringe certain of CPI's patents for atrial fibrillation technology or that the patents are not valid. Subsequently, Guidant asserted additional patents related to atrial fibrillation technology against Medtronic in the same court. Currently, nine patents are being asserted against Medtronic in this consolidated litigation. Pretrial matters are scheduled through 2003.

On March 6, 2002, Pacesetter, Inc. (Pacesetter), a subsidiary of St. Jude Medical, Inc. (St. Jude) filed a lawsuit against CPI and Guidant Sales Corporation (GSC) in the Central District of California alleging that CPI and GSC have infringed Pacesetter patents covering various features of pacemakers and implantable defibrillators. On the Company's motion, the case has been transferred to the District Court for Minnesota. Currently four patents are at issue. Pacesetter is seeking injunctive relief, monetary damages and attorney fees. Pretrial matters are scheduled through 2003.

Anna Mirowski, Eli Lilly and Company and two Company subsidiaries, GSC and CPI, are plaintiffs in a patent infringement suit originally filed against St. Jude and its affiliates in November 1996 in the District Court in Indianapolis. The suit alleges that St. Jude's defibrillator products infringe patents licensed to CPI. In July 2001, a jury found that two of the licensed patents were valid and that St. Jude had infringed one, a patent that expired in March 2001. The jury awarded damages of $140 million against St. Jude. The Company did not record a gain. On February 13, 2002, the court, in ruling on a number of post-trial motions, reversed each of the three jury findings above, along with the jury award. The court awarded St. Jude certain post-trial fees and costs (in an immaterial amount), along with contingent expenses and attorney fees upon any retrial of the case if a retrial is required following any appeal of the court's rulings. The plaintiffs have filed an appeal in the Federal Circuit Court of Appeals.

On August 20, 2001, the Company and Cook Incorporated (Cook) announced that they had entered into agreements pursuant to which the Company's ACS subsidiary would act as worldwide exclusive distributor for a new paclitaxel coated coronary stent to be developed and manufactured by Cook. Boston Scientific alleges that the agreements appear to constitute actual and anticipatory breaches of a License Agreement with Angiotech Pharmaceuticals, Inc. (Angiotech) granting licenses to Boston Scientific and Cook. Pursuant to an agreement among the parties, all proceedings were dismissed except for a complaint filed by Cook against Boston Scientific in the Northern District of Illinois seeking a finding that Cook was not in breach of the Angiotech license. Boston Scientific counterclaimed, alleging breach of contract, seeking damages and injunctive relief preventing Cook from implementing its agreements with ACS. On June 13, 2002, in ruling on cross-motions for summary judgment, the court held in favor of Boston Scientific on the breach of contract issue, concluding that the distribution arrangement and processes for obtaining regulatory approvals were impermissible. On October 1, 2002, the court entered a permanent injunction prohibiting (a) any performance under or attempt to enforce the Cook agreements with ACS, (b) sales by Cook of paclitaxel coated stents in a manner inconsistent with the Angiotech agreement, and (c) any use for a commercial purpose (including obtaining regulatory approval) of the information, data or technology generated under the Cook agreements with ACS (including the DELIVER clinical trial results discussed below). Cook has appealed the court's rulings.

On July 30, 2002, following the Company's entry into a merger agreement with Cook Group Incorporated (corporate parent of Cook), the Company filed a complaint in the Northern District of Illinois seeking a declaratory judgment relating to rights available under the Angiotech license and the availability of clinical trial data. Boston Scientific subsequently filed a counterclaim alleging tortious interference with the Angiotech license. On January 2, 2003, the Company announced that the primary endpoint in the DELIVER clinical trial would not be met. Accordingly, the Company's merger agreement with Cook Group was terminated.

1.110

THE LAMSON & SESSIONS CO. AND SUBSIDIARIES (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note G—Litigation

On September 23, 1999, the Company announced that a United States District Court jury in the Northern District of Illinois found that the Company willfully infringed on a patent held by Intermatic Incorporated ("Intermatic") of Spring Grove, Illinois, relating to the design of an in-use weatherproof electrical outlet cover, and awarded Intermatic $12.5 million in damages plus pre-judgment interest of approximately $1.5 million. The Company pursued a vigorous appeal and on December 17, 2001 the United States Court of Appeals ruled that, as a matter of law, Lamson & Sessions' products did not infringe Intermatic's patent and that the Company has no liability to Intermatic. The trial jury's earlier verdict in favor of Intermatic in the amount of $12.5 million, plus pre-judgment and post-judgment interest estimated to be in excess of $3 million, was reversed. Intermatic filed for a rehearing of the ruling to the Court of Appeals en banc, which was denied. Intermatic then filed a petition for certiorari with the United States Supreme Court. The United States Supreme Court has reversed the decision of the Court of Appeals and remanded the case back to it. The Court of Appeals has requested additional briefs be submitted by February 21, 2003.

During the first quarter of 2001, the Company settled its litigation against PW Eagle and received a payment of $2.05 million, representing a partial recovery of costs incurred in current and previous quarters, arising out of the failed sale of the PVC Pipe segment in 1999 and resulted in a net gain of $1.6 million in 2001.

The Company is also a party to various other claims and matters of litigation incidental to the normal course of its business. Management believes that the final resolution of these matters will not have a material adverse effect on the Company's financial position, cash flows or results of operations.

1.111

MARRIOTT INTERNATIONAL, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Contingencies (In Part)

Litigation and Arbitration

Green Isle Litigation

This litigation pertains to The Ritz-Carlton San Juan (Puerto Rico) Hotel, Spa and Casino which we manage under an operating agreement for Green Isle Partners, Ltd., S.E. (Green Isle). On March 30, the hotels, engaged in improper self dealing with regard to procurement and rebates, and failed to disclose information related to the above to Strategic. Strategic also claims breach of contract, breach of the implied duty of good faith and fair dealing, breach of fiduciary duty, unfair and deceptive business practices and unfair competition, and other related causes of action. Strategic seeks various remedies, including unspecified compensatory and exemplary damages, and a declaratory judgment terminating our management agreements. On August 20, 2002, we filed a cross complaint against Strategic alleging a breach of Strategic's covenant not to sue, a breach of the covenant of good faith and fair dealing, breach of an agreement to arbitrate, and a breach of The California Unfair Competition Statute. A discovery referee has been appointed, but no trial date has been set.

Senior Housing and Five Star Litigation

Marriott Senior Living Services, Inc. (SLS) operates 31 senior living communities for Senior Housing (SNH) and Five Star (FVE). After several months of discussions between the parties to resolve certain ongoing operational and cost allocation issues, on November 13, 2002, SNH/FVE served a Notice of Default asserting various alleged defaults and purported material breaches by SLS under the applicable operating agreements. SLS responded to the various issues raised by SNH/FVE and denies that it is in default or material breach of the agreements.

On November 27, 2002, in response to SNH/FVE's repeated indications that they would attempt to terminate the Operating Agreements, we filed suit in the Circuit Court for Montgomery County, Maryland, seeking, among other relief, a declaration that SLS is not in default or material breach of its operating agreements and a declaration that SNH/FVE had anticipatorily breached the operating agreements by violating the termination provisions of those contracts. We also sought, and obtained later that same day, a temporary restraining order (TRO) prohibiting SNH/FVE from terminating or attempting to terminate SLS's operating agreements, or from evicting or attempting to evict SLS from the 31 communities, until the court further addresses the parties' dispute at a preliminary injunction hearing. Also on November 27, 2002, SNH/FVE attempted to terminate SLS's operating agreements by sending SLS a purported "Notice of Termination." That attempted termination was stayed, however, by the court's issuance of the TRO. On January 8, 2003, following the preliminary injunction hearing, the court granted Marriott and SLS a preliminary injunction enjoining SNH/FVE from terminating or attempting to terminate the Operating Agreements prior to the trial on the merits. That trial is not expected until later in 2003 or in 2004.

Also on November 27, 2002, after Marriott and SLS had filed their action in Maryland, SNH/FVE filed suit against us and SLS in the Superior Court for Middlesex County, Massachusetts. That action seeks declaratory relief regarding the legal rights and duties of SLS and SNH/FVE under SLS's operating agreements, and injunctive and declaratory relief prohibiting us and SLS from removing the Marriott name and proprietary marks from the 31 communities, allowing SNH/FVE to use the Marriott name and proprietary marks even if we sell SLS, and prohibiting us from selling SLS without SNH/FVE's consent. On December 20, 2002, the Massachusetts court denied SNH/FVE's motion for a preliminary injunction, and that denial was affirmed on appeal on December 31, 2002. SNH/FVE subsequently amended their claim for preliminary relief, adding a new claim that the relationship between the owner and operator in each of the 31 operating agreements is one of principal and agent and thus is terminable at any time. The company and SLS

have opposed this new claim and, in the Maryland action, have moved to have SNH/FVE held in contempt on the ground that the newly filed Massachusetts claim violates the Maryland preliminary injunction.

We believe that each of the foregoing lawsuits against us is without merit, and we intend to vigorously defend against the claims being made against us. However, we cannot assure you as to the outcome of any of these lawsuits nor can we currently estimate the range of potential losses to the Company.

In addition to the foregoing, we are from time to time involved in legal proceedings which could, if adversely decided, result in losses to the Company.

Shareholder's Derivative Action Against Our Directors

On January 16, 2003, Daniel and Raizel Taubenfeld filed a shareholder's derivative action in Delaware state court against each member of our Board of Directors and against Avendra LLC. The company is named as a nominal defendant. The individual defendants are accused of exposing the company to accusations and lawsuits which allege wrongdoing on the part of the company. The complaint alleges that, as a result, the company's reputation has been damaged leading to business losses and the compelled renegotiation of some management contracts. The substantive allegations of the complaint are derived exclusively from prior press reports. No damage claim is made against us and no specific damage number is asserted as to the individual defendants. Management of the company believes that this derivative action is without merit.

Legal Proceeding Settled in December 2002

In response to demands by John J. Flatley and Gregory Stoyle, as agents for The 1993 Flatley Family Trust (collectively, Flatley) to convert our management agreement with Flatley for the Boston Marriott Quincy Hotel into a franchise agreement and threats to terminate our management agreement, on August 1, 2002, we filed a suit against Flatley in the U.S. District Court in Maryland seeking a declaratory judgment that we were not in breach of our management agreement, claiming breach of contract, breach of the duty of good faith and fair dealing, and violation of the Massachusetts Unfair Business Practices Act by Flatley, and seeking unspecified compensatory and exemplary damages. On August 5, 2002, Flatley and the Crown Hotel Nominee Trust (Crown) filed a countersuit in the U.S. District Court, District of Massachusetts, alleging that we and Avendra LLC engaged in improper acts of self dealing and claiming breach of contract, breach of the duty of good faith and fair dealing, violation of the Massachusetts Unfair Business Practices Act, tortious interference with contract, breach of fiduciary duty, misrepresentation, negligence, fraud, violations of the Robinson-Patman Act and other related causes of action. Flatley and Crown sought various remedies, including unspecified compensatory and exemplary damages, and termination of our management agreement. On December 20, 2002, the parties entered into a settlement agreement on terms favorable to the Company and both lawsuits have been dismissed.

Environmental Matters

1.112

EXIDE TECHNOLOGIES AND SUBSIDIARIES (MAR)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

12. Environmental Matters

The Company, particularly as a result of its manufacturing and secondary lead smelting operations, is subject to numerous environmental laws and regulations and is exposed to liabilities and compliance costs arising from its past and current handling, releasing, storing and disposing of hazardous substances and hazardous wastes. The Company's operations are also subject to occupational safety and health laws and regulations, particularly relating to the monitoring of employee health. The Company devotes certain of its resources to attaining and maintaining compliance with environmental and occupational health and safety laws and regulations and does not currently believe that environmental, health or safety compliance issues will have a material adverse effect on the Company's long-term business, financial condition or results of operations. The Company believes that it is in substantial compliance with all material environmental, health and safety requirements.

North America

The Company has been advised by the U.S. Environmental Protection Agency ("EPA") or state agencies that it is a Potentially Responsible Party ("PRP") under the Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA") or similar state laws at 90 federally defined Superfund or state equivalent sites (including 16 GNB sites). At 61 of these sites, the Company has either paid or is in the process of paying its share of liability. In most instances, the Company's obligations are not expected to be significant because its portion of any potential liability appears to be minor or insignificant in relation to the total liability of all PRPs that have been identified and are financially viable. The Company's share of the anticipated remediation costs associated with all of the Superfund sites where it has been named a PRP, based on the Company's estimated volumetric contribution of waste to each site, is included in the environmental remediation reserves discussed below.

Because the Company's liability under such statutes may be imposed on a joint and several basis, the Company's liability may not necessarily be based on volumetric allocations and could be greater than the Company's estimates. Management believes, however, that its PRP status at these Superfund sites will not have a material adverse effect on the Company's business or financial condition because, based on the Company's experience, it is reasonable to expect that the liability will be roughly proportionate to its volumetric contribution of waste to the sites.

The Company currently has greater than 50% liability at three Superfund sites. Other than these sites, the Company's allocation exceeds 5% at seven sites for which the Company's share of liability has not been paid as of March 31, 2002. The current allocation at these seven sites averages approximately 22%.

The Company is also involved in the assessment and remediation of various other properties, including certain

Company owned or operated facilities. Such assessment and remedial work is being conducted pursuant to a number of state and federal environmental laws and with varying degrees of involvement by state and federal authorities. Where probable and reasonably estimable, the costs of such projects have been accrued by the Company, as discussed below. In addition, certain environmental matters concerning the Company are pending in federal and state courts or with certain environmental regulatory agencies.

International

The Company is subject to numerous environmental, health and safety requirements and is exposed to differing degrees of liabilities, compliance costs, and cleanup requirements arising from its past and current activities in various international locations. The laws and regulations applicable to such activities differ from country to country and also substantially differ from U.S. laws and regulations. The Company believes that it is in substantial compliance with all material environmental, health and safety requirements in each country.

The Company expects that its international operations will continue to incur capital and operating expenses in order to maintain compliance with evolving environmental, health and safety requirements or more stringent enforcement of existing requirements in each country.

Consolidated

While the ultimate outcome of the foregoing environmental matters is uncertain, after consultation with legal counsel, management does not believe the resolution of these matters, individually or in the aggregate, will have a material adverse effect on the Company's long-term business, financial condition or results of operations.

The Company has established reserves for on-site and off-site environmental remediation costs and believes that such reserves are adequate. At March 31, 2002 and March 31, 2001 the amount of such reserves were $70,543 and $88,100, respectively. At March 31, 2002, $56,254 of the total reserve was included in other noncurrent liabilities.

Because environmental liabilities are not accrued until a liability is determined to be probable and reasonably estimable, not all potential future environmental liabilities have been included in the Company's environmental reserves and, therefore, additional earnings charges are possible. Also, future findings or changes in estimates could have a material effect on the recorded reserves and cash flows.

In the U.S., the Company has advised each state and federal authority with whom we have negotiated plans for environmental investigations or remediation of the Company's Chapter 11 filing as required by those agreements or applicable rules. In some cases these authorities may require the Company to undertake certain agreed remedial activities under a modified schedule, or may seek to negotiate or require modified remedial activities. Such requests have been received at several sites and are the subjects of ongoing discussions. At this time no requests or directives have been received which, individually or in the aggregate, would alter the Company's reserves or have a material adverse effect on the Company's long-term business, financial condition or results of operation.

13 (In Part): Commitments and Contingencies

Hazardous Materials

Exide is involved in several lawsuits pending in state and federal courts in South Carolina, Pennsylvania, Indiana, and Tennessee. These actions allege that Exide and its predecessors allowed hazardous materials used in the battery manufacturing process to be released from certain of its facilities, allegedly resulting in personal injury and/or property damage.

In January 2002, the counsel that brought the South Carolina actions filed additional claims, in the Circuit Court for Greenville County, South Carolina. The Company's preliminary review of these claims suggest they are without merit, and the Company plans to vigorously defend itself in these matters. The Company does not believe any reserves are currently warranted for these claims.

1.113

GIANT INDUSTRIES, INC. AND SUBSIDIARIES (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Environmental Expenditures

Environmental expenditures that relate to current operations are expensed or capitalized as appropriate. Expenditures that relate to an existing condition caused by past operations, and which do not contribute to current or future revenue generation, are expensed. Liabilities are recorded when environmental assessments and/or remedial efforts are probable and the costs can be reasonably estimated. Environmental liabilities are not discounted to their present value and are recorded without consideration of potential recoveries from third parties. Subsequent adjustments to estimates, which may be significant, may be made as more information becomes available or as circumstances change. See Note 18.

Note 18 (In Part): Commitments and Contingencies

Various legal actions, claims, assessments and other contingencies arising in the normal course of the Company's business, including those matters described below, are pending against the Company and certain of its subsidiaries. Certain of these matters involve or may involve significant claims for compensatory, punitive or other damages. These matters are subject to many uncertainties, and it is possible that some of these matters could be ultimately decided, resolved or settled adversely. The Company has recorded accruals for losses related to those matters that it considers to be probable and that can be reasonably estimated. Although the ultimate amount of liability at December 31, 2002, that may result from those matters for which the Company has recorded accruals is not ascertainable, the Company believes that any amounts exceeding the Company's recorded accruals should not materially affect the Company's financial condition. It is possible, however, that the ultimate resolution of these matters could result in a material adverse effect on

the Company's results of operations for a particular reporting period.

Federal, state and local laws and regulations relating to the environment, health, and safety affect nearly all of the operations of the Company. As is the case with all companies engaged in similar industries, the Company faces significant exposure from actual or potential claims and lawsuits brought by either governmental authorities or private parties, alleging non-compliance with environmental, health, and safety laws and regulations, or property damage or personal injury caused by the environmental, health, or safety impacts of current or historic operations. These matters include soil and water contamination, air pollution and personal injuries or property damage allegedly caused by substances manufactured, handled, used, released or disposed of by the Company or by its predecessors.

Future expenditures related to compliance with environmental, health, and safety laws and regulations, the investigation and remediation of contamination, and the defense or settlement of governmental or private property claims and lawsuits cannot be reasonably quantified in many circumstances for various reasons. These reasons include the speculative nature of remediation and clean-up cost estimates and methods, imprecise and conflicting data regarding the hazardous nature of various types of substances, the number of other potentially responsible parties involved, various defenses that may be available to the Company and changing environmental, health, and safety laws, regulations, and their respective interpretations.

Environmental Accruals

As of December 31, 2002 and 2001, the Company had environmental liability accruals of approximately $8,367,000 and $2,484,000, respectively, which are summarized below. Environmental accruals are recorded in the current and long-term sections of the Company's Consolidated Balance Sheets.

Summary of Environmental Contingencies

(In thousands)	As of 12/31/01	Increase (Decrease)	Payments	As of 12/31/02
Farmington refinery	$ 570	$ —	$ —	$ 570
Ciniza—land treatment facility	208	—	(19)	189
Bloomfield tank farm (old terminal)	149	(48)	(12)	89
Ciniza—solid waste management units	286	—	(11)	275
Bloomfield refinery	977	(412)	(255)	310
Ciniza well closures	100	—	—	100
Retail service stations—various	194	—	(75)	119
Yorktown refinery	—	7,500	(785)	6,715
Totals	$2,484	$7,040	$(1,157)	$8,367

Approximately $7,684,000 of this accrual is for the following projects discussed below: (i) the remediation of the hydrocarbon plume that appears to extend no more than 1,800 feet south of the Company's inactive Farmington refinery; (ii) environmental obligations assumed in connection with the acquisitions of the Yorktown refinery and the Bloomfield refinery; and (iii) hydrocarbon contamination on and adjacent to the 5.5 acres that the Company owns in Bloomfield, New Mexico. The remaining amount of the accrual relates to the closure of certain solid waste management units at the Ciniza refinery, which is being conducted in accordance with the refinery's Resource Conservation and Recovery Act permit; closure of the Ciniza refinery land treatment facility including post-closure expenses; estimated monitoring well closure costs at the Ciniza refinery; and amounts for smaller remediation projects.

Notices of Violation at Four Corners Refineries

In June 2002, the Company received a draft compliance order from the New Mexico Environment Department ("NMED") in connection with five alleged violations of air quality regulations at the Ciniza refinery. These alleged violations relate to an inspection completed in April 2001. Potential penalties could be as high as $564,000.

In August 2002, the Company received a compliance order from NMED in connection with four alleged violations of air quality regulations at the Bloomfield refinery. These alleged violations relate to an inspection completed in September 2001. Potential penalties could be as high as $120,000.

The Company has provided information to NMED with respect to both of the above matters that may result in the modification or dismissal of some of the alleged violations and reductions in the amount of potential penalties. The Company expects to enter into discussions with NMED in the near future concerning the information provided by the Company.

Farmington Refinery Matters

In 1973, the Company constructed the Farmington refinery that was operated until 1982. The Company became aware of soil and shallow groundwater contamination at this facility in 1985. The Company hired environmental consulting firms to investigate the contamination and undertake remedial action. The consultants identified several areas of contamination in the soils and shallow groundwater underlying the Farmington property. A consultant to the Company has indicated that contamination attributable to past operations at the Farmington property has migrated off the refinery property, including a hydrocarbon plume that appears to extend no more than 1,800 feet south of the refinery property. Remediation activities are ongoing by the Company under the supervision of the New Mexico Oil Conservation Division ("OCD"), although no cleanup order has been received. The Company's environmental reserve for this matter is approximately $570,000.

Lee Acres Landfill

The Farmington refinery property is located adjacent to the Lee Acres Landfill (the "Landfill"), a closed landfill formerly operated by San Juan County, which is situated on lands owned by the United States Bureau of Land Management (the "BLM"). Industrial and municipal wastes were disposed of in the Landfill by numerous sources. While the Landfill was operational, the Company used it to dispose of office trash, maintenance shop trash, used tires and water from the Farmington refinery's evaporation pond.

The Landfill was added to the National Priorities List as a Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA") Superfund site in 1990. In connection with this listing, EPA defined the site as the Landfill and the Landfill's associated groundwater plume. EPA

excluded any releases from the Farmington refinery itself from the definition of the site. In May 1991, EPA notified the Company that it may be a potentially responsible party under CERCLA for the release or threatened release of hazardous substances, pollutants or contaminants at the Landfill.

BLM made a proposed plan of action for the Landfill available to the public in 1996. Remediation alternatives examined by BLM in connection with the development of its proposed plan ranged in projected cost from no cost to approximately $14,500,000. BLM proposed the adoption of a remedial action alternative that it believes would cost approximately $3,900,000 to implement. BLM's $3,900,000 cost estimate is based on certain assumptions that may or may not prove to be correct and is contingent on confirmation that the remedial actions, once implemented, are adequately addressing Landfill contamination. For example, if assumptions regarding groundwater mobility and contamination levels are incorrect, BLM is proposing to take additional remedial actions with an estimated cost of approximately $1,800,000.

BLM has received public comment on its proposed plan. The final remedy for the site, however, has not yet been selected. Although the Company was given reason to believe that a final remedy would be selected in 2002, that selection did not occur. The Company has been advised that the site remedy may be announced in 2003. In 1989, a consultant to the Company estimated, based on various assumptions, that the Company's share of potential liability could be approximately $1,200,000. This figure was based upon estimated Landfill remediation costs significantly higher than those being proposed by BLM. The figure also was based on the consultant's evalution of such factors as available clean-up technology, BLM's involvement at the site and the number of other entities that may have had involvement at the site, but did not include an analysis of all of the Company's potential legal defenses and arguments, including possible setoff rights.

Potentially responsible party liability is joint and several, such that a responsible party may be liable for all of the clean-up costs at a site even though the party was responsible for only a small part of such costs. Although it is possible that the Company may ultimately incur liability for clean-up costs associated with the Landfill, a reasonable estimate of the amount of this liability, if any, cannot be made at this time because, among other reasons, the final site remedy has not been selected, a number of entities had involvement at the site, allocation of responsibility among potentially responsible parties has not yet been made, and potentially applicable factual and legal issues have not been resolved. The Company has not recorded a liability in relation to BLM's proposed plan because the amount of any potential liability is currently not determinable.

BLM may assert claims against the Company and others for reimbursement of investigative, cleanup and other costs incurred by BLM in connection with the Landfill and surrounding areas. It is also possible that the Company will assert claims against BLM in connection with contamination that may be originating from the Landfill. Private parties and other governmental entities also may assert claims against BLM, the Company and others for property damage, personal injury and other damages allegedly arising out of any contamination originating from the Landfill and the Farmington property. Parties also may request judicial determination of their rights and responsibilities, and the rights and responsibilities of others, in connection with the Landfill and the Farmington property. Currently, however, there is no outstanding litigation against the Company by BLM or any other party.

Bloomfield Refinery Environmental Obligations

In connection with the acquisition of the Bloomfield refinery, the Company assumed certain environmental obligations including Bloomfield Refining Company's ("BRC") obligations under an administrative order issued by EPA in 1992 pursuant to the Resource Conservation and Recovery Act (the "Order"). The Order required BRC to investigate and propose measures for correcting any releases of hazardous waste or hazardous constituents at or from the Bloomfield refinery. EPA has delegated its oversight authority over the Order to NMED's Hazardous Waste Bureau ("HWB"). In 2000, the OCD approved the groundwater discharge permit for the refinery, which included an abatement plan that addressed the Company's environmental obligations under the Order. Discussions between OCD, HWB and the Company have resulted in revisions to the abatement plan. In December 2002, the Company received written approval of the plan from HWB and OCD, subject to various actions to be taken by the Company to implement the plan. The Company estimates that remediation expenses associated with the abatement plan will be approximately $310,000, and that these expenses will be incurred through approximately 2018. Accordingly, in 2002 the Company reduced its accrual by $412,000 to reflect this estimate.

Bloomfield Tank Farm (Old Terminal)

The Company has discovered hydrocarbon contamination adjacent to a 55,000 barrel crude oil storage tank (the "Tank") that was located in Bloomfield, New Mexico. The Company believes that all or a portion of the Tank and the 5.5 acres owned by the Company on which the Tank was located may have been a part of a refinery, owned by various other parties, that, to the Company's knowledge, ceased operations in the early 1960s. The Company received approval to conduct a pilot bioventing project to address remaining contamination at the site, which was completed in June 2001. Based on the results of the pilot project, the Company submitted a remediation plan to OCD proposing the use of bioventing to address the remaining contamination. This remediation plan was approved by OCD in June 2002. The Company anticipates that it will incur approximately $100,000 in soil remediation expenses through approximately 2004 in connection with the bioventing plan and up to an additional $25,000 to continue groundwater monitoring and testing until natural attenuation has completed the process of groundwater remediation. The Company has an environmental accrual of $89,000 for this matter.

Yorktown Environmental Liabilities

The Company assumed certain liabilities and obligations in connection with its purchase of the Yorktown refinery from BP, but was provided with specified levels of indemnification for certain matters. These liabilities and obligations include, subject to certain exceptions and indemnifications, all obligations, responsibilities, liabilities, costs and expenses under environmental, health, and safety laws that are caused by, arise from, or are incurred in connection with or relate in any way to the ownership or operation of the refinery. The Company has agreed to indemnify BP from and against losses of

any kind incurred in connection with or related to liabilities and obligations assumed by the Company. The Company only has limited indemnification rights against BP.

Environmental obligations assumed by the Company include BP's responsibilities under a consent decree among various parties covering many locations. Parties to the consent decree include the United States, BP Exploration and Oil Co., Amoco Oil Company, and Atlantic Richfield Company. The Company assumed BP's responsibilities as of January 18, 2001, the date the consent decree was lodged with the court. As applicable to the Yorktown refinery, the consent decree requires, among other things, reduction of NO_x, SO_2 and particulate matter emissions and adoption of enhancements to the refinery's leak detection and repair program. The Company estimates that it will incur capital expenditures in the approximate amount of $20,000,000 to $27,000,000 to comply with the Consent Decree and that these costs will be incurred over a period of approximately five years, although the Company believes most of the expenditures will be incurred in 2006. In addition, the Company estimates that it will incur operating expenses associated with the requirements of the Consent Decree of approximately $1,600,000 to $2,600,000 per year.

The environmental obligations assumed in connection with the Yorktown acquisition also include BP's obligations under an administrative order (the "Yorktown Order") issued by EPA in 1991 pursuant to the Resource Conservation and Recovery Act ("RCRA"). The Yorktown Order requires an investigation of certain areas of the refinery and the development of measures to correct any releases of contaminants or hazardous constituents found in these areas. A RCRA Facility Investigation and a Corrective Measures Study ("RFI/CMS") already has been prepared. It was revised by BP, in draft form, to incorporate comments from EPA and the Virginia Department of Environmental Quality ("VDEQ"), although a final RFI/CMS has not yet been approved. The draft RFI/CMS proposes certain investigation, sampling, monitoring, and cleanup measures, including the construction of an on-site corrective action management unit that would be used to consolidate hazardous materials associated with these measures. These proposed actions relate to soil, sludge, and remediation wastes relating to certain solid waste management units, groundwater in the aquifers underlying the refinery, and surface water and sediment in a small pond and tidal salt marsh on the refinery property. The Company anticipates that EPA may issue a proposed course of action for public comment in the first half of 2003. Following the public comment period, EPA will issue an approved RFI and CMS in coordination with VDEQ and will make a final remedy decision. The Company estimates that expenses associated with the actions described in the proposed RFI/CMS will cost approximately $19,000,000 to $21,000,000, and will be incurred over a period of approximately 30 years, with approximately $5,000,000 of this amount being incurred over an initial 3-year period, and additional expenditures in the approximate amount of $5,000,000 being incurred over the following 3-year period. The Company, however, may not be responsible for all of these expenditures as a result of the environmental indemnification provisions included in its purchase agreement with BP, as more fully discussed below.

BP has agreed to indemnify, defend, save and hold the Company harmless from and against all losses that are caused by, arising from, incurred in connection with or relate in any way to property damage caused by, or any environmental remediation required due to, a violation of health, safety and environmental laws during the operation of the refinery by BP. In order to have a claim against BP, however, the aggregate of all such losses must exceed $5,000,000, in which event a claim only relates to the amount exceeding $5,000,000. After $5,000,000 is reached, a claim is limited to 50% of the amount by which the losses exceed $5,000,000 until the aggregate of all such losses exceeds $10,000,000. After $10,000,000 is reached, a claim would be for 100% of the amount by which the losses exceed $10,000,000. In applying these provisions, losses amounting to less than $250,000 in the aggregate arising out of the same occurrence or matter are not aggregated with any other losses for purposes of determining whether and when the $5,000,000 or $10,000,000 has been reached. After the $5,000,000 or $10,000,000 has been reached, BP has no obligation to indemnify the Company with respect to such matters for any losses amounting to less than $250,000 in the aggregate arising out of the same occurrence or matter. Except as specified in the Yorktown purchase agreement, in order to seek indemnification from BP, the Company must notify BP of a claim within two years following the closing date. Further, BP's aggregate liability for indemnification under the refinery purchase agreement, including liability for environmental indemnification, is limited to $35,000,000.

On October 21, 2002, the Company received a notice from EPA assessing it a penalty of $110,000 under the consent decree in connection with a hydrocarbon flaring incident at the Yorktown refinery. On November 18, 2002, the Company received a second notice from EPA, correcting the earlier notice and assessing a penalty of $137,500, which was later increased to $163,100. The flaring occurred during a five-day period in April 2002 following a power outage at the refinery. Since the Company did not own the Yorktown refinery at the time the flaring incident occurred, the Company believes that it will be entitled to indemnification from BP for the entire amount of the penalty. BP is participating in the Company's discussions with EPA concerning this penalty, which may be contested.

1.114

IKON OFFICE SOLUTIONS, INC. (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Significant Accounting Policies

Environmental Liabilities

Environmental expenditures that pertain to current operations or to future revenues are expensed or capitalized consistent with the Company's capitalization policy for property and equipment. Expenditures that result from the remediation of an existing condition caused by past operations that do not contribute to current or future revenues, are expensed. Liabilities are recognized for remedial activities, based on management's best estimate of aggregate environmental exposure. Recoveries of expenditures are recognized as receivables when they are estimable and probable. Estimated liabilities are not discounted to present value. See note 9 to the consolidated financial statements.

9 (In Part): Contingencies

The Company is involved in a number of environmental remediation actions to investigate and clean up certain sites related to its discontinued operations in accordance with applicable federal and state laws. Uncertainties about the status of laws and regulations, technology and information related to individual sites, including the magnitude of possible contamination, the timing and extent of required corrective actions and proportionate liabilities of other responsible parties, make it difficult to develop a meaningful estimate of probable future remediation costs. While the actual costs of remediation at these sites may vary from management's estimates because of these uncertainties, the Company has accrued $8,314 and $10,660 as of September 30, 2002 and 2001, respectively, for its environmental liabilities, and the accrual is based on management's best estimate of the aggregate environmental remediation exposure. The measurement of environmental liabilities is based on an evaluation of currently available facts with respect to each individual site and considers factors such as existing technology, presently enacted laws and regulations, prior experience in remediation of contaminated sites and any studies performed for a site. As assessments and remediation progress at individual sites, these liabilities are reviewed and adjusted to reflect additional technical and legal information that becomes available. After consideration of the defenses available to the Company, the accrual for such exposure, insurance coverage and other responsible parties, management does not believe that its obligations to remediate these sites would have a material adverse effect on the Company's consolidated financial statements.

The accruals for environmental liabilities are reflected in the consolidated balance sheet as part of other accrued liabilities. The Company has not recorded any potential third party recoveries. The Company is indemnified by an environmental contractor performing remedial work at a site in Bedford Heights, OH. The contractor has agreed to indemnify the Company from cost overruns associated with the plan of remediation. Further, the Company has cost sharing arrangements in place with other potentially responsible parties ("PRP's") at sites located in Rockford, IL and Barkhamsted, CT. The cost-sharing agreement for the Barkhamsted, CT site relates to apportionment of expenses associated with non-time critical removal actions and operation and maintenance work, such as capping the landfill, maintaining the landfill, fixing erosion rills and gullies, maintaining site security, maintaining vegetative growth on the landfill cap and groundwater monitoring. Under the agreement, the Company and other PRP's agreed to reimburse Rural Refuse Disposal District No. 2, a Connecticut Municipal Authority, for 50% of these costs. The Company currently pays a 4.54% share of these costs. The cost-sharing arrangement for the Rockford, IL site relates to apportioning the costs of a Remedial Investigation/Feasibility Study and certain operation and maintenance work, such as fencing the site, removing waste liquids and sludges, capping a former surface impoundment and demolishing certain buildings. Under this arrangement, the Company pays 5.12% of these costs.

During the fiscal years 2000 through 2002, the Company did not incur any expenses for environmental capital projects. During the fiscal years 2000 through 2002, the Company incurred various expenses in conjunction with its obligations under consent decrees, orders, voluntary remediation plans, settlement agreements and to comply with environmental laws and regulations. For the fiscal years ending September 30, 2002, 2001 and 2000, these expenses were $2,436, $1,919 and $817, respectively. All expenses were charged against the related environmental accrual. The Company will continue to incur expenses in order to comply with its obligations under consent decrees, orders, voluntary remediation plans, settlement agreements and to comply with environmental laws and regulations.

1.115

ITT INDUSTRIES, INC. AND SUBSIDIARIES (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars in millions)

Note 1 (In Part): Accounting Policies

Environmental Remediation Costs

Accruals for environmental matters are recorded on a site by site basis when it is probable that a liability has been incurred and the amount of the liability can be reasonably estimated, based on current law and existing technologies. 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. These accruals are adjusted periodically as assessment and remediation efforts progress or as additional technical or legal information becomes available. Actual costs to be incurred at identified sites in future periods may vary from the estimates, given inherent uncertainties in evaluating environmental exposures. Accruals for environmental liabilities are generally included in other liabilities in the Consolidated Balance Sheets at undiscounted amounts and exclude claims for recoveries from insurance companies or other third parties. Recoveries from insurance companies or other third parties are included in other assets when it is probable that a claim will be realized.

Note 21 (In Part): Commitments and Contingencies

The Company and its subsidiaries are from time to time involved in legal proceedings that are incidental to the operation of their businesses. Some of these proceedings allege damages against the Company relating to environmental liabilities (including toxic tort, property damage, and remediation), intellectual property matters (including patent, trademark and copyright infringement, and licensing disputes), personal injury claims (including injuries due to product failure, design or warnings issues, asbestos exposure, or other product liability related matters), employment and pension matters, government contract issues and commercial or contractual disputes, sometimes related to acquisitions or divestitures. The Company will continue to vigorously defend itself against all claims. Accruals have been established where the outcome of the matter is probable and can be reasonably estimated. Although the ultimate outcome of any legal matter cannot be predicted with certainty, based on present information including the Company's assessment of the merits of the particular claim, as well as its current reserves and

insurance coverage, the Company does not expect that such legal proceedings will have any material adverse impact on the cash flow, results of operations or financial condition of the Company on a consolidated basis in the foreseeable future.

Environmental

The Company has accrued for environmental remediation costs associated with identified sites consistent with the policy set forth in Note 1, "Accounting Policies." In management's opinion, the total amount accrued and related receivables are appropriate based on existing facts and circumstances. It is difficult to estimate the total costs of investigation and remediation due to various factors, including incomplete information regarding particular sites and other potentially responsible parties, uncertainty regarding the extent of contamination and the Company's share, if any, of liability for such conditions, the selection of alternative remedies, and changes in clean-up standards. In the event that future remediation expenditures are in excess of amounts accrued, management does not anticipate that they will have a material adverse effect on the consolidated financial position, results of operations or liquidity of the Company.

In the ordinary course of business, and similar to other industrial companies, the Company is subject to extensive and changing federal, state, local, and foreign environmental laws and regulations. The Company has received notice that it is considered a potentially responsible party ("PRP") at a limited number of sites by the United States Environmental Protection Agency ("EPA") and/or a similar state agency under the Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA" or "Superfund") or its state equivalent. As of December 31, 2002, the Company is responsible, or is alleged to be responsible, for 104 environmental investigation and remediation sites in various countries. In many of these proceedings, the Company's liability is considered de minimis. At December 31, 2002, the Company calculated a best estimate of $113.0, which approximates its accrual, related to the cleanup of soil and ground water. The low range estimate for its environmental liabilities is $85 and the high range estimate for those liabilities is $174. On an annual basis the Company spends between $11 and $14 on its environmental remediation liabilities.

The Company has been involved in an environmental proceeding in Glendale, California relating to the San Fernando Valley aquifer. The Company is one of numerous PRPs who are alleged by the EPA to have contributed to the contamination of the aquifer. In January 1999, the EPA filed a complaint in the United States District Court for the Central District of California against the Company and Lockheed Martin Corporation, *United States v. ITT Industries, Inc. and Lockheed Martin Corp. CV99-00552 SVW AIJX,* to recover costs it incurred in connection with the foregoing. In May 1999, the EPA and the PRPs, including the Company and Lockheed Martin, reached a settlement, embodied in a consent decree, requiring the PRPs to perform additional remedial activities. Pursuant to the settlement, the PRPs, including the Company, have constructed and are operating a water treatment system. The PRPs have agreed to operate the system for an additional 10 years. ITT and the other PRPs continue to pay their respective allocated costs of the operation of the water treatment system. Accordingly, at this time, ITT does not anticipate a default by any of the PRPs which would increase the Company's allocated share of the liability. As of December 31, 2002, the Company's accrual for this liability was $11.3 representing its best estimate; its low estimate for the liability is $7.4 and its high estimate is $16.4.

ITT operated a facility in Madison County, Florida from 1968 until 1991. In 1995, elevated levels of contaminants were detected at the site. Since then, ITT has been investigating the site in coordination with state and federal environmental authorities. A remedy for the site has not yet been selected. Currently, the estimated range for the costs of the additional investigation and the anticipated remediation is between $5.6 and $20.1 with a best estimate of $11.9. The Company has accrued $11.9 for this matter.

ITT has been involved with a number of PRPs regarding property in the City of Bronson, Michigan operated by a former subsidiary of ITT, Higbie Manufacturing, prior to the time ITT acquired the company. ITT and other PRPs are investigating and remediating discharges of industrial waste which occurred in the 1930's. The Company's current estimates for its exposure are between $3.2 and $6.6. It has an accrual for this matter of $4.6 which represents its best estimate of its current liabilities. ITT does not anticipate a default on the part of the other PRPs.

In a suit filed in 1991 by the Company, in the California Superior Court, Los Angeles County, *ITT Corporation, et al. v. Pacific Indemnity Corporation et al.,* against its insurers, the Company is seeking recovery of costs it incurred in connection with its environmental liabilities including the three listed above. Discovery, procedural matters, changes in California law, and various appeals have prolonged this case. Currently, the matter is before the California Court of Appeals from a decision by the California Superior Court dismissing certain claims of the Company. The dismissed claims were claims where the costs incurred were solely due to administrative (versus judicial) actions. A hearing is expected in early 2003. In the event the appeal is successful, the Company will pursue the administrative claims against its excess insurers. During the course of the litigation the Company has negotiated settlements with certain defendant insurance companies and is prepared to pursue its legal remedies where reasonable negotiations are not productive. A portion of the recoveries from the insurance settlements have been placed in a trust and are used to reimburse the Company for its environmental costs.

1.116

ROCK-TENN COMPANY (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 10 (In Part): Commitments and Contingencies

Environmental and Other Matters

The Company is subject to various federal, state, local and foreign environmental laws and regulations, including those regulating the discharge, storage, handling and disposal of a variety of substances. These laws and regulations include, among others, the Comprehensive Environmental Response, Compensation and Liability Act, which the Company refers to as CERCLA, the Clean Air Act (as amended in 1990), the Clean Water Act, the Resource Conservation and Recovery

Act (including amendments relating to underground tanks) and the Toxic Substances Control Act. These environmental regulatory programs are primarily administered by the U.S. Environmental Protection Agency. In addition, some states in which the Company operates have adopted equivalent or more stringent environmental laws and regulations or have enacted their own parallel environmental programs, which are enforced through various state administrative agencies.

The Company does not believe that future compliance with these environmental laws and regulations will have a material adverse effect on its results of operations, financial condition or cash flows. However, environmental laws and regulations are becoming increasingly stringent. Consequently, the Company's compliance and remediation costs could increase materially. In addition, the Company cannot currently assess with certainty the impact that the future emissions standards and enforcement practices under the 1990 amendments to the Clean Air Act will have on its operations or capital expenditure requirements. However, the Company believes that any such impact or capital expenditures will not have a material adverse effect on its results of operations, financial condition or cash flows.

Excluding costs related to wastewater treatment system improvements at a paperboard mill in Otsego, Michigan discussed in the next paragraph, the Company estimates that it will spend up to $1,000,000 for capital expenditures during fiscal year 2003 in connection with matters relating to environmental compliance. The Company also may be required to upgrade certain waste water treatment equipment at one of its facilities during the next twelve months at a cost ranging from approximately $100,000 to $400,000. In addition, the Company may need to modify or replace the coal-fired boilers at two of its facilities in order to operate cost effectively while complying with emissions regulations under the Clean Air Act. The Company estimates these improvements could cost from $4,000,000 to $6,000,000. If required, the Company anticipates those costs to be incurred within the next three years.

On February 9, 1999, the Company received a letter from the Michigan Department of Environmental Quality, which it refers to as MDEQ, in which the MDEQ alleged that the Company was in violation of the Michigan Natural Resources and Environmental Protection Act, as well as the facility's wastewater discharge permit at one of its Michigan facilities. The letter alleged that the Company exceeded several numerical limitations for chemical parameters outlined in the wastewater permit and violated other wastewater discharge criteria. The MDEQ further alleged that the Company is liable for contamination contained on the facility property as well as for contributing contamination to the Kalamazoo River site. The letter requested that the Company commit, in the form of a binding agreement, to undertake the necessary and appropriate response activities and response actions to address contamination in both areas. The Company has entered into an administrative consent order pursuant to which improvements are being made to the facility's wastewater treatment system and the Company has paid a $75,000 settlement amount. The Company has also agreed to pay in three equal installments an additional amount of $30,000 for past and future oversight costs incurred by the State of Michigan. The first two installments have been made, with the last installment to be made during fiscal year 2003. The cost of making upgrades to the wastewater treatment systems is estimated to be up to $3,100,000, of which the Company has incurred $1,000,000 as of September 30, 2002. Nothing contained in the order constitutes an admission of liability or any factual finding, allegation or legal conclusion on the part of the Company. The order was completed during the first quarter of fiscal 2002. To date, the MDEQ has not made any other demand regarding the Company's alleged liability for contamination at the Kalamazoo River site.

The Company has been identified as a potentially responsible party, which it refers to as a PRP, at ten active "superfund" sites pursuant to CERCLA or comparable state statutes. No remediation costs or allocations have been determined with respect to such sites other than costs that were not material to the Company. Based upon currently available information and the opinions of the Company's environmental compliance managers and general counsel, although there can be no assurance, the Company believes that any liability it may have at any site will not have a material adverse effect on its results of operations, financial condition or cash flows.

1.117

SUNOCO, INC. AND SUBSIDIARIES (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Environmental Remediation

Sunoco accrues environmental remediation costs for work at identified sites where an assessment has indicated that cleanup costs are probable and reasonably estimable. Such accruals are undiscounted and are based on currently available information, estimated timing of remedial actions and related inflation assumptions, existing technology and presently enacted laws and regulations. If a range of probable environmental cleanup costs exists for an identified site, the minimum of the range is accrued unless some other point or points in the range are more likely in which case the most likely amount in the range is accrued.

13 (In Part): Commitments and Contingent Liabilities

Over the years, Sunoco has sold thousands of retail gasoline outlets as well as refineries, coal mines, oil and gas properties and various other assets. In connection with these sales, the Company has indemnified the purchasers for potential environmental and other contingent liabilities related to the period prior to the transaction dates. In most cases, the effect of these arrangements was to afford protection for the purchasers with respect to obligations for which the Company was already primarily liable. While some of these indemnities have spending thresholds which must be exceeded before they become operative, or limits on Sunoco's maximum exposure, they generally are not limited. The Company accrues for any obligations under these agreements when a loss is probable and reasonably estimable. The Company cannot reasonably estimate the maximum potential amount of future payments under these agreements.

Sunoco is a party under agreements which provide for future payments to secure wastewater treatment services at its Toledo refinery and coal handling services at its Indiana Harbor cokemaking facility. The fixed and determinable amounts

of the obligations under these agreements are as follows (in millions of dollars):

Year ending December 31:	
2003	$ 9
2004	8
2005	8
2006	8
2007	8
2008 through 2018	63
Total	104
Less: Amount representing interest	(37)
Total at present value	$ 67

Payments under these agreements, including variable components, totalled $18 million in each of the years 2002, 2001 and 2000.

Sunoco is subject to numerous federal, state and local laws and regulations which regulate the discharge of materials into the environment or that otherwise relate to the protection of the environment. As with the industry generally, compliance with existing and anticipated laws and regulations increases the overall cost of operating Sunoco's businesses, including capital costs to construct, maintain and upgrade equipment and facilities. These laws and regulations result in liabilities and loss contingencies for remediation at Sunoco's facilities and at third-party or formerly owned sites. The accrued liability for environmental remediation is classified in the consolidated balance sheets as follows:

(Millions of dollars)	2002	2001
Accrued liabilities	$ 43	$ 39
Other deferred credits and liabilities	116	106
	$159	$145

The following table sets forth the accrued liability for environmental remediation activities by category:

(Millions of dollars)	Refineries	Marketing Sites	Chemicals Facilities	Pipelines and Terminals	Hazardous Waste Sites	Other	Total
At December 31, 1999	$74	$53	$—	$19	$11	$3	$160
Accruals	1	3	—	13	—	—	17
Payments	(6)	(17)	—	(13)	(3)	—	(39)
Other*	—	3	—	—	—	—	3
At December 31, 2000	$69	$42	$—	$19	$ 8	$3	$141
Accruals	(2)	21	—	10	2	—	31
Payments	(6)	(19)	—	(11)	(2)	—	(38)
Acquisitions	—	—	10	—	—	—	10
Other*	—	1	—	—	—	—	1
At December 31, 2001	$61	$45	$10	$18	$ 8	$3	$145
Accruals	(2)	36	1	7	—	—	42
Payments	(7)	(24)	(3)	(12)	(3)	—	(49)
Other*	—	15	—	6	—	—	21
At December 31, 2002	$52	$72	$ 8	$19	$ 5	$3	$159

* Consists of increases in the accrued liability for which recovery from third parties is probable.

Sunoco's accruals for environmental remediation activities reflect its estimates of the most likely costs that will be incurred over an extended period to remediate identified conditions for which the costs are both probable and reasonably estimable. Engineering studies, historical experience and other factors are used to identify and evaluate remediation alternatives and their related costs in determining the estimated accruals for environmental remediation activities. Losses attributable to unasserted claims are also reflected in the accruals to the extent they are probable of occurrence and reasonably estimable.

Total future costs for the environmental remediation activities identified above will depend upon, among other things, the identification of any additional sites, the determination of the extent of the contamination at each site, the timing and nature of required remedial actions, the technology available and needed to meet the various existing legal requirements, the nature and terms of cost sharing arrangements with other potentially responsible parties, the nature and extent of future environmental laws, inflation rates and the determination of Sunoco's liability at the sites, if any, in light of the number, participation level and financial viability of the other parties. Management believes it is reasonably possible (i.e., less than probable but greater than remote) that additional environmental remediation losses will be incurred. At December 31, 2002, the aggregate of the estimated maximum additional reasonably possible losses, which relate to numerous individual sites, totaled $90 million. However, the Company believes it is very unlikely that it will realize the maximum loss at every site. Furthermore, the recognition of additional losses, if and when they might occur, would likely extend over many years and, therefore, would not have a material impact on the Company's financial position.

Under various environmental laws, including the Resource Conservation and Recovery Act ("RCRA"), Sunoco has initiated corrective remedial action at its facilities, formerly owned facilities and third-party sites. At the Company's major manufacturing facilities, Sunoco has consistently assumed continued industrial use and a containment/remediation strategy focused on eliminating unacceptable risks to human health or the environment. The remediation accruals for these sites reflect that strategy. Accruals include amounts to prevent off-site migration and to contain the impact on the facility property, as well as to address known, discrete areas requiring remediation within the plants. Activities include closure of RCRA solid waste management units, recovery of hydrocarbons, handling of impacted soil, mitigation of surface water impacts and prevention of off-site migration.

Most of Sunoco's current terminals are being addressed with the above containment/remediation strategy. At some smaller or less impacted facilities and previously divested terminals, the focus is on remediating discrete interior areas to attain regulatory closure.

Future costs for environmental remediation activities at the Company's marketing sites will also be influenced by the extent of MTBE contamination of groundwater aquifers, the cleanup of which will be driven by thresholds based on drinking water protection. Though not all groundwater is used for drinking, several states have initiated or proposed more stringent MTBE cleanup requirements. Cost increases result directly from extended operations and maintenance on sites that previously could otherwise have been completed, installation of additional remedial or monitoring wells and purchase of more expensive equipment because of the presence of MTBE. While actual cleanup costs for specific sites are variable and depend on many of the factors discussed above, expansion of similar MTBE remediation thresholds to additional states or adoption of even more stringent requirements for MTBE remediation would result in further cost increases.

The accrued liability for hazardous waste sites in the table above is attributable to potential obligations to remove or mitigate the environmental effects of the disposal or release of certain pollutants at third-party sites pursuant to the Comprehensive Environmental Response Compensation and Liability Act ("CERCLA"). Under CERCLA, Sunoco is potentially subject to joint and several liability for the costs of remediation at sites at which it has been identified as a "potentially responsible party" ("PRP"). As of December 31, 2002, Sunoco had been named as a PRP at 44 sites identified or potentially identifiable as "Superfund" sites under federal and state law. The Company is usually one of a number of companies identified as a PRP at a site. Sunoco has reviewed the nature and extent of its involvement at each site and other relevant circumstances and, based upon the other parties involved or Sunoco's negligible participation therein, believes that its potential liability associated with such sites will not be significant.

Management believes that none of the current remediation locations is individually material to Sunoco as its largest accrual for any one Superfund site, operable unit or remediation area is less than $7 million at December 31, 2002. As a result, Sunoco's exposure to adverse developments with respect to any individual site is not expected to be material, and these current sites are in various stages of ongoing remediation. However, if changes in environmental regulations occur, such changes could impact multiple Sunoco facilities and formerly owned and third-party sites at the same time. As a result, from time to time, significant charges against income for environmental remediation may occur.

The Company maintains insurance programs that cover certain of its existing or potential environmental liabilities, which programs vary by year, type and extent of coverage. For underground storage tank remediations, the Company can also seek reimbursement through various state funds of certain remediation costs above a deductible amount. For certain acquired properties, the Company has entered into arrangements with the sellers or others that allocate environmental liabilities and provide indemnities to the Company for remediating contamination that occurred prior to the acquisition dates. Some of these environmental indemnifications are subject to caps and limits. No accruals have been recorded for any potential contingent liabilities that will be funded by the prior owners as management does not believe, based on current information, that it is likely that any of the former owners will not perform under any of these agreements. Other than the preceding arrangements, the Company has not entered into any arrangements with third parties to mitigate its exposure to loss from environmental contamination. Claims for recovery of environmental liabilities that are probable of realization totalled $27 million at December 31, 2002 and are included primarily in deferred charges and other assets in the consolidated balance sheets.

Since the late 1990s, the Environmental Protection Agency ("EPA") has undertaken significant enforcement initiatives under authority of the Clean Air Act. These enforcement initiatives have been targeted at industries that have large manufacturing facilities and that are significant sources of emissions, such as the refining, paper and pulp, and electric power generating industries. The basic premise of the enforcement initiative is the EPA's assertion that many of these

industrial establishments have modified or expanded their operations over time without complying with New Source Review regulations that require permits and new emission controls in connection with any significant facility modifications or expansions that can result in emission increases above certain thresholds, and have violated various other provisions of the Clean Air Act, including New Source Review and Prevention of Significant Deterioration ("NSR/PSD") Program, Benzene Waste Organic National Emissions Standards for Hazardous Air Pollutants ("NESHAP") Leak Detection and Repair ("LDAR") and flaring requirements. As part of this enforcement initiative, the EPA has entered into consent agreements with several refiners that require them to pay civil fines and penalties and make significant capital expenditures to install emissions control equipment at selected facilities. For some of these refineries, the cost of the required emissions control equipment is significant, depending on the size, age and configuration of the refinery. Sunoco received information requests in 2000, 2001 and 2002 in connection with the enforcement initiative pertaining to its four current refineries, the Puerto Rico refinery divested by Sunoco in 2001 and its phenol facility in Philadelphia, PA. Sunoco has completed its responses to the EPA, which is focusing solely on the refineries at this time.

Sunoco has received Notices of Violation and Findings of Violation from the EPA relating to its Marcus Hook, Philadelphia and Toledo refineries. The Notices and Findings of Violation allege failure to comply with certain requirements relating to benzene wastewater emissions at the Company's Marcus Hook, Toledo and Philadelphia refineries and failure to comply with certain requirements relating to leak detection and repair at the Toledo refinery. In addition, the EPA has alleged that: at the Company's Philadelphia refinery, certain modifications were made to one of the fluid catalytic cracking units in 1992 and 1998 without obtaining requisite permits; at the Company's Marcus Hook refinery, certain modifications were made to the fluid catalytic cracking unit in 1990 and 1996 without obtaining requisite permits; and at the Company's Toledo refinery, certain physical and operational changes were made to the fluid catalytic cracking unit in 1985 without obtaining requisite permits. The EPA has also alleged that at the Company's Toledo refinery, certain physical and operational changes were made to the sulfur plant in 1995, 1998 and 1999 without obtaining requisite permits; certain physical and operational changes were made to a flare system without obtaining requisite permits; and that the flare system was not being operated in compliance with the Clean Air Act. Sunoco has met with representatives of the EPA on these Notices and Findings of Violation and is currently evaluating its position. Although Sunoco does not believe that it has violated any Clean Air Act requirements, as part of this initiative, Sunoco could be required to make significant capital expenditures, operate these refineries at reduced levels and pay significant penalties. There are no liabilities accrued at December 31, 2002 in connection with this initiative.

During the 2001–2002 session, the U.S. Congress was considering energy policy legislation. Congress failed to approve the legislation during the session. The Senate and House both approved bills, which included provisions concerning ethanol and MTBE; however, a conference committee was unable to resolve differences between the two pieces of legislation. Provisions concerning MTBE, ethanol, and fuels standards were among the disputed issues. It is expected that these issues will be on the Congressional agendas in 2003. Sunoco uses MTBE and ethanol as an oxygenate in different geographic areas of its refining and marketing system. While federal action to ban or phase down MTBE or to require increased usage of ethanol is uncertain, some states are scheduled to begin enforcing MTBE bans within the next year. Sunoco is currently evaluating its options to produce MTBE-free gasoline when the additive is banned in states where it markets, including Connecticut (October 2003) and New York (January 2004). While Sunoco does not market in California, that state's ban on MTBE (January 2004) could have an impact on market conditions. Numerous other states are expected to consider legislation to ban MTBE during their 2003 legislative sessions. If MTBE is banned throughout the United States or on a state-by-state basis, the effect on Sunoco and the industry in general could be significant. It will depend on the specific regulations, the impact on gasoline supplies, the cost and availability of alternative oxygenates if the minimum oxygenate requirements remain in effect, and the ability of Sunoco and the industry in general to recover their costs in the marketplace.

1.118

UNIVERSAL FOREST PRODUCTS (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A (In Part): Summary of Significant Accounting Policies

Self-Insurance Reserves

We are significantly self-insured for general liability, automobile, workers' compensation, and certain employee health benefits. We are fully self-insured for environmental liabilities. The general liability, automobile, workers' compensation and environmental liabilities are managed through a wholly-owned insurance captive; the related assets and liabilities are included in the consolidated financial statements at December 28, 2002. Our policy is to accrue amounts equal to actuarially determined or internally computed liabilities. The actuarial and internal valuations are based on historical information along with certain assumptions about future events. Changes in assumptions for such matters as legal actions, medical costs and changes in claims experience could cause these estimates to change in the future.

N (In Part): Commitments, Contingencies and Guarantees

We are self-insured for environmental impairment liability through a wholly owned subsidiary, UFP Insurance Ltd., a licensed captive insurance company. We own and operate a number of facilities throughout the United States that chemically treat lumber products. In connection with the ownership and operation of these and other real properties, and the disposal or treatment of hazardous or toxic substances, we may, under various federal, state and local environmental laws, ordinances and regulations, be potentially liable for removal and remediation costs, as well as other potential costs, damages and expenses. Insurance reserves have been established to cover remediation activities at our Union City, GA; Stockertown, PA; Elizabeth City, NC; Auburndale, FL; and Schertz, TX wood preservation facilities. In August of 2002, we purchased property in Thornton, CA on which several old buildings, existed. The environmental assessment indicated

that these buildings contained small amounts of asbestos. A reserve has been established to cover the removal of the asbestos. Since we determined we will no longer operate the North East, MD facility as a wood preservation location, during the third quarter of 2002 we completed the process of closing the conditioning pad, in accordance with applicable regulations and the reserve was reduced accordingly.

Including amounts from the captive insurance company, we have reserved amounts totaling approximately $1.9 million and $2.4 million on December 28, 2002 and December 29, 2001, respectively, representing the estimated costs to complete remediation efforts.

As part of its re-registration process and in response to allegations by certain environmental groups that CCA poses health risks, the EPA has been conducting a scientific review of CCA, a wood preservative we use to extend the useful life of wood fiber. On February 12, 2002, the EPA announced that the manufacturers of CCA preservative agreed to the re-registration of CCA for certain industrial and commercial uses. The manufacturers agreed to voluntarily discontinue the registration of CCA for certain residential applications by December 31, 2003. All of our facilities are presently capable of using a new preservative to treat wood products.

In addition to the EPA review, an environmental group petitioned the Consumer Products Safety Commission ("CPSC") to ban the use of CCA treated wood in playsets. On February 7, 2003, the CPSC issued a staff report on its study of the risks of children playing on treated playsets. The study does not recommend removal of product, and proposes the CPSC take no further action until the EPA concludes its assessment. We have been assured by our vendors and by scientific studies that CCA treated lumber poses no unreasonable risks and its continued use should be permitted. The EPA, in its February 2002 press release concluded that there isn't any reason to remove or replace any CCA treated structures, including decks or playground equipment.

We have been requested by a customer to defend it from purported class action lawsuits filed against it in Florida and Louisiana. The complaints allege that CCA treated lumber is defective. As previously stated, our vendors believe and scientific studies support the fact that CCA treated lumber poses no unreasonable risks, and we intend to vigorously defend this position. While our customer has charged us for certain expenses incurred in the defense of these claims, we have not formally accepted liability of these costs. We, along with others in the industry, were previously named as a defendant in the purported class action lawsuit in Louisiana. We have been dismissed from this litigation.

In addition, various special interest environmental groups have petitioned certain states requesting restrictions on the use or disposal of CCA treated products. The wood preservation industry trade groups are working with the individual states and their regulatory agencies to provide an accurate, factual background which demonstrates that the present method of uses and disposal is scientifically supported.

On December 28, 2002, we were parties either as plaintiff or a defendant to a number of lawsuits and claims arising through the normal course of our business. In the opinion of management, our consolidated financial statements will not be materially affected by the outcome of these legal proceedings.

Insurance Coverage/Self-Insurance

1.119

CENDANT CORPORATION AND SUBSIDIARIES (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Self-Insurance Reserves

The Consolidated Balance Sheets include approximately $300 million and $200 million of liabilities with respect to self-insured public liability and property damage as of December 31, 2002 and 2001, respectively. The current portion of such amounts is included within accounts payable and other current liabilities and the non-current portion is included in other non-current liabilities. The Company estimates the required liability of such claims on an undiscounted basis utilizing an actuarial method that is based upon various assumptions which include, but are not limited to, the Company's historical loss experience and projected loss development factors. The required liability is also subject to adjustment in the future based upon the changes in claims experience, including changes in the number of incidents (frequency) and change in the ultimate cost per incident (severity).

Governmental Investigations

1.120

CROMPTON CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Antitrust Investigations and Related Matters (In Part)

Antitrust Investigations

The Company and certain of its subsidiaries, together with other domestic and foreign companies, are currently the subject of coordinated criminal investigations being conducted by the United States Department of Justice (the "DOJ") and the Canadian Competition Bureau (the "CCB") and a coordinated civil investigation being conducted by the European Commission (together with the DOJ and the CCB, the "Governmental Authorities") with respect to possible antitrust violations relating to the sale and marketing of certain rubber processing chemicals, ethylene propylene diene monomer ("EPDM") and heat stabilizers. The investigations concern possible anticompetitive practices, including price fixing and customer or market allocations, undertaken by the Company and such subsidiaries and certain of their officers and employees. According to reports in the press, The Japan Fair Trade Commission (the "JFTC") is conducting an investigation regarding heat stabilizers, impact modifiers and processing aids for plastic. The Company has not been contacted by the JFTC. The Company is actively cooperating with the Governmental Authorities regarding such investigations. Since inception of the investigations, the Company has been conducting its own internal investigation with the assistance of special counsel. Neither the Company, any of its

subsidiaries, nor any individual has, to date, been charged in connection with the investigations.

It is the Company's understanding that the investigations by the Governmental Authorities are, as previously stated, focused on rubber processing chemicals, including accelerators, antioxidants and antiozonants (with 2002 sales of $206 million), EPDM (with 2002 sales of $135 million), and heat stabilizers, including tin-based stabilizers and precursors, mixed metal stabilizers and epoxidized soybean oil ("ESBO") (with 2002 sales of approximately $220 million).

With respect to rubber chemicals, the Company has held preliminary discussions with the DOJ regarding a possible plea to violations of antitrust laws. At this time, the Company cannot predict the outcome of those discussions, including the timing or the terms of any agreement with the DOJ or the amount of any fines that may be imposed. Moreover, at this time, the Company cannot determine the extent to which criminal or civil fines or other sanctions might be imposed by the other Governmental Authorities. The Company has met and is continuing to meet with the Governmental Authorities in an attempt to resolve all matters relating to the investigations.

With respect to EPDM and heat stabilizers, the Company and its affiliates that are subject to the investigations have received from each of the Governmental Authorities verbal or written assurances of conditional amnesty from prosecution and fines. The European Commission's grant of conditional amnesty with respect to heat stabilizers is presently limited to tin-based stabilizers and their precursors, but the Company expects to be granted conditional amnesty by the European Commission with respect to mixed metal stabilizers and ESBO in the near future. The assurances of conditional amnesty are conditioned upon several factors, including continued cooperation with the Governmental Authorities.

As previously stated, the Company is conducting a continuing internal investigation of the matters under investigation by the Governmental Authorities, including a review as to any improper or criminal conduct by current and former officers and employees of the Company and its affected subsidiaries. Further, the Company and its special counsel assisting in the investigation are reviewing all other areas of the Company's business and products to determine compliance with applicable antitrust law and with the Company's antitrust guidelines and policies. In connection with the investigations, a senior officer of the Company has been placed on paid administrative leave.

The resolution of any possible antitrust violations against the Company and certain of its subsidiaries and the resolution of any civil claims now pending or hereafter asserted against them may have a material adverse effect on the Company's financial condition, results of operations and prospects. No assurances can be given regarding the outcome or timing of these matters. Through December 31, 2002, the Company has incurred $6.3 million (pre-tax) of antitrust investigation costs, and expects to continue to incur substantial costs until all antitrust investigations are concluded.

1.121

HCA INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2—Investigations and Settlement of Certain Government Claims

HCA continues to be the subject of governmental investigations and litigation relating to its business practices. The governmental investigations were initiated more than five years ago and include activities for certain entities for periods prior to their acquisition by the Company and activities for certain entities that have been divested. Additionally, HCA is a defendant in several *qui tam* actions brought by private parties on behalf of the United States of America.

In December 2000, HCA entered into a Plea Agreement with the Criminal Division of the Department of Justice and various U.S. Attorneys' Offices (the "Plea Agreement") and a Civil and Administrative Settlement Agreement with the Civil Division of the Department of Justice (the "Civil Agreement"). The agreements resolved all Federal criminal issues outstanding against HCA and certain issues involving Federal civil claims by, or on behalf of, the government against HCA relating to DRG coding, outpatient laboratory billing and home health issues. The civil issues that were not covered by the Civil Agreement include claims related to cost reports and physician relation issues. The Civil Agreement was approved by the Federal District Court of the District of Columbia in August 2001. HCA paid the government $840 million (plus $60 million of accrued interest), as provided by the Civil Agreement and Plea Agreement, during 2001. HCA also entered into a Corporate Integrity Agreement ("CIA") with the Office of Inspector General of the Department of Health and Human Services.

On March 28, 2002, HCA announced that it had reached an understanding with CMS to resolve all Medicare cost report, home office cost statement and appeal issues between HCA and CMS (the "CMS Understanding"). The CMS Understanding provides that HCA would pay CMS $250 million with respect to these matters. The CMS Understanding was reached as a means to resolve all outstanding appeals and more than 2,600 HCA cost reports for cost report periods ended on or before July 31, 2001, many of which CMS has yet to audit. The CMS Understanding is subject to approval by the Department of Justice ("DOJ"), which has not yet been obtained, and execution of a definitive written agreement.

The understanding with CMS resulted in HCA recording a pretax charge of $260 million ($165 million after-tax), or $0.32 per basic and $0.30 per diluted share, consisting of the accrual of $250 million for the settlement payment and the write-off of $10 million of net Medicare cost report receivables. This charge was recorded in the consolidated income statement for the year ended December 31, 2001.

In December 2002, HCA reached an understanding with attorneys for the Civil Division of the DOJ to recommend an agreement whereby the United States would dismiss the various claims it had brought related to physician relations, cost reports and wound care issues (the "DOJ Understanding") in exchange for a payment of $631 million, with interest accruing from February 3, 2003 to the payment date at a rate of 4.5%. The DOJ Understanding would result in the dismissal of several *qui tam* actions brought by private parties. The DOJ Understanding is subject to court approval, and any of the

private parties who brought forth the actions could object to the DOJ Understanding and have those objections considered by the Federal District Court of the District of Columbia. Were the DOJ Understanding to be approved, it would effectively end the DOJ investigation of the Company that was first made public in 1997. However, the DOJ Understanding would not affect *qui tam* cases in which the government has not intervened. The CIA previously entered into by the Company would remain in effect. The Company also reached an agreement in principle with a negotiating team representing states that may have similar claims against the Company. Under this agreement, the Company would pay $17.5 million to state Medicaid agencies to resolve any such claims. In addition, the Company has accrued $35 million as an estimation of its legal obligation to pay reasonable legal fees of the private parties. As a result of the DOJ Understanding, HCA recorded a pretax charge of $603 million ($418 million after-tax) in the fourth quarter of 2002.

Under the Civil Agreement, HCA's existing Letter of Credit Agreement with the DOJ was reduced from $1 billion to $250 million at the time of the settlement payment. Upon the Company making the payments provided under the DOJ Understanding, the Company would no longer have any remaining obligation to maintain letters of credit with the DOJ.

HCA remains the subject of a formal order of investigation by the Securities and Exchange Commission (the "SEC"). HCA understands that the investigation includes the anti-fraud, insider trading, periodic reporting and internal accounting control provisions of the Federal securities laws.

HCA continues to cooperate in the governmental investigations. Given the scope of the investigations and current litigation, HCA anticipates continued investigative activity to occur in these and other jurisdictions in the future.

While management remains unable to predict the outcome of the investigations and litigation or the initiation of any additional investigations or litigation, if HCA was found to be in violation of Federal or state laws relating to Medicare, Medicaid or similar programs or breach of the CIA, HCA could be subject to substantial monetary fines, civil and criminal penalties and/or exclusion from participation in the Medicare and Medicaid programs. Any such sanctions or expenses could have a material adverse effect on HCA's financial position, results of operations and liquidity. See Note 11—Contingencies.

During 2002, 2001 and 2000, HCA recorded the following pretax charges in connection with the governmental investigations (dollars in millions):

	2002	2001	2000
Professional fees related to investigations	$ 56	$ 54	$ 51
Other	2	11	11
	$ 58	$ 65	$ 62

The professional fees related to investigations represent incremental legal and accounting expenses that are being recognized on the basis of when the costs are incurred.

Note 11 (In Part): Contingencies

Significant Legal Proceedings

Various lawsuits, claims and legal proceedings (see Note 2—Investigations and Settlement of Certain Government Claims for a description of the ongoing government investigations) have been and are expected to be instituted or asserted against HCA. While the amounts claimed may be substantial, the ultimate liability cannot be determined or reasonably estimated at this time due to the considerable uncertainties that exist. Therefore, it is possible that results of operations, financial position and liquidity in a particular period could be materially, adversely affected upon the resolution of certain of these contingencies.

1.122

RITE AID CORPORATION AND SUBSIDIARIES (FEB)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (In thousands)

18 (In Part): Commitments, Contingencies and Guarantees

Legal Proceedings

The Company is party to numerous legal proceedings, as discussed below.

Federal Investigations

There are currently pending federal governmental investigations, both civil and criminal, by the SEC and the United States Attorney, involving the Company's financial reporting and other matters. Management is cooperating fully with the SEC and the United States Attorney. Settlement discussions have begun with the United States Attorney for the Middle District of Pennsylvania. The United States Attorney has proposed that the government would not institute any criminal proceeding against the Company if the Company enters into a consent judgement providing for a civil penalty payable over a period of years. The amount of the civil penalty has not been agreed to and there can be no assurance that a settlement will be reached or that the amount of such penalty will not have a material adverse effect on the Company's financial condition and result of operations.

The U.S. Department of Labor has commenced an investigation of matters relating to the Company's associate benefit plans, including the principal 401(k) plan, which permitted associates to purchase common stock. Purchases of common stock under the plan were suspended in October 1999. In January 2001, the Company appointed an independent trustee to represent the interests of these plans in relation to the Company and to investigate possible claims the plans may have against the Company. Both the independent trustee and the Department of Labor have asserted that the plans may have claims against the Company. The investigations, with which the Company is cooperating fully, are ongoing and the Company cannot predict their outcomes. In addition, a putative class action lawsuit on behalf of the plans and their participants has been filed by a participant in the plans in the United States District Court for the Eastern District of Pennsylvania. As a result of discussions with the independent trustee and the attorneys for the putative class action plaintiff, the Company has arrived at a preliminary understanding which would resolve all claims arising out of our associate benefit plans by an agreement to maintain the current level of benefits and a current payment that will cost, net of insurance, approximately $3,300, which has been accrued. Various non-monetary terms and conditions remain to

be negotiated and agreed upon and any agreement reached will be subject to the approval of the Department of Labor and the District Court. There can be no assurance that a settlement of the matter will be agreed upon or, if agreed upon, approved by the Department of Labor and the District Court.

These investigations and settlement discussions are ongoing and the Company cannot predict their outcomes. If the Company were convicted of any crime, certain licenses and government contracts such as Medicaid plan reimbursement agreements that are material to operations may be revoked, which would have a material adverse effect on the Company's results of operations and financial condition. In addition, substantial penalties, damages or other monetary remedies assessed against the Company, including a settlement, could also have a material adverse effect on the Company's results of operation's, financial condition or cash flows.

Possible Tax Assessments

1.123

THE DUN & BRADSTREET CORPORATION AND SUBSIDIARIES (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Legal and Tax Contingencies

We are involved in tax and legal proceedings, claims and litigation arising in the ordinary course of business. We periodically assess our liabilities and contingencies in connection with these matters, based upon the latest information available. For those matters where it is probable that we have incurred a loss and the loss or range of loss can be reasonably estimated, we have recorded reserves in the consolidated financial statements. In other instances, because of the uncertainties related to both the probable outcome and amount or range of loss, we are unable to make a reasonable estimate of a liability, if any. As additional information becomes available, we adjust our assessment and estimates of such liabilities accordingly.

Note 14 (In Part): Contingencies

We are involved in tax and legal proceedings, claims and litigation arising in the ordinary course of business. We periodically assess our liabilities and contingencies in connection with these matters based upon the latest information available. For those matters where it is probable that we have incurred a loss and the loss or range of loss can be reasonably estimated, we have recorded reserves in our consolidated financial statements. In other instances, we are unable to make a reasonable estimate of any liability because of the uncertainties related to both the probable outcome and amount or range of loss. As additional information becomes available, we adjust our assessment and estimates of such liabilities accordingly.

Based on our review of the latest information available, we believe our ultimate liability in connection with pending tax and legal proceedings, claims and litigation will not have a material effect on our results of operations, cash flows or financial position, with the possible exception of the matters described below.

In order to understand our exposure to the potential liabilities described below, it is important to understand the relationship between us and Moody's Corporation, our predecessors and other parties that, through various corporate reorganizations and contractual commitments, have assumed varying degrees of responsibility with respect to such matters.

In November 1996, the company then known as The Dun & Bradstreet Corporation ("D&B1") separated through a spin-off into three separate public companies: D&B1, ACNielsen Corporation ("ACNielsen") and Cognizant Corporation ("Cognizant") (the "1996 Distribution"). In June 1998, D&B1 separated through a spin-off into two separate public companies: D&B1, which changed its name to R. H. Donnelley Corporation ("Donnelley/D&B1"), and a new company named The Dun & Bradstreet Corporation ("D&B2") (the "1998 Distribution"). During 1998, Cognizant separated through a spin-off into two separate public companies: IMS Health Incorporated ("IMS") and Nielsen Media Research, Inc. ("NMR") (the "1998 Cognizant Distribution"). In September 2000, D&B2 separated through a spin-off into two separate public companies: D&B2, which changed its name to Moody's Corporation ("Moody's"), and a new company named The Dun & Bradstreet Corporation ("we" or "D&B3" or "D&B") (the "2000 Distribution").

Tax Matters

D&B2 and its predecessors entered into global tax planning initiatives in the normal course of business, principally through tax-free restructurings of both their foreign and domestic operations. The status of Internal Revenue Service reviews of these initiatives is summarized below.

Pursuant to a series of agreements, IMS and NMR are jointly and severally liable for and must pay one-half, and we and Moody's are jointly and severally liable for and must pay the other half, of any payments over $137 million for taxes, accrued interest and other amounts resulting from unfavorable IRS rulings on the tax matters summarized below (other than the matter summarized below as "Amortization Expense Deductions—1997–2002," for which we and Moody's are solely responsible). D&B2 was contractually obligated to pay, and did pay, the first $137 million in connection with the matter summarized below as "Utilization of Capital Losses—1989–1990."

Under the terms of the 2000 Distribution, we and Moody's have, between each other, agreed to each be financially responsible for 50% of any potential liabilities that may arise to the extent such potential liabilities are not directly attributable to each party's respective business operations.

Utilization of Capital Losses—1989–1990

The IRS completed its review of the utilization of certain capital losses generated during 1989 and 1990 and, on June 26, 2000, issued a formal notice of adjustment. On May 12, 2000, an amended tax return was filed for the 1989 and 1990 tax periods, which reflected $561.6 million of tax and interest due. D&B2 paid the IRS approximately $349.3 million of this amount on May 12, 2000, and IMS paid the IRS approximately $212.3 million on May 17, 2000. The payments were

made to the IRS to stop further interest from accruing. We are continuing to contest, on behalf of Donnelley/D&B1, the IRS's formal assessment and would also contest any assessment of amounts in excess of the amounts paid. Donnelley/D&B1 filed a complaint for a refund in the U.S. District Court on September 21, 2000. The case is expected to go to trial in 2004. We would share responsibility for any additional assessment, and share in any refund obtained, with IMS, NMR and Moody's, as disclosed above.

Subsequent to making its 2000 payment to the IRS, IMS sought to obtain partial reimbursement from NMR under the terms of the 1998 Cognizant Distribution. NMR paid IMS less than IMS sought. In 2001, IMS filed an arbitration proceeding against NMR claiming that NMR underpaid to IMS its proper allocation of the above tax payments. Neither Donnelley/D&B1 nor we are a party to the 1998 Cognizant Distribution. IMS nonetheless sought to include Donnelley/D&B1 in this arbitration, arguing that if NMR should prevail in its interpretation, then IMS could seek the same interpretation in an alternative claim against Donnelley/D&B1. In 2002, the arbitration panel ruled that Donnelley/D&B1 properly belonged as a party to the arbitration. Hearings before the arbitration panel were held in 2002. A decision from the arbitration panel is expected in 2003. If NMR should prevail in the arbitration against IMS and, in turn, IMS should prevail against Donnelley/D&B1, then we believe that the additional liability to Donnelley/D&B1 would be approximately $15 million, net of tax benefits. As noted above, under the terms of the 2000 Distribution, Moody's and we are each responsible for one-half of any amount for which Donnelley/D&B1 is liable in this matter. We believe that the claim asserted against Donnelley/D&B1 by IMS is without merit. No amount in respect of this matter has been accrued in our consolidated financial statements.

Royalty Expense Deductions—1994–1996

In the second quarter of 2002, we received on behalf of Donnelley/D&B1 Notices of Proposed Adjustment from the IRS with respect to a partnership transaction entered into in 1993. Specifically, the IRS proposed to disallow certain royalty expense deductions claimed by Donnelley/D&B1 on its 1994, 1995 and 1996 tax returns. In verbal communications with the IRS later in 2002, the IRS expressed a willingness to withdraw its proposed disallowance of related royalty expense deductions for 1994, but in a February 2003 letter the IRS asserted a position that would disallow a portion of the 1994 royalty expense deduction. The IRS has also indicated its intention to assert penalties for 1995 and 1996.

We have disagreed with the positions taken by the IRS. However, if the IRS were to issue a formal assessment and prevail, we would share responsibility for the assessment with Moody's, IMS and NMR, as disclosed above. If the IRS were to issue a formal assessment and we, on behalf of Donnelley/D&B1, were to challenge the assessment in U.S. District Court rather than in U.S. Tax Court, the disputed amounts would need to be paid. We estimate that the disallowance of the 1994 royalty expense deduction would result in a loss of $5 million in tax refunds. We also estimate that the disallowance of the 1995 and 1996 royalty expense deductions would require payment from us of up to $42 million (tax, interest and penalties, net of associated tax benefits).

In addition, in February 2003, the partnership associated with this transaction received a preliminary notice from the IRS that challenges the tax treatment of certain royalty payments received by the partnership in which Donnelley/D&B1 was a partner (and which relate to the royalty expense deductions referred to above). The IRS would reallocate certain partnership income to Donnelley/D&B1, and we would share responsibility for this matter with Moody's, IMS and NMR, as disclosed above. Our share of this income would require an additional payment from us of $20 million (tax, interest and penalties, net of associated tax benefits). We have disagreed with the position taken by the IRS on behalf of the partnership, in part because this position is inconsistent with the IRS' position with respect to the royalty expense deduction described above.

Amortization Expense Deductions—1997–2002

The IRS has requested documentation with respect to a transaction entered into in 1997 by D&B2 that produces amortization expense deductions. While we believe the deductions are appropriate, the IRS could ultimately challenge them and issue an assessment. If the IRS were to prevail or the assessment were to be challenged by us in U.S. District Court, we estimate that our cash payment to the IRS with respect to deductions claimed to date and including any potential assessment of penalties of $6.5 million, could be up to $46.4 million, or $43 million, net of associated tax benefits. This transaction is scheduled to expire in 2012 and, unless earlier terminated by us, our cash exposure, based on current interest rates and tax rates, would increase at a rate of approximately $2.3 million per quarter (including potential penalties) as future amortization expenses are deducted.

We have considered the foregoing tax matters and the merits of our legal defenses and the various contractual obligations in our overall assessment of potential tax liabilities. We believe we have adequate reserves recorded in our consolidated financial statements for our share of current exposures in these matters. Any payments that would be made for these exposures would be significant to us in the period a cash payment took place.

1.124

TRIBUNE COMPANY AND SUBSIDIARIES (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 13 (In Part): Commitments and Contingencies

The Company and its subsidiaries are defendants from time to time in actions for matters arising out of their business operations. In addition, the Company and its subsidiaries are involved from time to time as parties in various regulatory, environmental and other proceedings with governmental authorities and administrative agencies. See Note 14 for a discussion of a potential income tax liability related to Times Mirror's 1998 dispositions of its Matthew Bender and Mosby subsidiaries in separate tax-free reorganizations. The Company does not believe that any other matters or proceedings presently pending will have a material adverse effect on its consolidated financial position, results of operations or liquidity.

Note 14 (In Part): Income Taxes

During 1998, Times Mirror, which was acquired by Tribune in 2000, disposed of its Matthew Bender and Mosby subsidiaries in separate tax-free reorganizations. While the Company strongly believes that these transactions were completed on a tax-free basis, the IRS has audited the transactions and disagreed with the position taken by Times Mirror. In 2001, the Company received an IRS adjustment to increase Times Mirror's 1998 taxable income by approximately $1.6 billion. If the IRS prevails, the Company's federal and state income tax liability would be approximately $600 million, plus interest. As of Dec. 29, 2002, the interest on the proposed taxes would be approximately $214 million. The Company intends to vigorously defend its position and filed a petition in U.S. Tax Court on Nov. 8, 2002 to contest the IRS position. A tax reserve of $180 million, plus $45 million of interest, relating to these transactions is included in "other obligations" on the consolidated balance sheets. The IRS had originally proposed tax penalties of 20% with respect to these transactions. However, during the third quarter of 2002, the IRS notified the Company that its previously proposed penalties would not be asserted.

In 2002, the Company reduced its income tax liabilities by a total of $35 million as a result of favorably resolving certain federal and state income tax issues. This adjustment was recorded as a reduction of income tax expense.

The resolutions of the Company's tax issues are unpredictable and could result in tax liabilities that are significantly higher or lower than that which has been provided by the Company.

Contracts

1.125

DEAN FOODS COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

20 (In Part): Commitments and Contingencies

Contingent Obligations Related to Milk Supply Arrangements

On December 21, 2001, in connection with our acquisition of Old Dean, we purchased Dairy Farmers of America's ("DFA") 33.8% stake in our Dairy Group. In connection with that transaction, we issued a contingent, subordinated promissory note to DFA in the original principal amount of $40 million. DFA is our primary supplier of raw milk, and the promissory note is designed to ensure that DFA has the opportunity to continue to supply raw milk to certain of our plants until 2021, or be paid for the loss of that business. The promissory note has a 20-year term and bears interest based on the consumer price index. Interest will not be paid in cash, but will be added to the principal amount of the note annually, up to a maximum principal amount of $96 million. We may prepay the note in whole or in part at any time, without penalty. The note will only become payable if we ever materially breach or terminate one of our milk supply agreements with DFA without renewal or replacement. Otherwise, the note will expire at the end of 20 years, without any obligation to pay any portion of the principal or interest. Because this note was delivered in connection with our acquisition of DFA's minority interest in our Dairy Group, we originally recorded the note as part of the purchase consideration and it was reflected on our balance sheet in "other long-term liabilities". However, we now believe that payments we make under this note, if any, should be expensed as incurred. Accordingly, the purchase consideration and the note obligation have been removed from our 2001 balance sheet.

Also as part of the same transaction, we amended a milk supply agreement with DFA to provide that:

- If we have not offered DFA the right to supply all of our raw milk requirements for certain of Old Dean's plants by either (i) June 2003, or (ii) with respect to certain other plants, the end of the 6th full calendar month following the expiration of milk supply agreements in existence at those plants on December 21, 2001, or
- If DFA is prohibited from supplying those plants because of an injunction, restraining order or otherwise as a result of or arising from a milk supply contract to which we are party,

we must pay DFA liquidated damages determined and paid on a plant-by-plant basis, based generally on the amount of raw milk used by that plant, up to an aggregate maximum of $47 million. Liquidated damages would be payable in arrears in equal, quarterly installments over a 5-year period, without interest. If we are required to pay any such liquidated damages, the principal amount of the $40 million subordinated promissory note described above will be reduced by an amount equal to 25% of the liquidated damages paid. We cannot currently estimate the amount of damages that we may have to pay, if any.

Contingent Obligations Related to White Wave Acquisition

On May 9, 2002, we completed the acquisition of White Wave, Inc. In connection with the acquisition, we established a Performance Bonus Plan pursuant to which we have agreed to pay performance bonuses to certain employees of White Wave if certain performance targets are achieved. Specifically, we agreed that if the cumulative net sales (as defined in the plan) of White Wave equal or exceed $382.5 million during the period beginning April 1, 2002 and ending March 31, 2004 (the "Incentive Period") and White Wave does not exceed the budgetary restrictions set forth in the plan by more than $1 million during the Incentive Period, we will pay employee bonuses as follows:

- If cumulative net sales during the Incentive Period are between $382.5 million and $450 million, the bonus paid will scale ratably (meaning $129,630 for each $1 million of net sales) between $26.025 million and $35.0 million; and
- If cumulative net sales exceed $450 million during the Incentive Period, additional amounts will be paid as follows:
- First $50 million above $450 million net sales: 10% of amount in excess of $450 million, plus
- Second $50 million above $450 million net sales: 15% of amount in excess of $500 million, plus
- In excess of $550 million net sales: 20% of amount in excess of $550 million.

We currently expect the aggregate amount of bonuses payable under White Wave's Performance Bonus Plan to be in the range of $35 million to $40 million, and we have recorded quarterly accruals based on the aggregate amount that we expect to pay. Key employees of White Wave are

also entitled to receive certain payments if they are terminated without cause (or as a result of death or incapacity) during the Incentive Period.

Contingent Obligations Related to Divested Operations

We have sold several businesses in recent years. In each case, we have retained certain known contingent liabilities related to those businesses and/or assumed an obligation to indemnify the purchasers of the businesses for certain unknown contingent liabilities. In the case of the sale of our Puerto Rico operations, we were required to post collateral, including one surety bond and one letter of credit, to secure our obligation to satisfy the retained liabilities and to fulfill our indemnification obligation. We believe we have established adequate reserves for any potential liability related to our divested businesses. Moreover, we do not expect any liability that we may have for these retained liabilities, or any indemnification liability, to be material.

Enron

In 1999, we entered into an Energy Program Agreement with Enron Energy Services pursuant to which we contracted to purchase electricity for certain of our plants at a discounted rate for a ten-year period. Under the agreement, Enron (i) supplied (or arranged for the supply of) utilities to our facilities and paid the costs of such utilities directly to the utility suppliers, and (ii) made certain capital improvements at certain of our facilities in an effort to reduce our utility consumption, all in exchange for one monthly payment from us. In November 2001, Enron stopped performing under the agreement and in December 2001, Enron filed for bankruptcy protection. Shortly thereafter, Enron rejected our contract. In order to compensate us for our lost savings, the Energy Program Agreement provided for formula-based liquidated damages. We have filed a claim in Enron's bankruptcy for our damages. We have received correspondence from Enron demanding payment of certain amounts that Enron alleges we owe under the agreement. We have disputed the validity of Enron's claim and are in the process of attempting to negotiate an agreement with Enron for the settlement of our claims against each other. We cannot estimate the outcome of any settlement with Enron. However, we do not expect the settlement to have a material adverse impact on our financial position, results of operations or cash flows.

Stockholder Litigation

1.126

HONEYWELL INTERNATIONAL INC. (DEC)

NOTES TO FINANCIAL STATEMENTS

Note 21 (In Part): Commitments and Contingencies

Shareowner Litigation

Honeywell and seven of its current and former officers were named as defendants in several purported class action lawsuits filed in the United States District Court for the District of New Jersey (the Securities Law Complaints). The Securities Law Complaints principally allege that the defendants violated federal securities laws by purportedly making false and misleading statements and by failing to disclose material information concerning Honeywell's financial performance, thereby allegedly causing the value of Honeywell's stock to be artificially inflated. On January 15, 2002, the District Court dismissed the consolidated complaint against four of Honeywell's current and former officers. The Court has granted plaintiffs' motion for class certification defining the purported class as all purchasers of Honeywell stock between December 20, 1999 and June 19, 2000.

The parties have agreed to participate in a two day settlement mediation in April, 2003 in an attempt to resolve the cases without resort to a trial. All significant discovery in the cases has been stayed pending further order of the court.

Notwithstanding our agreement to mediate, we believe there is no factual or legal basis for the allegations in the Securities Law Complaints. Although it is not possible at this time to predict the litigation outcome of these cases, we expect to prevail if the cases are not resolved through mediation. However, an adverse litigation outcome could be material to our consolidated financial position or results of operations. As a result of the uncertainty regarding the outcome of this matter no provision has been made in our financial statements with respect to this contingent liability.

Unfunded Pension Obligation

1.127

XO COMMUNICATIONS, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

21 (In Part): Commitments and Contingencies

Unfunded Affiliate Pension Obligation

As discussed in note 2, affiliates of Mr. Icahn hold over 80% of the outstanding New Common Stock of XO Parent. Applicable pension and tax laws make each member of a plan sponsor's "controlled group" (generally defined as entities in which there is at least an 80% common ownership interest) jointly and severally liable for certain pension plan obligations of the plan sponsor. These pension obligations include ongoing contributions to fund the plan, as well as liability for any unfunded liabilities that may exist at the time the plan is terminated. In addition, the failure to pay these pension obligations when due may result in the creation of liens in favor of the pension plan or the Pension Benefit Guaranty Corporation, (the "PBGC") against the assets of each member of the plan sponsor's controlled group.

As a result of the more than 80% ownership interest in XO Parent by Mr. Icahn's affiliates, XO Parent and its subsidiaries will be subject to the pension liabilities of any entities in which Mr. Icahn has a direct or indirect ownership interest of at least 80%, which includes ACF Industries, Inc. ("ACF"), which is the sponsor of certain pension plans. As most recently determined by the ACF plans' actuaries, pension plans maintained by ACF are underfunded in the aggregate by approximately $14 million on an ongoing actuarial basis and by approximately $102 million if those plans were terminated. As a member of the same controlled group, XO Parent and each

of its subsidiaries would be liable for any failure of ACF to make ongoing pension contributions or to pay the unfunded liabilities upon a termination of the ACF pension plans.

The current underfunded status of the ACF pension plans requires ACF to notify the PBGC if XO Parent or its subsidiaries cease to be a member of the ACF controlled group. In addition, so long as the Company remains a member of the ACF controlled group, certain other "reportable events," including certain extraordinary dividends and stock redemptions, must be reported to the PBGC.

GAIN CONTINGENCIES

Plaintiff Litigation

1.128

ELI LILLY AND COMPANY AND SUBSIDIARIES (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 13 (In Part): Contingencies

In February 2001, we were notified that Zenith Goldline Pharmaceuticals, Inc. (Zenith), had submitted an abbreviated new drug application (ANDA) seeking permission to market a generic version of Zyprexa in various dosage forms several years prior to the expiration of our U.S. patents for the product. Zenith alleges that our patents are invalid or not infringed. On April 2, 2001, we filed suit against Zenith in federal district court in Indianapolis seeking a ruling that Zenith's challenge to the U.S. compound patent (expiring in 2011) is without merit. In May 2001, we were notified that Dr. Reddy's Laboratories, Ltd. (Reddy), had also filed an ANDA covering two dosage forms, alleging that the patents are invalid or not infringed. On June 26, 2001, we filed a similar patent infringement suit against Reddy in federal district court in Indianapolis. Thereafter, we were notified that Reddy had filed an ANDA for additional dosage forms and in February 2002, we filed an infringement suit in the same court based on Reddy's additional ANDA. We received notice in August 2002 of a similar ANDA filing by Teva Pharmaceuticals, and in September 2002, we filed suit against Teva in the same court. The cases have been consolidated and are in the discovery stage. We currently expect a trial date to be scheduled for the fourth quarter of 2003. We believe that the generic manufacturers' patent claims are without merit and we expect to prevail in this litigation. However, it is not possible to predict or determine the outcome of this litigation and, accordingly, we can provide no assurance that we will prevail. An unfavorable outcome could have a material adverse impact on our consolidated results of operations, liquidity, and financial position.

In October 2002, we were notified that Barr Laboratories, Inc. (Barr), had submitted an ANDA with the U.S. FDA seeking permission to market a generic version of Evista several years prior to the expiration of our U.S. patents covering the product, alleging that the patents are invalid or not infringed. On November 26, 2002, we filed suit against Barr in federal district court in Indianapolis seeking a ruling that Barr's challenges to our patents claiming the method of use and pharmaceutical form (expiring from 2012 to 2017) are without merit. While we believe that Barr's claims are without merit and expect to prevail, it is not possible to predict or determine the outcome of the litigation. Therefore we can provide no assurance that we will prevail. An unfavorable outcome could have a material adverse impact on our consolidated results of operations, liquidity, and financial position.

1.129

FISERV, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 7 (In Part): Leases, Other Commitments and Contingencies

Other Commitments and Contingencies (In Part)

In the normal course of business, the Company and its subsidiaries are named as defendants in various lawsuits in which claims are asserted against the Company. The Company has initiated legal action against E*TRADE Securities, Inc. ("E*TRADE") as the result of E*TRADE refusing to accept delivery of a bond (with a carrying value of $27.0 million as of December 31, 2002) in violation of the terms of a contract between E*TRADE and a subsidiary of the Company. The Company intends to vigorously enforce its rights under the terms of its agreement with E*TRADE and expects to prevail and recover the carrying value of the bond. In the opinion of management, the liabilities, if any, which may ultimately result from such lawsuits are not expected to have a material adverse effect on the consolidated financial statements of the Company.

1.130

INTERNATIONAL MULTIFOODS CORPORATION (FEB)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 13 (In Part): Commitments and Contingencies

In fiscal 1998, we were notified that approximately $6 million of our inventory was stolen from a ship in the port of St. Petersburg, Russia. The ship had been chartered by a major customer of our former food-exporting business. We believe, based on the facts known to date, that the loss is covered by insurance. However, following submission of a claim for indemnity, the insurance carrier denied our claim for coverage, and we commenced a lawsuit seeking to obtain coverage under the insurance carrier's policy. In October 2001, the U.S. District Court of the Southern District of New York granted us summary judgment on our claim and awarded us interest to the date of judgment. In November 2001, the insurance carrier appealed the judgment to the U.S. Court of Appeals for the Second Circuit. Although we

will continue to vigorously assert our claim in the litigation, the interest awarded by the U.S. District Court will not be recognized as income until collection is assured.

In January 1998, VIP's Industries, Inc. ("VIP's") filed a third-party complaint against us in the Circuit Court of Linn County, Oregon. The third-party complaint alleges that we, through a former subsidiary, caused the environmental contamination of certain real property and the groundwater beneath real property located in Albany, Oregon. The claims asserted by VIP's and the original plaintiffs in the lawsuit have been settled. However, crossclaims made by Ultramar, Inc., another defendant in the lawsuit, are continuing. Ultramar is seeking contribution for its costs of remedial action related to the contamination of its real property and the groundwater beneath the real property, which are claimed by Ultramar to be as much as $8.6 million. We believe that we have sustainable defenses to the claims asserted by Ultramar, and we are vigorously defending the lawsuit. The lawsuit is currently scheduled for trial in June 2002. In addition, we have tendered defense of the lawsuit to our insurance carriers during the period of time at issue in the lawsuit. Liberty Mutual Insurance Co., our primary insurance carrier during such period, has accepted defense of the lawsuit but has advised us that it will not indemnify Multifoods for liability arising from the claims asserted in the lawsuit. We continue to believe that the claims asserted in the Ultramar lawsuit are covered by our insurance policies. Therefore, we have commenced a lawsuit in the Circuit Court of Multnomah County, Oregon, against Liberty Mutual and another insurer, TIG Insurance Co., to enforce coverage under our policies with these insurers for any liability arising from claims asserted in the Ultramar lawsuit.

Contingent Receivables

1.131

LABARGE, INC. (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4 (In Part): Accounts and Other Receivables

Accounts and other receivables consist of the following:

(Dollars in thousands)	2002	2001
Billed shipments, net of progress payments	$ 15,719	$ 16,703
Less allowance for doubtful accounts	145	289
Trade receivables, net	15,574	16,414
Other current receivables	1,450	532
	$ 17,024	$ 16,946

Progress payments are payments from customers in accordance with contractual terms for contract costs incurred to date. Such payments are credited to the customer at the time of shipment.

At June 30, 2002 and July 1, 2001, other current receivables include $318,000 and $346,000 of customer payments to be received as a settlement under a prior claim for material. Also at June 30, 2002, $964,000 was included in other current receivables for Federal and State overpayment of taxes. See Note 17, "Litigation and Contingencies."

17. Litigation and Contingencies

In June 2000, the Company entered into a contract with McDonnell Douglas Corporation ("MDC"), a wholly-owned subsidiary of The Boeing Company to supply aircraft wire harnesses. The Company has alleged that MDC supplied a defective bid package in its request for proposal. Attempts to negotiate a settlement of the claim arising from this defective bid package have not been successful, and the Company anticipates filing an action in circuit court to seek an equitable adjustment.

Under the contract through June 30, 2002, the Company has delivered 79 sets of the wire harnesses with a sales value of $1.9 million. Included in the Accounts Receivable balance at June 30, 2002 is $207,000 representing a portion of the Company's claim against MDC on these shipments. Included in the Company's work-in-process balance at June 30, 2002 is $298,000, which will not be recovered at the current contract price and will be added to the Company's claim, plus lost profits.

In addition, MDC has exercised options under the contract, for an additional 102 sets of wire harnesses with a sales value of $2.3 million. Based on current cost estimates, the Company would have an additional claim of $743,000, plus lost profits, on these units. Sales taken on this contract are being recognized at zero gross profit.

MDC has options to purchase up to 150 additional sets of wire harnesses per year through calendar year 2006. Management's estimate, based upon forecasted information from MDC, is that the potential additional sales are 281 sets through fiscal year 2006. If these additional orders are placed at the current contract price, the additional sales would total $6.4 million and the Company would incur an additional loss of $2.2 million which would be added to the claim, plus lost profits.

The Company has consulted with legal counsel, and believes that it will recover these contract costs.

1.132

SARA LEE CORPORATION AND SUBSIDIARIES (JUN)

NOTES TO FINANCIAL STATEMENTS

Contingencies (In Part)

Contingent Asset

The corporation sold its European cut tobacco business in 1999. Under the terms of that sale agreement, the corporation can receive a cash payment of euro 95 million from the buyer in January 2004 if tobacco continues to be a legal product in the Netherlands, Germany and Belgium. Additional annual payments of euro 95 million can be received beginning in 2005 and extending through 2010 if tobacco continues to be a legal product in those countries. If tobacco ceases to be a legal product at any time during this period, the corporation forfeits the receipt of all future amounts. The contingent payment of these amounts is based on the legal status of the product in each country, with the Netherlands accounting for 67% of the total, Germany 22%, and Belgium 11%.

If any of these amounts are received, they will be recognized in income upon receipt and separately disclosed.

RISKS AND UNCERTAINTIES

1.133 Statement of Position (SOP) 94-6, *Disclosure of Certain Significant Risks and Uncertainties,* issued by the Accounting Standards Division of the American Institute of Certified Public Accountants (AICPA), 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. 579 survey companies disclosed the pervasive use of estimates in preparing financial statements. Of these disclosures, 576 were made as part of the summary of significant accounting policies.

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

Nature of Operations

1.135

ALBERTSON'S, INC. (JAN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note A—Business Description and Basis of Presentation

Albertsons's, Inc. ("Albertsons" or the "Company") is incorporated under the laws of the State of Delaware and is the successor to a business founded by J. A. Albertson in 1939. On June 23, 1999, Albertsons and American Stores Company ("ASC") consummated a merger, which has been accounted for as a pooling-of-interests. Based on sales, the Company is one of the largest retail food and drug chains in the world. As of January 30, 2003 the Company operated 2,287 stores in 31 states. Retail operations are supported by 17 major Company distribution operations, strategically located in the Company's operating markets.

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States and include all entities in which the Company has control, including its majority-owned subsidiaries. All material intercompany transactions and balances have been eliminated.

1.136

AMCAST INDUSTRIAL CORPORATION (AUG)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Nature of Operations

Amcast Industrial Corporation is a leading manufacturer of technology-intensive metal products. Its two business segments are Flow Control Products, a leading supplier of copper and brass fittings for the industrial, commercial, and residential construction markets, and Engineered Components, a leading supplier of aluminum wheels and aluminum components for automotive original equipment manufacturers in North America as well as a leading supplier of light-alloy wheels for automotive original equipment manufacturers and aftermarket applications in Europe.

1.137

AMERICAN STANDARD COMPANIES INC. (DEC)

NOTES TO FINANCIAL STATEMENTS

Note 1. Description of Company

American Standard Companies Inc. (the "Company") is a Delaware corporation and owns all the outstanding common stock of American Standard Inc. and American Standard International Inc. ("ASII"), both Delaware corporations. In these notes, "American Standard" or "the Company" will refer to the Company, or to the Company and American Standard Inc. and ASII, including their subsidiaries, as the context requires.

American Standard is a global diversified manufacturer of high quality, brand-name products in three major business groups: air conditioning systems and services for commercial, institutional and residential buildings; fixtures and fittings for bathrooms and kitchens; and vehicle control systems for medium-sized and heavy trucks, buses, trailers, sport utility vehicles and luxury cars.

1.138

WYETH (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Description of Business

The Company is a U.S.-based multinational corporation engaged in the discovery, development, manufacture, distribution and sale of a diversified line of products in two primary businesses: Pharmaceuticals and Consumer Healthcare. Pharmaceuticals include branded human ethical pharmaceuticals, biologicals, nutritionals, and animal biologicals

and pharmaceuticals. Principal products include women's health care products, neuroscience therapies, cardiovascular products, nutritionals, gastroenterology drugs, anti-infectives, vaccines, oncology therapies, musculoskeletal therapies, hemophilia treatments and immunological products. Principal animal health products include vaccines, pharmaceuticals, endectocides and growth implants. Consumer Healthcare products include analgesics, cough/cold/allergy remedies, nutritional supplements, herbal products, and hemorrhoidal, antacid, asthma and other relief items sold over-the-counter. The Company sells its diversified line of products to wholesalers, pharmacies, hospitals, physicians, retailers and other health care institutions located in various markets in more than 140 countries throughout the world.

Wholesale distributors and large retail establishments account for a large portion of the Company's consolidated net revenue and trade receivables, especially in the United States. The Company's top three customers in the United States accounted for 25% of the Company's consolidated net revenue in 2002, as is typical in the pharmaceutical industry. In light of this concentration, the Company continuously monitors the creditworthiness of its customers and has established internal policies regarding customer credit limits.

The Company is not dependent on any one patent-protected product or line of products for a substantial portion of its net revenue or results of operations. However, *Effexor, Premarin* family products and *Protonix,* each of which has sales in excess of $1,000.0 million, comprised approximately 14%, 13% and 7%, respectively, of the Company's consolidated net revenue in 2002.

Use of Estimates

1.139

ABBOTT LABORATORIES (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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, valuation of intangibles, inventory and accounts receivable exposures, and pension and other post-employment benefits.

1.140

AMETEK, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Significant Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

1.141

BAUSCH & LOMB INCORPORATED (DEC)

NOTES TO FINANCIAL STATEMENTS

Note 1 (In Part): Accounting Policies

Use of Estimates

The financial statements have been prepared in conformity with generally accepted accounting principles and, as such, include amounts based on informed estimates and judgments of management with consideration given to materiality. For example, estimates are used in determining valuation allowances for uncollectible trade receivables, obsolete inventory, deferred income taxes and in valuing purchased intangible assets, including in-process research and development (IPR&D). Actual results could differ from those estimates.

In the fourth quarter of 2000, the company changed the method by which it estimates pricing allowances for its U.S. generic pharmaceutical products. The company had established reserves for contractual pricing allowances to certain of its customers using historical allowance patterns as submitted by the distributors who fulfill these contracts. The new methodology is based on more accurate and timely distributor inventory data. The company recorded $6.8 in the fourth quarter of 2000 for this change in accounting method, inseparable from a change in accounting estimate.

1.142

BRUNSWICK CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Significant Accounting Policies

Use of Estimates

The preparation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States requires management to make certain

estimates. Actual results could differ materially from those estimates. These estimates affect:

- The reported amounts of assets and liabilities,
- The disclosure of contingent assets and liabilities at the date of the financial statements, and
- The reported amounts of revenues and expenses during the reporting periods.

Estimates in these consolidated financial statements include, but are not limited to:

- Losses on litigation and other contingencies;
- Warranty, extended warranties, income tax, insurance, inventory valuation and environmental reserves;
- Allowances for doubtful accounts;
- Reserves for dealer allowances;
- Reserves related to restructuring activities;
- Determination of the discount rate and other actuarial assumptions for pension, postretirement and postemployment liabilities;
- The valuation of investments, and;
- The loss on the disposal of the discontinued operations.

Significant Estimates

1.143

BAKER HUGHES INCORPORATED (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 5 (In Part): Income Taxes

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, as well as operating loss and tax credit carryforwards. The tax effects of the Company's temporary differences and carryforwards are as follows at December 31:

	2002	2001
Deferred tax assets:		
Receivables	$ 9.4	$ 15.8
Inventory	106.9	100.7
Employee benefits	27.5	20.3
Other accrued expenses	43.0	47.0
Operating loss carryforwards	69.4	59.3
Tax credit carryforwards	95.8	186.9
Other	59.1	61.7
Subtotal	411.1	491.7
Valuation allowances	(45.9)	(45.4)
Total	365.2	446.3
Deferred tax liabilities:		
Property	151.6	141.0
Other assets	78.3	97.5
Goodwill	85.7	108.7
Undistributed earnings of foreign subsidiaries	24.0	74.9
Other	57.1	30.4
Total	396.7	452.5
Net deferred tax liability	$ 31.5	$ 6.2

A valuation allowance is recorded when it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of the deferred tax assets depends on the ability to generate sufficient taxable income of the appropriate character in the future and in the appropriate taxing jurisdictions. The Company has provided a valuation allowance for operating loss carryforwards in certain non-U.S. jurisdictions where its operations have decreased, currently ceased or the Company has withdrawn entirely.

Provision has been made for U.S. and additional foreign taxes for the anticipated repatriation of certain earnings of foreign subsidiaries of the Company. The Company considers the undistributed earnings of its foreign subsidiaries above the amount already provided to be indefinitely reinvested. These additional foreign earnings could become subject to additional tax if remitted, or deemed remitted, as a dividend; however, the additional amount of taxes payable is not practicable to estimate.

At December 31, 2002, the Company had approximately $8.7 million of foreign tax credits and $61.5 million of general business credits available to offset future payments of federal income taxes, expiring in varying amounts between 2005 and 2023. The Company's $25.6 million alternative minimum tax credits may be carried forward indefinitely under current U.S. law. The operating loss carryforwards without a valuation allowance will expire in varying amounts over the next twenty years.

1.144

BETHLEHEM STEEL CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A (In Part): Accounting Policies

Use of Estimates

In preparing these financial statements, we make estimates and use assumptions that affect some of the reported amounts and disclosures. See, for example, Note B, *Reorganization Under Chapter 11*; Note E, *Taxes*; Note G, *Commitments and Contingent Liabilities*; and Note H, *Postretirement Benefits.* In the future, actual amounts received or paid could differ from those estimates.

G (In Part): Commitments and Contingent Liabilities

The domestic steel industry is subject to various federal, state and local environmental laws and regulations concerning, among other things, air emissions, wastewater discharges and solid and hazardous waste disposal. Bethlehem and federal and state regulatory agencies conduct negotiations to resolve differences in interpretation of certain environmental control requirements. In some instances, those negotiations are held in connection with the resolution of pending environmental proceedings. We believe that there will not be any significant curtailment or interruptions of any of our important operations as a result of these proceedings and negotiations. We cannot predict the specific environmental control requirements that we will face in the future. Based on existing and anticipated regulations promulgated under presently enacted legislation, we have recorded liabilities for future

remediation costs at December 31, 2002 and 2001 of about $116 million and $77 million. We also currently estimate that capital expenditures for environmental control in the near-term will average about $55 million per year. Estimates of future capital expenditures and operating costs required for environmental compliance and reclamation, however, are subject to numerous uncertainties, including the evolving nature of regulations, possible imposition of more stringent requirements, availability of new technologies and the timing of expenditures. Environmental claims under the Code for environmental remediation and other environmental matters are expected to be ultimately resolved along with all other unsecured claims as part of a chapter 11 plan. We believe that the future costs of environmental compliance will not have a material adverse effect on our competitive position with respect to other integrated domestic steelmakers that are subject to the same environmental requirements.

In the ordinary course of our business, we are involved in various pending or threatened legal proceedings. These proceedings include a large number of cases in which plaintiffs allege injury due to exposure to asbestos, allegedly resulting from past operations of Bethlehem and others. All of the asbestos cases resolved to date have either been dismissed as to Bethlehem or settled for immaterial amounts. The prosecution of any claims and any payments related to litigation existing on October 15, 2001, the date of our filing for protection under chapter 11 of the Code, are automatically stayed pending resolution of all unsecured claims as part of a chapter 11 plan.

We cannot predict with certainty the outcome of any legal or environmental proceedings to which we are party. In our opinion, however, adequate reserves have been recorded for losses that are probable and result from legal proceedings and environmental reclamation requirements relating to events occurring prior to December 31, 2002. If such reservers prove to be inadequate, however, it is reasonably possible that we could be required to record a charge to earnings that could be material to the results of operations in a particular future quarterly or annual period. We believe that any ultimate liability arising from these actions that is reasonably possible over what has been recorded will not be material to Bethlehem's consolidated financial condition or near-term cash flow requirements.

1.145

BRISTOL-MYERS SQUIBB COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (In Part): Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with GAAP requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The most significant assumptions are employed in estimates used in determining values of intangible assets, restructuring charges and accruals, sales rebate and return accruals, legal contingencies and tax assets and tax liabilities, as well as in estimates used in applying the revenue recognition policy and accounting for retirement and postretirement benefits (including the actuarial assumptions). Actual results could differ from estimated results.

Contingencies

In the normal course of business, the Company is subject to contingencies, such as legal proceedings and claims arising out of its business, that cover a wide range of matters, including, among others, product liability, environmental liability and tax matters. In accordance with SFAS No. 5, *Accounting for Contingencies,* the Company records accruals for such contingencies when it is probable that a liability will be incurred and the amount of loss can be reasonably estimated. For a discussion of contingencies, reference is made to Note 8, Income Taxes, and Note 22, Litigation Matters, to these consolidated financial statements.

Note 22 (In Part): Litigation Matters

Various lawsuits, claims and proceedings are pending against the Company and certain of its subsidiaries. In accordance with SFAS No. 5, *Accounting for Contingencies,* the Company records accruals for such contingencies when it is probable that a liability will be incurred and the amount of loss can be reasonably estimated. In the years ended December 31, 2002 and 2001, the Company recognized $669 million (includes $10 million for discontinued operations) and $77 million, respectively, related to litigation matters. The most significant of the Company's litigation matters are described below.

1.146

FOSTER WHEELER LTD. (DEC)

NOTES TO FINANCIAL STATEMENTS
(In thousands of dollars)

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 at the date of the financial statements and revenues and expenses during the period reported. Actual results could differ from those estimates. Changes in estimates are reflected in the periods in which they become known. Significant estimates are used when accounting for long-term contracts including customer and vendor claims, depreciation, employee benefit plans, taxes, asbestos litigation and expected recoveries and contingencies, among others. At December 27, 2002 and December 28, 2001 the Company has recorded commercial claims of $0 and $135,000, respectively. The decrease in recorded claims have resulted from the collection of $11,000 and a provision established for the balance of outstanding commercial claims. The Company revised its estimates of

claim revenues to reflect recent adverse recovery experience, management's desire to monetize claims, and the poor economic conditions impacting the markets served by the Company. At December 27, 2002, the Company had approximately $9,000 in requests for equitable adjustments recorded in contracts in process. This amount relates primarily to a claim against a US Government agency for a project currently being executed. If this claim were to be unsuccessful, the costs would be charged to cost of operating revenues.

Revenue Recognition on Long-Term Contracts (In Part)

Revenues and profits in long term fixed price contracts are recorded under the percentage of completion method. Progress towards completion is measured using the cost to cost method, the efforts expended method or variations thereof. These methods are applied consistently to all contracts having similar characteristics in similar circumstances. Under the cost to cost method, revenues and profits are recognized based on the ratio that costs incurred bear to total estimated costs. Under the efforts expended method, revenue and profits are recognized based on the ratio that incurred labor hours bear to total estimated labor hours. Variations of these two methods are used on multiyear contracts that require significant engineering effort and multiple delivery of units. These methods are subject to physical verification of actual progress towards completion.

Revenues and profits on costs reimbursable contracts are recorded as the costs are incurred. The Company includes flow-through costs consisting of materials, equipment and subcontractor costs as revenue on cost-reimbursable contracts when the Company is responsible for the engineering specifications and procurement for such costs.

Contracts in progress are stated at cost increased for profits recorded on the completed effort or decreased for estimated losses, less billings to the customer and progress payments on uncompleted contracts. Negative balances are presented as "estimated costs to complete long term contracts."

The Company has numerous contracts that are in various stages of completion. Such contracts require estimates to determine the appropriate cost and revenue recognition. However, current estimates may be revised as additional information becomes available. If estimates of costs to complete long-term contracts indicate a loss, provision is made currently for the total loss anticipated. The elapsed time from award of a contract to completion of performance may be up to four years.

1.147

NASHUA CORPORATION AND SUBSIDIARIES (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Environmental Expenditures

We expense environmental expenditures relating to ongoing operations unless the expenditures extend the life, increase the capacity or improve the safety or efficiency of our property, mitigate or prevent environmental contamination that has yet to occur and improve our property compared with its original condition, or are incurred for property held for sale.

Expenditures relating to site assessment, remediation and monitoring are accrued and expensed when the costs are both probable and the amount can be reasonably estimated. We base estimates on in-house and third-party studies considering current technologies, remediation alternatives and current environmental standards. In addition, if there are other participants and the liability is joint and several, the financial stability of the other participants is considered in determining our accrual.

1.148

UNISYS CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

11 Product Warranty

For equipment manufactured by the company, the company warrants that it will substantially conform to relevant published specifications for twelve months after shipment to the customer. The company will repair or replace, at its option and expense, items of equipment that do not meet this warranty. For company software, the company warrants that it will conform substantially to then-current published functional specifications for ninety days from customer's receipt. The company will provide a workaround or correction for material errors in its software that prevents its use in a production environment.

The company estimates the costs that may be incurred under its warranties and records a liability in the amount of such costs at the time revenue is recognized. Factors that affect the company's warranty liability include the number of units sold, historical and anticipated rates of warranty claims and cost per claim. The company quarterly assesses the adequacy of its recorded warranty liabilities and adjusts the amounts as necessary. Presented below is a reconciliation of the aggregate product warranty liability:

(Millions)	2002
Balance at December 31, 2001	$ 16.1
Accruals for warranties issued during the period	16.4
Settlements made during the period	(15.2)
Changes in liability for pre-existing warranties during the period, including expirations	1.9
Balance at December 31, 2002	$ 19.2

Vulnerability Due to Certain Concentrations

1.149

AMERICAN GREETINGS CORPORATION (FEB)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note A (In Part): Significant Accounting Policies

Concentration of Credit Risks

The Corporation sells primarily to customers in the retail trade, including those in the mass merchandiser, drug store, supermarket and other channels of distribution. These customers are located throughout the United States, Canada, the United Kingdom, Australia, New Zealand, Mexico, South Africa, Malaysia, Hong Kong and Singapore. Net sales to the Corporation's five largest customers accounted for approximately 37%, 29% and 33% of net sales in 2002, 2001 and 2000, respectively. Net sales to Wal-Mart Stores, Inc. accounted for 12% of net sales in 2002 and 10% of net sales in 2001 and 2000.

The Corporation conducts business based on periodic evaluations of its customers' financial condition and generally does not require collateral. While the competitiveness of the retail industry presents an inherent uncertainty, the Corporation does not believe a significant risk of loss from a concentration of credit exists.

During 2002, the Corporation entered into an exclusive supply agreement with a major customer. The agreement provided for certain advances and allowances to be earned over the length of the commitment. Subsequent to entering into the agreement, the customer filed for Chapter 11 protection as it reorganizes. The Corporation expects that the customer will emerge from Chapter 11 a smaller and stronger competitor in the mass retail market. As the customer goes through the normal process of affirming all its contracts, the Corporation fully expects its contract to be affirmed. However, in the unlikely event the Corporation's contract with the customer is not affirmed, the Corporation will have a claim for the unearned portion of advances. The Corporation maintains adequate reserves for deferred contract costs and does not expect that a rejection of this contract would result in a material loss. The unlikely event of a rejection of the contract or the customer's failure to emerge from bankruptcy could potentially result in a substantial reduction to the Corporation's sales base and could negatively impact the Corporation's ability to achieve forecasted sales and profit performance levels.

1.150

ARDEN GROUP, INC. AND CONSOLIDATED SUBSIDIARIES (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5 Significant Supplier

The Company procures approximately 22 percent of its product through Unified Western Grocers, Inc. ("Unified"), a grocery cooperative. As a member-patron, the Company is required to provide Unified with certain minimum deposits and credit in order to purchase product from the cooperative. As of December 28, 2002, the Company had approximately $1,418,000 on deposit with Unified. The minimum deposit requirement is satisfied through a combination of cash, credit and ownership of equity shares in Unified. In September 2002, Unified's Board of Directors authorized a quasi-reorganization that eliminated its accumulated deficit in retained earnings and restated assets and liabilities to their fair values. Unified's Board of Directors has adopted an equity enhancement plan for its 2002 fiscal year. Under the equity enhancement plan, member-patrons will receive five-year low interest bearing subordinated patronage dividend certificates in lieu of amounts previously paid in cash and Class B shares. In 2002, the Company earned approximately $149,000 in subordinated patronage dividend certificates. In the event Unified continues to incur reductions in earned surplus, the Company may face impairment issues relating to the deposits provided to Unified. In view of the above, the Company has currently elected not to recognize the patronage dividend as income until the certificates are redeemed. The Company will evaluate this policy on an annual basis based on facts and circumstances as they exist in the future.

1.151

THE DIAL CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 18 (In Part): Segments of an Enterprise

The Domestic Branded business segment consists of four aggregated operating segments that manufacture and market non-durable consumer packaged goods through grocery store, drug store and mass merchandiser retail outlets. It is comprised of the Personal Cleansing, Laundry Care, Air Fresheners and Food Products operating segments. Our subsidiary, ISC International, Ltd., a manufacturer of translucent soaps, is included in the Personal Cleansing operating segment. The following table sets forth the percentage of net sales represented by each franchise within the Domestic Branded segment:

	2002	2001	2000
Laundry Care	39%	37%	34%
Personal Cleansing	31	32	33
Food Products	16	16	17
Air Fresheners	14	15	16
Total	100%	100%	100%

Our International and Other business segment includes our commercial markets and international businesses. Our international operations are focused in Canada, Puerto Rico and exports to Asia and Latin America. During 2002, 2001 and 2000, approximately 82%, 72% and 62%, respectively, of our international sales came from these markets. In total, international sales represent 4.4%, 4.6% and 5.1% of sales in 2002, 2001 and 2000, respectively. Our commercial markets

business sells our products, both branded and nonbranded, through the commercial channel to hotels, hospitals, schools and other institutional customers.

1.152

FEDDERS CORPORATION (AUG)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Risks and Uncertainties

Approximately 8% of the Company's employees are covered by a collective bargaining agreement which expired in October 2002. The union members continue to work while the parties negotiate. Another 3% of the Company's employees are covered by a separate collective bargaining agreement which expires in March 2005.

Through certain subsidiary companies, the Company has operations in a number of countries, including China, India, Germany, Spain, the United Kingdom and the Philippines. Of our fourteen manufacturing facilities, five are in China.

The Company's foreign operations, at times, may be adversely affected by changes in government policies such as changes in laws and regulations (or the interpretation thereof), restrictions on imports and exports and sources of supply, duties or tariffs, the introduction of additional measures to control inflation, changes in the rate or method of taxation, the imposition of additional restrictions on currency conversion and remittances abroad and the expropriation of private enterprise. In addition, policy concerns particular to the United States with respect to a country in which the Company has operations could adversely affect the Company's operations in that country.

The Company monitors its operations with a view to minimizing the impact on its foreign investments and overall business that could arise as a result of the risks inherent in maintaining operations in foreign countries as described above.

1.153

THE GOODYEAR TIRE & RUBBER COMPANY AND SUBSIDIARIES (DEC)

NOTES TO FINANCIAL STATEMENTS

Note 22 (In Part): Commitments and Contingent Liabilities

Concentrations of Labor

At December 31, 2002, approximately 57% of the Company's employees were covered by collective bargaining agreements. 45% of the Company's employees were covered by collective bargaining agreements that will expire in 2003. It is uncertain at this time whether agreements will be reached without interruption of production, and the terms of the agreements ultimately reached could result in higher wage and benefit costs.

1.154

HUMANA INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Reporting Entity

Nature of Operations

Headquartered in Louisville, Kentucky, Humana Inc. is one of the nation's largest publicly traded health benefits companies, based on our 2002 revenues of $11.3 billion. References throughout this document to "we," "us," "our," "Company," and "Humana," mean Humana Inc. and all entities we own. We offer coordinated health insurance coverage and related services through a variety of traditional and Internet-based plans for employer groups, government-sponsored programs, and individuals. In 2002, approximately 70% of our premiums and administrative services fees resulted from members located in Florida, Illinois, Texas, Kentucky and Ohio. We derived approximately 44% of our premiums and administrative services fees from contracts with the federal government in 2002. Under two federal government contracts with the Department of Defense, we provide health insurance coverage to TRICARE members, accounting for approximately 19% of our total premium and administrative services fees in 2002. Under one federal government contract with the Centers for Medicare and Medicaid Services, or CMS, we provide health insurance coverage for Medicare+Choice members in Florida, accounting for approximately 16% of our total premiums and administrative services fees in 2002.

12 (In Part): Commitments, Guarantees and Contingencies

Government Contracts (In Part)

Our Medicare+Choice 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+Choice program's current reimbursement rates. We are unable to predict the outcome of these proposals or the impact they may have on our financial position, results of operations, or cash flows.

We currently are in negotiations with the Department of Defense to extend our TRICARE contracts that expire on April 30, 2003 for Regions 2 and 5 and June 30, 2003 for Regions 3 and 4. We believe we will be able to successfully extend our TRICARE contracts under substantially the same terms for one additional year plus a one year renewal option which should continue our contracts through the new TRICARE Next Generation, or T-Nex, transition described below.

1.155

MANDALAY RESORT GROUP AND SUBSIDIARIES (JAN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 17 (In Part): Commitments and Contingent Liabilities

Detroit

The Company participates with the Detroit-based Atwater Casino Group in a joint venture that owns and operates a casino in Detroit, Michigan. This joint venture is one of three groups which negotiated casino development agreements with the City of Detroit. The Company has a 53.5% ownership interest in the joint venture.

Pending the development of a permanent hotel/casino, the joint venture constructed a temporary casino (MotorCity Casino) in downtown Detroit, which opened December 14, 1999. The cost of the temporary casino, including land and capitalized interest but excluding preopening expenses, was approximately $150 million. This cost was financed through the joint venture's $150 million credit facility, which is secured by the assets associated with the temporary casino. The Company has guaranteed this credit facility, which had a balance of $20 million at January 31, 2003. The joint venture's operation of the casino is subject to ongoing regulatory oversight, and its ability to proceed with an expanded permanent hotel/casino project is contingent upon the receipt of all necessary governmental approvals, successful resolution of pending litigation and satisfaction of other conditions.

COMMITMENTS

1.156 Paragraph 18 of *SFAS 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.

1.157 Examples of commitment disclosures follow.

1.158

TABLE 1-12: COMMITMENTS

	Number of Companies			
	2002	**2001**	**2000**	**1999**
Debt covenant restrictions	388	375	376	362
Purchase agreements	196	157	124	128
Capital expenditures	66	69	72	70
Additional payments related to acquisitions	41	45	20	27
Sales agreements	35	18	20	17
Employment contracts	32	30	31	30
Licensing agreements	25	23	17	15
Other—described	80	68	58	74

Debt Covenant Restrictions

1.159

BANTA CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5 (In Part): Long-Term Debt

The Promissory Notes contain various operating and financial covenants. The more restrictive of these covenants require that working capital be maintained at a minimum of $40,000,000, current assets be 150% of current liabilities and consolidated tangible net worth be not less than $125,000,000. Funded debt of up to 50% of the sum of consolidated tangible net worth and consolidated funded debt may be incurred without prior consent of the noteholders. The Corporation may incur short-term debt of up to 25% of consolidated tangible net worth at any time and is required to be free of all such obligations in excess of 12.5% of consolidated tangible net worth for 60 consecutive days each year. The agreements also contain limitations on leases and ratable security on certain types of liens. The Corporation was in compliance with all debt covenants at December 28, 2002.

One of the Promissory Notes restricts the payment of dividends. As of December 28, 2002, $105,818,000 of retained earnings was available for the payment of dividends under the most restrictive of such covenants.

1.160

THE CLOROX COMPANY (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Millions of dollars)

9 (In Part): Debt

Certain of the Company's unsecured notes, debentures and credit agreements contain restrictive covenants and limitations, including limitations on certain sale and leaseback transactions to the greater of $100, or 15% of the Company's consolidated net tangible assets, as defined, and require the maintenance of a consolidated leverage ratio, as defined. The Company is in compliance with all restrictive covenants and limitations at June 30, 2002.

1.161

LYNCH CORPORATION AND SUBSIDIARIES (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Restrictions on dividends under the M-tron loan with First National Bank of Omaha disallow distributions to the parent company without consent of the bank. Lynch Systems, under its loan with Sun Trust Bank, may pay a cash dividend to the parent company equal to 50% of LS's net income for the prior fiscal year. Under the M-tron loan agreement, advances to the parent company are disallowed without the prior written consent of the lending bank. Under its loan agreement, LS may pay an annual management fee to the parent company in an amount not to exceed $250,000. In addition, LS may reimburse the parent company for expenses and taxes paid by the parent on behalf of LS.

1.162

TENET HEALTH CARE CORPORATION AND SUBSIDIARIES (MAY)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 6 (In Part): Long-Term Debt and Lease Obligations

Loan Covenants

With the retirement or substantial retirement of eight issues of senior notes and senior subordinated notes since May 31, 2001, together with amendments to the loan covenants, the Company has eliminated substantially all of the restrictive covenants associated with debt issued when the Company was considered a "high yield" issuer. During fiscal 2002, the Company's senior notes and senior subordinated notes were upgraded to investment grade. The Company's credit agreement and the indentures governing the Company's senior and senior subordinated notes contain affirmative, negative and financial covenants which have, among other requirements, limitations on (i) liens, (ii) consolidations, mergers or the sale of all or substantially all assets unless no default exists and, in the case of a consolidation or merger, the surviving entity assumes all of the Company's obligations under the credit agreement, and (iii) subsidiary debt. The covenants also provide that the Company may declare and pay a dividend and purchase its common stock so long as no default exists and the Company's leverage ratio (the ratio of the Company's consolidated total debt to consolidated EBITDA (as defined on page 38)) is less than 3.0 to 1. The Company's leverage ratio was significantly less than 3.0 to 1 at May 31, 2002. The credit agreement covenants also require that the Company's leverage ratio not exceed 3.5 to 1 and that the Company maintain specified levels of net worth and fixed-charge coverages. The Company is in compliance with its loan covenants. There are no compensating balance requirements for any credit line or borrowing.

1.163

TERRA INDUSTRIES INC. (DEC)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

9 (In Part): Current Maturities of Long-Term Debt and Capital Lease Obligations

At December 31, 2002, Terra had no outstanding revolving credit borrowings and $20.9 million in outstanding letters of credit, resulting in remaining borrowing availability of approximately $124 million under the facility. Terra expects the facility to be adequate to meet operating cash needs. The credit facility also requires that Terra adhere to certain limitations on additional debt, capital expenditures, acquisitions liens, asset sales, investments, prepayments of subordinated indebtedness, changes in lines of business and transactions with affiliates. If Terra's borrowing availability falls below $60 million, Terra is required to have achieved minimum operating cash flows or earnings before interest, income taxes, depreciation, amortization and other non-cash items of $60 million during the most recent four quarters. The amount of operating cash flows to measure credit facility compliance is different than amounts that can be derived from Terra's financial statements. For the years ending December 31, 2002 and 2001, operating cash flows as defined in the credit facility were $91 million and $66 million, respectively.

11 (In Part): Long-Term Debt and Capital Lease Obligations

Payment obligations under the Senior Secured Notes are fully and unconditionally guaranteed on a joint and several basis by Terra Industries Inc. ("Parent") and its wholly owned U.S. subsidiaries ("the Guarantor Subsidiaries"). Terra Nitrogen, Limited Partnership, TNCLP and the Parent's foreign subsidiaries do not guarantee the notes (see Note 21—Guarantor Subsidiaries for condensed consolidating financial information). The Parents' ability to receive dividends from its subsidiaries is limited by the credit agreement to amounts required for the funding of operating expenses and debt service (not to exceed $40 million per year), income tax payments on the earnings of TCAPI and its subsidiaries and liabilities associated with discontinued operations (not to exceed $5 million per year). In addition, dividends to the Parent are permitted for the purpose of retiring the 10.5% Senior Notes due in 2005 or purchasing common units in TNCLP subject to credit agreement restrictions on such purchases.

The Indenture governing the Senior Secured Notes contains covenants that limit, among other things, Terra's ability to: incur additional debt, pay dividends on common stock of Terra Industries Inc. or repurchase shares of such common stock, make investments (other than in Terra Capital or any guarantor), use assets as security in other transactions, sell any of Terra's principal production facilities or sell other assets outside the ordinary course of business, enter into transactions with affiliates, limit dividends or other payments by Terra's restricted subsidiaries, enter into sale and leaseback transactions, engage in other businesses, sell all or substantially all of Terra's assets or merge with or into other companies, and reduce Terra's insurance coverage. In addition, Terra is obligated to offer to repurchase these notes upon a Change of Control (as defined in the Indenture) at a

cash price equal to 101% of the aggregate principal amount, plus accrued interest to the date of purchase. The Indenture governing these notes contains events of default and remedies customary for a financing of this type. Offering proceeds, existing cash balances and revolving credit lines were used to retire $159 million of senior notes and $99 million of bank term notes due in 2003.

Purchase Agreements

1.164

CABOT CORPORATION (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note Q (In Part): Commitments & Contingencies

Other Long-Term Commitments

Cabot has entered into long-term purchase agreements for various key raw materials in the Performance Materials and Chemical Businesses. The purchase commitments for the Performance Materials business covered by these agreements are with one supplier and are estimated to aggregate approximately $196 million for the periods 2003 through 2005. Purchases under these agreements are expected to be $60 million, $66 million, and $70 million in 2003, 2004 and 2005, respectively. Raw materials purchased under these agreements were $64 million, $69 million and $32 million in 2002, 2001 and 2000, respectively. The purchase commitments for the Chemical Businesses covered by these agreements are with three suppliers and are estimated to aggregate approximately $397 million for the periods 2003 through 2028. Purchases under these agreements are expected to be $62 million, $61 million, $16 million, $16 million, $17 million and $225 million for 2003, 2004, 2005, 2006, 2007 and thereafter, respectively. Raw materials purchased under these agreements were $66 million, $66 million, and $60 million in 2002, 2001 and 2000, respectively.

1.165

CERIDIAN CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars in millions)

J (In Part): Commitments and Contingencies

Contracts

In March 2001, we entered into an agreement with Ultimate Software Group, Inc. (which this report refers to as "Ultimate") that provided us with a non-exclusive license to use Ultimate's software as part of a Webenabled integrated payroll/HR/self-service offering to our small business customers. We made an immediate payment of $10.0, of which $5.0 was contingent upon successful transfer of the technology to us. We also agreed to make additional payments commencing upon transfer of technology, based on the number of our customers' employees paid by using the software and subject to minimum and maximum amounts.

The transfer of technology was accomplished in February 2002. At that time and as a result of amendments to the agreement, the requirement for minimum monthly payments in 2002 was eliminated in consideration for an advance payment of $6.0, representing the minimum monthly payments for the year 2003. We remained obligated to future minimum monthly payments of $0.5 per month from January 2004 until January 1, 2006, when the minimum monthly payment will escalate at a rate of 5% per annum.

The noncancelable term of the contract extends for seven years until March 2008 at which time either party may terminate the agreement, provided that at least two years prior written notice has been provided to the other party. Under the agreement, we may not, without Ultimate board approval, acquire an equity interest in Ultimate greater than 14.99% through purchases in the open market or from third parties.

Effective January 1, 2003, we entered into a services agreement with Ultimate under which we will make quarterly payments totaling $2.3 during 2003 for extended technical support in connection with the introduction of our SourceWeb payroll services offering.

In connection with the acquisition of certain call center assets in December 2002, we entered into royalty and services arrangements that are noncancelable for the first 36 months. Under these arrangements, we are obligated to make minimum payments of $2.2 in each of 2003, 2004 and 2005.

1.166

ELI LILLY AND COMPANY AND SUBSIDIARIES (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 9 (In Part): Shareholders' Equity

As of December 31, 2002, we have purchased $1.80 billion of our announced $3.0 billion share repurchase program. We acquired approximately 4.5 million, 7.2 million, and 14.8 million shares in 2002, 2001, and 2000, respectively, under our share repurchase programs.

In connection with our share repurchase programs, we have entered into agreements to purchase shares of our stock. As of December 31, 2002, we have agreements to purchase up to approximately 3.0 million shares of our stock from an independent third party at various times through the expiration of the agreements in December 2003 at prices ranging from $85 to $100 per share and with a weighted average of approximately $93 per share. The number of shares to be purchased will be reduced ratably each quarter through the expiration of the agreements. Our objective in entering into the above agreements was to reduce the average price of repurchased shares.

1.167

HARSCO CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

13 (In Part): Financial Instruments

Off-Balance Sheet Risk—Unconditional Purchase Commitments

The Company entered into an unconditional purchase commitment during 2001 for scaffolding equipment that can be used by the Company for either rental or sale. This commitment is not recorded on the Company's Balance Sheet. The Company purchased $15.4 million and $14.1 million of equipment under this commitment during 2002 and 2001, respectively. The future obligations (undiscounted) of the Company under this commitment are as follows:

(In thousands)	
2003	$ 10,732
2004	7,512
2005	2,146

1.168

TEKTRONIX, INC. (MAY)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

13 (In Part): Commitments and Contingencies

During the third quarter of fiscal year 2002, the Company reached an agreement with Sony Corporation ("Sony") to acquire Sony's 50% interest in Sony/Tektronix through a redemption of Sony's shares for 8 billion Yen or approximately $64.1 million at May 25, 2002. The Company currently accounts for its investment in Sony/Tektronix under the equity method. The Company expects the transaction to close on September 30, 2002, subject to certain conditions, at which time the Company will have 100% ownership of Sony/Tektronix. The transaction will be accounted for by the purchase method of accounting, and accordingly, beginning on the date of acquisition the results of operations, financial position and cash flows of Sony/Tektronix will be consolidated in the Company's financial statements.

Capital Expenditures

1.169

PARK PLACE ENTERTAINMENT CORPORATION AND SUBSIDIARIES (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 15 (In Part): Commitments and Contingencies

New Projects

Saint Regis Mohawk Tribe

Park Place entered into an agreement in April 2000 with the Saint Regis Mohawk Tribe in Hogansburg, New York. Park Place paid $3 million for exclusive rights to develop a Class II or Class III casino project with the Tribe in the State of New York. In November 2001, the parties also entered into a seven-year definitive management agreement for Park Place to manage a casino to be located at Kutsher's Country Club in Thompson, New York in return for a management fee equal to 30 percent of ebitda, as defined in the agreement. The management agreement is subject to the approval of the National Indian Gaming Commission.

The Company has entered into a definitive agreement, as amended, to acquire approximately 66 acres of the Kutsher's Resort Hotel and Country Club in Sullivan County, New York, for approximately $10 million, with an option to purchase the remaining 1,400 acres for $40 million. Upon approval by the Bureau of Indian Affairs ("BIA"), approximately 66 acres will be transferred to be held in trust for the Saint Regis Mohawk Tribe.

As currently planned, the facility will include a 750-room hotel, 165,000 square feet of gaming space, 15,000 square feet of meeting space, restaurants and a spa.

All of the agreements and plans relating to the development and management of this project are contingent upon various regulatory and governmental approvals, including execution of a compact between the Saint Regis Mohawk Tribe and the State of New York, and receipt of approvals from the BIA, National Indian Gaming Commission and local planning and zoning boards. There is no guarantee that the requisite regulatory approvals will be received.

In October 2001, the New York State Legislature enacted a bill, which the governor signed, authorizing a total of six Indian casinos in the state of New York—three in Western New York and three in the Catskills Region, and approved the use of video lottery terminals at racetracks and authorized the participation of New York State in a multi-state lottery. The legislation also gives the governor the authority to negotiate state compacts with the tribes without further approval by the legislature. The constitutionality of this legislation has been challenged. As of December 31, 2002, the Company had $21 million invested in the development of this project, which is included in other assets on the consolidated balance sheets. In the event the project is not completed, these costs would be written off.

1.170

SAFEWAY INC. AND SUBSIDIARIES (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note M (In Part): Commitments and Contingencies

Commitments

The Company has commitments under contracts for the purchase of property and equipment and for the construction of buildings. Portions of such contracts not completed at year-end are not reflected in the consolidated financial statements. These unrecorded commitments were $129.1 million at year-end 2002.

Additional Payments Related to Acquisitions

1.171

ABM INDUSTRIES INCORPORATED AND SUBSIDIARIES (OCT)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

10 (In Part): Acquisitions

All acquisitions have been accounted for using the purchase method of accounting; operations of the companies and businesses acquired have been included in the accompanying consolidated financial statements from their respective dates of acquisition. The excess of the purchase price over fair value of the net assets acquired is generally included in goodwill. Most purchase agreements provide for contingent payments based on the annual pretax income for subsequent periods ranging generally from two to five years. Any such future payments are generally capitalized as goodwill when paid. Cash paid for acquisitions, including down payments and contingent amounts based on subsequent earnings, was $52,448,000 in 2002. In addition, common shares, with a fair market value of $1,371,000 at the date of issuance, were issued in 2002 under the contingent payment provisions of a 1997 acquisition.

Acquisitions made during 2002 are discussed below:

The Company acquired the service contracts and selected assets of Triumph Security Corporation and Triumph Cleaning Corporation with customers located in New York City effective January 26 and 28, 2002, respectively. This acquisition contributed $6,369,000 in sales in 2002.

On February 28, 2002, the Company acquired the security contracts, accounts receivable and selected assets of Foulke Associates, Inc. with customers located throughout Georgia, Florida, Maryland, Pennsylvania and Virginia. This acquisition contributed $11,791,000 in sales in 2002.

The total cost of the Triumph and Foulke acquisitions was $8,800,000, of which $7,118,000 was allocated to goodwill. The aggregate purchase prices of these acquisitions do not reflect payments of contingent consideration based upon the future results of operations of the businesses acquired. As these acquisitions were not material, pro forma information is not included in the accompanying consolidated financial statements.

On July 12, 2002, the Company acquired the operations of Lakeside Building Maintenance, Inc. and an affiliated company (collectively, Lakeside) with customers located in Chicago, Cincinnati, Cleveland, Columbus, Detroit, Indianapolis, Louisville, Milwaukee, Nashville and St. Louis. The total down payment acquisition cost was $41,131,000, which included the assumption of liabilities totaling $4,194,000. Of the down payment, $39,517,000 was allocated to goodwill. Contingent payments are payable over a three-year period commencing July 13, 2002. The first two annual payments will be equal to fifty percent of Lakeside's Adjusted Earnings Before Interest Taxes Depreciation and Amortization (EBITDA) for each year of the two-year period following the acquisition, while the final payment will be equal to $5,304,000 provided that the gross sales of Lakeside during the third year following the acquisition are equal to or greater than $131,200,000. This acquisition contributed $51,601,000 in revenues in 2002.

1.172

BAXTER INTERNATIONAL INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3 (In Part): Acquisitions, Intangible Assets and Research & Development Costs

Contingent Purchase Price Payments

With respect to the January 2002 acquisition of the majority of the assets of Autros Healthcare Solutions Inc., a developer of automated patient information and medication management systems, for $24 million, the company could make additional purchase price payments of up to $30 million, primarily based on the sales and profits generated from existing and future products through the year 2005. Sales relating to this acquisition, which are included in the Medication Delivery segment, were insignificant in 2002.

With respect to the October 2001 acquisition of certain assets relating to the proprietary recombinant erythropoietin therapeutic for treating anemia in dialysis patients from Elanex Pharma Group (Elanex) for $38 million, the company could make additional purchase price payments of up to $40 million, contingent on the receipt of specified regulatory approvals of the product under development, and payments of up to $180 million, contingent on the achievement of specified sales levels in the future relating to the product under development ($60 million, $60 million and $60 million upon the first year annual sales reach $1 billion, $2 billion and $3 billion, respectively). The technology acquired from Elanex is under development and sales relating to this acquisition, which are included in the Renal segment, were insignificant in 2002 and 2001.

With respect to the acquisition in 1998 of Somatogen, Inc. (Somatogen), a developer of recombinant hemoglobin-based technology, for $206 million, former Somatogen shareholders could be paid contingent deferred cash payments of up to approximately $42 million, based on a percentage of sales of future products through the year 2007. The technology acquired from Somatogen is under development and there

are no saleable products at December 31, 2002. Somatogen is included in the BioScience segment.

Sales Agreements

1.173

THE DUN & BRADSTREET CORPORATION AND SUBSIDIARIES (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3 (In Part): Impact of Implementation of the Blueprint for Growth Strategy and Other Transactions

During the second quarter of 2001, we completed the sale of the operations of our Receivable Management Services ("RMS") product lines in the U.S., Canada and Hong Kong to the RMS senior management team. Our European RMS operations were sold to Intrum Justitia, B.V. We received $90 million from the sale of the businesses comprising approximately $76 million in cash and a note for approximately $14 million that was paid in the fourth quarter of 2001. We recognized a pre-tax gain on the sale of $36.4 million. Additionally, we entered into a $35 million exclusive contract to provide the buyers with Risk Management Solutions products over five years, which was recorded in deferred revenue when received and is being recognized as revenue ratably over the contract period.

1.174

UNOCAL CORPORATION (DEC)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 20—Advance Sales of Natural Gas

The Company entered into a long-term fixed price natural gas sales contract for the delivery of approximately 72 billion cubic feet of gas over a ten-year period beginning in January 1999 and ending in December 2008. In January 1999, the Company received a non-refundable payment of approximately $120 million pursuant to the contract. The Company will also receive a fixed monthly reservation fee over the life of the contract. The Company entered into a ten-year natural gas price swap agreement, which effectively refloated the fixed price that the Company received under the long-term natural gas sales contract. The Company did not dedicate a portion of its natural gas reserves to the contract and it has the option to satisfy contract delivery requirements with natural gas purchased from third parties. Accordingly, the obligation associated with the future delivery of the natural gas has been recorded as deferred revenue and will be amortized into revenue as scheduled deliveries of natural gas are made throughout the contract period. Of the remaining unamortized balance at year-end 2002, approximately $61 million related to deliveries scheduled to be made in the years 2004 through 2008 and was recorded in other deferred credits and liabilities on the consolidated balance sheet. Approximately $12 million was included in other current liabilities on the consolidated balance sheet, representing deliveries to be made in 2003. At December 31, 2002, the Company had in place an irrevocable surety bond in the amount of $93 million securing its performance under the sales contract.

Employment Contracts

1.175

GOLDEN ENTERPRISES, INC. AND SUBSIDIARY (MAY)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 11 (In Part): Employee Benefit Plans

The Company has a salary continuation plan with certain of its key officers whereby monthly benefits will be paid for a period of fifteen years following retirement. The Company is accruing the present value of such retirement benefits until the key officers reach normal retirement age at which time the principal portion of the retirement benefits paid are applied to the liability previously accrued. The change in the liability for the Salary Continuation Plan is as follows:

	2002	2001
Accrued salary continuation plan—beginning of year	$ 1,927,823	$ 1,844,281
Benefits accrued	127,341	121,190
Benefits paid	(40,773)	(37,648)
Accrued salary continuation plan—end of year	$ 2,014,391	$ 1,927,823

1.176

PALL CORPORATION AND SUBSIDIARIES (JUL)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (In thousands)

Contingencies and Commitments (In Part)

The Company has employment agreements with its executive officers, the terms of which expire at various times through August 2003. Such agreements, which have been revised from time to time, provide for minimum salary levels, adjusted annually for cost-of-living changes, as well as for incentive bonuses that are payable if specified management goals are attained as discussed in the Incentive Compensation Plan Note. The aggregate commitment for future salaries at August 3, 2002, excluding bonuses, was approximately $11,153.

Licensing Agreements

1.177

JONES APPAREL GROUP, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Commitments and Contingencies (In Part)

b) Royalties

Under exclusive licenses to manufacture certain items under the *Lauren by Ralph Lauren* and *Ralph by Ralph Lauren* trademarks pursuant to license and design service agreements with Polo Ralph Lauren Corporation ("Polo"), we are obligated to pay Polo a percentage of net sales of *Lauren by Ralph Lauren* and *Ralph by Ralph Lauren* products. Minimum annual royalty payments of $34.4 million are due under the *Lauren by Ralph Lauren* agreements, which expire on December 31, 2006. Minimum payments of $5.3 million are due for 2003 under the *Ralph by Ralph Lauren* agreements, which are scheduled to end on December 31, 2003. We are also obligated to spend on advertising a percentage of net sales of these licensed products.

Under a similar exclusive license to manufacture certain items under the *Polo Jeans Company* trademark pursuant to license and design service agreements with Polo, we are obligated to pay Polo a percentage of net sales of *Polo Jeans Company* products. Minimum royalty payments of $5.6 million per year are due under these agreements. We are also obligated to spend on advertising a percentage of net sales of these licensed products. The agreements expire on December 31, 2005 and may be renewed by us in five-year increments for up to 25 additional years provided that we achieve certain minimum sales levels. Renewal of the *Polo Jeans Company* license after 2010 requires a one-time payment by us of $25.0 million or, at our option, a transfer of a 20% interest in our *Polo Jeans Company* business to Polo (with no fees required for subsequent renewals). Polo also has an option, exercisable on or before June 1, 2010, to purchase our *Polo Jeans Company* business at the end of 2010 for a purchase price, payable in cash, equal to 80% of the then fair market value of the business as a going concern, assuming continuation of the *Polo Jeans* license through 2030.

Under a similar exclusive license to manufacture and market in Canada certain products under the *Polo Jeans Company* and *Polo Ralph Lauren* trademarks pursuant to license and design service agreements with Polo, we are obligated to pay Polo a percentage of net sales of these products. Minimum annual royalty payments of $1.6 million in 2003, $2.3 million in 2004 and $2.5 million in 2005 are due under these agreements. We are also obligated to spend on advertising a percentage of net sales of these licensed products. The agreements expire on December 31, 2005 and are renewable for an additional five years, provided that we achieve certain minimum sales levels.

We have been in discussions with Polo Ralph Lauren Corporation regarding restructuring various license agreements. The two companies have not agreed on important provisions, including the interpretation of how the current *Lauren by Ralph Lauren* license relates to the current *Ralph by Ralph Lauren* license. The *Ralph by Ralph Lauren* license is scheduled to end on December 31, 2003. Polo Ralph Lauren Corporation has asserted that the end of the *Ralph by Ralph Lauren* contract on December 31, 2003 will cause the *Lauren by Ralph Lauren* license to end on December 31, 2003 instead of December 31, 2006. We believe that this is an improper interpretation and that the expiration of the *Ralph by Ralph Lauren* license does not cause the *Lauren by Ralph Lauren* license to end. The discussions between us and Polo Ralph Lauren Corporation could result in restructured licensing arrangements, an end to some or all of their licensing arrangements, or litigation.

Net sales of *Lauren by Ralph Lauren* were $547.8 million and net sales of *Ralph by Ralph Lauren* were $36.7 million for the year ended December 31, 2002. If the *Lauren by Ralph Lauren* license were to end at the end of 2003, there would be a material adverse impact on our results of operations after 2003. However, it would not materially adversely impact our liquidity, and we would continue to have a strong financial position in the event the *Lauren by Ralph Lauren* license were to end. The expiration of the *Ralph by Ralph Lauren* license would not be material to us in any respect.

The dispute between us and Polo Ralph Lauren Corporation does not relate to the *Polo Jeans* license, and an end to the *Lauren by Ralph Lauren* and *Ralph by Ralph Lauren* licenses would not end our longer term *Polo Jeans* license or otherwise adversely affect the *Polo Jeans* license in the United States. However, the ongoing discussions between us and Polo Ralph Lauren Corporation could result in changes to the *Polo Jeans* licensing arrangements.

We also have an exclusive license to produce and sell costume jewelry in the United States and Canada under the *Tommy Hilfiger* trademark. The agreement expires on March 31, 2005 and is renewable for an additional three years, provided that we achieve certain minimum sales levels. The agreement provides for payment by us of a percentage of net sales against guaranteed minimum royalty and advertising payments as set forth in the agreement. Minimum royalty payments under this agreement amount to $1.1 million in 2003, $1.3 million in 2004 and $0.3 million in 2005. We also had the exclusive, worldwide license to produce, market and distribute costume jewelry under the *Givenchy* mark, which expired on December 31, 2002. We are currently in discussions with Givenchy Corporation to extend the term of that license.

In July 2002, we obtained the exclusive license to produce and sell women's and young women's footwear, luggage, handbags and small leather goods throughout the United States and Puerto Rico bearing a diversified complement of *ESPRIT* trademarks pursuant to license and design service agreements with a subsidiary of Esprit Holdings Limited. The agreement expires on December 31, 2007 and is renewable for an additional five years, provided that we achieve certain minimum sales levels. Minimum royalty payments under these agreements amount to $0.9 million in 2003, $1.7 million in 2004, $2.8 million in 2005, $3.8 million in 2006 and $4.8 million in 2007. We are also obligated to spend on advertising a percentage of net sales of these licensed products.

Consent Decree

1.178

SCHERING-PLOUGH CORPORATION AND SUBSIDIARIES (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars in millions)

Consent Decree

In December 2001, the Company announced that it was in negotiations with the U.S. FDA to enter a consent decree to resolve issues involving the Company's compliance with current Good Manufacturing Practices (GMPs) at certain manufacturing facilities in New Jersey and Puerto Rico. On May 17, 2002, the Company announced that it had reached an agreement with the FDA for a consent decree to resolve these issues. The U.S. District Court for the District of New Jersey has approved the consent decree.

Under terms of the consent decree, the Company will pay a total of $500 to the U.S. government in two equal installments of $250; the first installment was paid in May 2002, and the second installment will be paid in the second quarter of 2003. As previously reported, the Company accrued a $500 provision for this consent decree in the fourth quarter of 2001.

In the event certain actions agreed upon in the consent decree are not satisfactorily completed on time, the FDA may assess payments for each deadline missed. These payments may not exceed $25 for 2002, and $50 for each of the years 2003, 2004 and 2005. These payments are subject to an overall cap of $175 through 2005. The Company is scheduled to complete its revalidation plans by December 31, 2005. In general, if a product scheduled for revalidation and certification under the consent decree is not certified within six months of its scheduled date, the Company must cease production of that product until certification is obtained. If a product scheduled for revalidation and certification has not been certified as having been validated by the last date on the validation schedule (currently December 31, 2005, for finished drugs and September 30, 2005, for bulk active pharmaceutical ingredients), the FDA may assess a payment of 24.6 percent of the net domestic sales of the uncertified product until the validation is certified. The Company would expense any such payments if and when incurred.

In connection with the agreement, the Company has decided to discontinue manufacturing and marketing certain older products. The consent decree also includes a recall, initiated in early May 2002 and directed to U.S. trade accounts, of all lots of theophylline USP tablets and PROVENTIL (albuterol sulfate, USP) REPETABS. PROVENTIL inhalers are not affected by the recall. The Company had discontinued marketing its U.S. theophylline products in June 2001, and PROVENTIL REPETABS have not been available since July 2001. In total, these products represented annual sales of approximately $44. Further, the Company recalled certain sterile human and animal drug products manufactured at its Manati, Puerto Rico facility. The financial impact of the recalls was immaterial.

Trade-In Options

1.179

GENERAL DYNAMICS CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars in millions)

O (In Part): Commitments and Contingencies

Other (In Part)

As of December 31, 2002, in connection with orders for 14 Gulfstream G550s (initially designated the Gulfstream V-SP) and four Gulfstream G200 aircraft in firm contract backlog, the company had offered customers trade-in options, which may or may not be exercised by the customers. If these options are exercised, the company will accept trade-in aircraft, primarily Gulfstream IV-SPs and Gulfstream Vs, at a predetermined minimum trade-in price as partial consideration in the new aircraft transaction. Any excess of the trade-in price above the fair market value is treated as a reduction of revenue upon recording of the new aircraft sales transaction. These option commitments totaled $551 as of December 31, 2002, down from $567 in the third quarter. The company expects approximately half of these options to be exercised in 2003, with the remainder exercised in 2004. Beyond these commitments, additional aircraft trade-ins are likely to be accepted throughout the year in connection with future orders for new aircraft.

FINANCIAL INSTRUMENTS

1.180 The Financial Accounting Standards Board (FASB) has issued several statements concerning financial instruments. SFAS No. 107, *Disclosures about Fair Value of Financial Instruments,* requires reporting entities to disclose the fair value of financial instruments, and as amended by SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities,* includes the disclosure requirements of credit risk concentrations from SFAS No. 105, *Disclosure of Information about Financial Instruments with Off-Balance-Sheet Risk and Financial Instruments with Concentrations of Credit Risk.* In addition to amending *SFAS No. 107, SFAS No. 133* supersedes *SFAS No. 105* and SFAS No. 119, *Disclosure about Derivative Financial Instruments and Fair Value of Financial Instruments. SFAS No. 133* establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives), and for hedging activities. The Statement 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. SFAS No. 138, *Accounting for Certain Derivative Instruments and Certain Hedging Activities,* which amended *SFAS No. 133,* addresses implementation issues for certain derivative instruments and certain hedging activities. SFAS No. 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities,* amends and clarifies *SFAS No. 133* in connection with implementation issues and the definition of a derivative.

1.181 Table 1-13 lists the frequencies of the various types of financial instruments of the survey companies. 331 survey companies entered into interest rate swaps. 283 survey companies entered into forward foreign currency contracts, options, or foreign exchange contracts. Swaps, futures, forward contracts, or options were common types of commodity contracts reported by the survey companies. 103 survey companies entered into these types of contracts. The most frequent bases used by the survey companies to estimate fair value were broker quotes or market quotes.

1.182 Examples of fair value disclosures for financial instruments and of disclosures for concentration of credit risk follow.

1.183

TABLE 1-13: FINANCIAL INSTRUMENTS

	Number of Companies			
	2002	**2001**	**2000**	**1999**
Interest rate contracts	341	315	259	249
Foreign currency contracts	308	329	304	282
Commodity contracts	109	119	97	82
Guarantees:				
Debt	226	136	123	85
Lease payments	55	35	33	23
Contract performance	54	35	15	15
Support agreements	24	7	9	10
Other	30	28	39	14
Letters of credit	263	205	182	172
Sale of receivables with recourse	20	25	45	26

DERIVATIVE FINANCIAL INSTRUMENTS

1.184

COCA-COLA BOTTLING CO. CONSOLIDATED (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Significant Accounting Policies

Derivative Financial Instruments

On January 1, 2001, the Company adopted Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended ("SFAS No. 133"), which requires that all derivative instruments be recognized in the financial statements at fair value. The adoption of SFAS No. 133 did not have a significant impact on the results of operations, financial position or cash flows during 2001.

The Company uses derivative financial instruments to manage its exposure to movements in interest rates. The use of these financial instruments modifies the exposure of these risks with the intent to reduce the risk to the Company. The Company does not use financial instruments for trading purposes, nor does it use leveraged financial instruments. Credit risk related to the derivative financial instruments is considered minimal and is managed by requiring high credit standards for its counterparties and periodic settlements.

Changes in fair value of derivative financial instruments are recorded as adjustments to the assets or liabilities being hedged in the statement of operations or in accumulated other comprehensive income (loss), depending on whether the derivative is designated and qualifies for hedge accounting, the type of hedge transaction represented and the effectiveness of the hedge.

The Company discontinues hedge accounting prospectively when (1) it determines that the derivative instrument is no longer effective in offsetting changes in the fair value or cash flows of the underlying exposure being hedged; (2) the derivative instrument expires or is sold, terminated or exercised; or (3) the Company determines that designating the derivative instrument as a hedge is no longer appropriate.

10. Derivative Financial Instruments

The Company periodically uses interest rate hedging products to modify risk from interest rate fluctuations. The Company has historically altered its fixed/floating rate mix based upon anticipated cash flows from operations relative to the Company's debt level and the potential impact of changes in interest rates on the Company's overall financial condition. Sensitivity analyses are performed to review the impact on the Company's financial position and coverage of various interest rate movements. The Company does not use derivative financial instruments for trading purposes nor does it use leveraged financial instruments. All of the Company's outstanding interest rate swap agreements and forward rate agreements are LIBOR-based.

Derivative financial instruments were summarized as follows:

	2002		2001	
(In thousands)	Notional Amount	Remaining Term	Notional Amount	Remaining Term
Interest rate swaps—fixed			$27,000	.95 years
Interest rate swaps—fixed			19,000	.95 years
Interest rate swaps—floating	$50,000	4.92 years		
Interest rate swaps—floating	50,000	6.58 years		
Interest rate swaps—floating	50,000	9.92 years		

	2002		
(In thousands)	Notional Amount	Start Date	Length of Term
Forward rate agreement—fixed	$ 50,000	1/02/03	1 year
Forward rate agreement—fixed	50,000	5/01/03	1 year
Forward rate agreement—fixed	50,000	5/15/03	1 year
Forward rate agreement—fixed	50,000	5/30/03	.25 years

During November 2002, the Company entered into three interest rate swap agreements in conjunction with the issuance of $150 million of senior notes and the refinancing of other Company debt as previously discussed. The new interest rate swap agreements effectively convert $150 million of the Company's debt from a fixed rate to a floating rate in conjunction with its ongoing debt management strategy.

These swap agreements were accounted for as fair value hedges.

During December 2002, the Company entered into a $50 million, three-month forward rate agreement that fixed short-term rates on a portion of the Company's $170 million term loan. This forward rate agreement was accounted for as a cash flow hedge.

During December 2002, the Company entered into three one-year forward rate agreements which fix short-term rates on certain components of the Company's floating rate debt for periods of twelve months. The three forward rate agreements as of December 29, 2002 do not meet the criteria set forth in SFAS No. 133 for hedge accounting and have been accounted for on a mark-to-market basis. The mark-to-market adjustment for the forward rate agreements is included as an adjustment to interest expense and was not material for 2002.

The Company entered into an additional $50 million, one-year forward rate agreement subsequent to the end of 2002.

In October 2001, the Company terminated two interest rate swaps with a total notional amount of $100 million. These swap agreements were accounted for as fair value hedges. The gain of $6.7 million from the termination of these swaps is being amortized as an adjustment to interest expense over the remaining term of the related debt instrument that was being hedged.

In December 2001, two interest rate swap agreements were entered into with the total notional amount of $46 million. These swap agreements were accounted for as cash flow hedges and expired in December 2002.

In 2002 the Company amortized deferred gains related to previously terminated interest rate swap agreements which reduced interest expense by $1.9 million. Interest expense will be reduced by the amortization of these deferred gains in 2003 through 2009 as follows: $1.9 million, $1.7 million, $1.5 million, $1.5 million, $1.5 million, $1.5 million and $.6 million, respectively.

During the fourth quarter of 2002, the Company terminated two interest rate swap agreements related to certain long-term debt that was retired early. These swap agreements were accounted for as cash flow hedges. As a result of this termination, the Company recorded additional interest expense of $2.2 million.

The counterparties to these contractual arrangements are major financial institutions with which the Company also has other financial relationships. The Company is exposed to credit loss in the event of nonperformance by these counterparties. However, the Company does not anticipate nonperformance by the other parties.

11. Fair Values of Financial Instruments

The following methods and assumptions were used by the Company in estimating the fair values of its financial instruments:

Cash, Accounts Receivable and Accounts Payable

The fair values of cash, accounts receivable and accounts payable approximate carrying values due to the short maturity of these financial instruments.

Public Debt

The fair values of the Company's public debt are based on estimated market prices.

Non-Public Variable Rate Long-Term Debt

The carrying amounts of the Company's variable rate borrowings approximate their fair values.

Non-Public Fixed Rate Long-Term Debt

The fair values of the Company's fixed rate long-term borrowings are estimated using discounted cash flow analyses based on the Company's current incremental borrowing rates for similar types of borrowing arrangements.

Derivative Financial Instruments

Fair values for the Company's interest rate swaps and forward rate agreements are based on current settlement values.

The carrying amounts and fair values of the Company's long-term debt and derivative financial instruments were as follows:

	2002		2001	
(In thousands)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Public debt	$600,000	$634,150	$497,000	$493,993
Non-public variable rate long-term debt	207,600	207,600	170,000	170,000
Non-public fixed rate long-term debt	156	156	9,864	9,868
Interest rate swaps and forward rate agreement	(2,023)	(2,023)	(7)	(7)

The fair values of the interest rate swaps and forward rate agreement at December 29, 2002 and December 30, 2001 represent the estimated amounts the Company would have received upon termination of these agreements.

1.185

NEWELL RUBBERMAID INC. (DEC)

FOOTNOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Disclosures About Fair Value of Financial Instruments

The Company's financial instruments include cash and cash equivalents, accounts receivable, notes payable, short and long-term debt and Company-obligated Mandatorily Redeemable Convertible Securities of a Subsidiary Trust. The

fair value of these instruments approximates carrying values due to their short-term duration, except as follows:

- *Derivative Instruments*: The fair value of the Company's derivative instruments is recorded in the Consolidated Balance Sheets and is described in more detail in Footnote 7.
- *Long-term Debt*: The fair value of the Company's long-term debt issued under the medium-term note program was $1,490.3 million at December 31, 2002, based on quoted market prices. All other significant long-term debt is pursuant to floating rate instruments whose carrying amounts approximate fair value.
- *Company-Obligated Mandatorily Redeemable Convertible Preferred Securities of a Subsidiary Trust*: The fair value of the $500.0 million company-obligated mandatorily redeemable convertible preferred securities of a subsidiary trust was $452.5 million at December 31, 2002, based on quoted market prices.

Footnote 7: Derivative Financial Instruments

At the beginning of 2001, the Company adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." This statement requires companies to record derivatives on the balance sheet as assets or liabilities, measured at fair value. Any changes in fair value of these instruments are recorded in the income statement or other comprehensive income. The impact of adopting SFAS No. 133 on January 1, 2001 resulted in a cumulative after-tax gain of approximately $13.0 million, recorded in accumulated other comprehensive income. The cumulative effect of adopting SFAS No. 133 did not materially impact the results of operations.

Derivative financial instruments are used only to manage certain interest rate and foreign currency risks. These instruments include interest rate swaps, long-term cross currency interest rate swaps, and short-term forward exchange contracts.

At December 31, 2002, the Company had interest rate swaps designated as cash flow hedges with an outstanding notional principal amount of $350.0 million, with accrued interest payable of $0.9 million. At December 31, 2002, the Company had these swaps serve as a means to mitigate the risk of rising interest rates in future periods by converting certain floating rate debt instruments into fixed rate debt. Gains and losses on these instruments, to the extent that the hedge relationship has been effective, are deferred in other comprehensive income and recognized in interest expense over the period in which the Company recognizes interest expense on the related debt instrument. Any ineffectiveness on these instruments is immediately recognized in interest expense in the period that the ineffectiveness occurs. During 2002, the ineffectiveness related to these instruments was insignificant. The Company expects approximately $3.3 million of the losses, net of tax, deferred in other comprehensive income to be recognized in earnings in 2003. At December 31, 2002, the Company also had interest rate swaps designated as fair value hedges with an outstanding notional principal amount of $500.0 million, with accrued interest receivable of $2.7 million. These fair value hedges qualify for the "shortcut method" because these hedges are deemed to be perfectly effective. The maximum length of time over which the Company is hedging its interest rate exposure through the use of interest rate swap agreements is seven years.

The Company utilizes forward exchange contracts to manage foreign exchange risk related to both known and anticipated intercompany transactions and third-party commercial transaction exposures of approximately one year in duration or less. The Company also utilizes long-term cross currency interest rate swaps to hedge long-term intercompany transactions. The maturities on these long-term cross currency interest rate swaps range from three to five years. At December 31, 2002, the Company had long-term cross currency interest rate swaps with an outstanding notional principal amount of $319.5 million, with accrued interest receivable of $0.2 million.

Gains and losses related to qualifying forward exchange contracts, which hedge intercompany transactions or third-party commercial transactions, are deferred in other comprehensive income with a corresponding asset or liability until the underlying transaction occurs and are considered to have a cash flow hedging relationship. The gains and losses reported in accumulated other comprehensive income will be reclassified to earnings upon completion of the underlying transaction being hedged. The net loss recognized in 2002 for matured cash flow forward exchange contracts was $1.5 million, net of tax, which was recognized in the Consolidated Statement of Income. The Company estimates that $0.1 million of gains, net of tax, deferred in accumulated other comprehensive income will be recognized in earnings in 2003.

Derivative instruments used to hedge intercompany loans are marked to market with the corresponding gains or losses included in accumulated other comprehensive income and are considered to have a fair value hedging relationship. Any ineffectiveness associated with the fair value hedges is classified to the income statement. The net gain recognized in 2002 for forward exchange contracts and cross currency interest rate swaps was $0.4 million, net of tax, which was recognized as part of interest income on the Consolidated Statement of Income.

The following table summarizes the Company's forward exchange contracts and long-term cross currency interest rate swaps in U.S. dollars by major currency and contractual amount. The "buy" amounts represent the U.S. equivalent of commitments to purchase foreign currencies, and the "sell" amounts represent the U.S. equivalent of commitments to sell foreign currencies according to the local needs of the subsidiaries. The contractual amounts of significant short-term forward exchange contracts and long-term cross currency interest rate swaps and their fair values as of December 31, were as follows (*in millions*):

	2002		2001	
	Buy	Sell	Buy	Sell
British pounds	$273.0	$ 65.6	$174.9	$178.2
Canadian dollars	0.8	50.6	207.8	31.6
Euro	96.4	343.8	43.7	232.2
Other	35.7	18.3	23.9	9.8
	$405.9	$478.3	$450.3	$451.8
Fair value recorded in the consolidated balance sheet	$451.5	$537.4	$440.0	$448.2

The Company's short-term forward exchange contracts and long-term cross currency interest rate swaps do not subject the Company to risk due to foreign exchange rate movement, because gains and losses on these instruments generally offset gains and losses on the assets, liabilities, and other transactions being hedged. The Company does

not obtain collateral or other security to support derivative financial instruments subject to credit risk, but monitors the credit standing of the counterparties.

1.186

PFIZER INC AND SUBSIDIARY COMPANIES (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6 (In Part): Financial Instruments

C (In Part): Long-Term Debt

(Millions of dollars)	2002	2001
5.625% senior unsecured notes (due April 2009)*	$ 665	$ —
.80% Japanese yen notes (due March 2008)	506	457
6% notes (due January 2008)*	281	258
5.625% senior unsecured notes (due February 2006)*	819	770
Floating-rate unsecured notes (due March 2005)	200	200
3.625% senior unsecured notes (due November 2004)*	619	589
5.8% notes (due January 2003)	—	250
Other borrowings and mortgages	50	85
Total long-term debt	$3,140	$2,609
Current portion not included above	$ 256	$ 368

*Includes unrealized gains and losses for debt with fair value hedges in 2002 and 2001 (see note 6-D, "Financial Instruments—Derivative Financial Instruments and Hedging Activities").

• • • • • •

In connection with these debt issuances, we entered into:

- $300 million notional amount of interest rate swaps maturing in 2009; and
- $300 million notional amount of interest rate swaps maturing in 2018.

We designated these interest rate swaps as fair value hedges of the changes in the fair value of fixed rate debt. These swaps serve to reduce our exposure to long-term U.S. interest rates by effectively converting the fixed rates associated with the long-term debt to floating rates.

D. Derivative Financial Instruments and Hedging Activities

Purpose

Foreign Exchange Risk

A significant portion of revenues, earnings and net investments in foreign affiliates are exposed to changes in foreign exchange rates. We seek to manage our foreign exchange risk in part through operational means, including managing expected local currency revenues in relation to local currency costs and local currency assets in relation to local currency liabilities. Foreign exchange risk is also managed through the use of derivative financial instruments and foreign currency denominated debt. These financial instruments serve to protect net income against the impact of the translation into U.S. dollars of certain foreign exchange denominated transactions. At December 31, 2002 and 2001, the financial instruments employed to manage foreign exchange risk follow:

			Notional Amount (Millions of Dollars)		
Financial Instrument	Hedge Type	Hedged or Offset Item	2002	2001	Maturity Date
Forward contracts	—	Short-term foreign currency assets and liabilities[1]	$1,928	$ —	Through 2003
Forward contracts	—	Short-term foreign currency assets and liabilities[1]	—	3,627	Through 2002
Forward contracts	Cash flow	Euro available-for-sale instruments	1,802	—	Through 2003
Short-term borrowings	Net investment	Yen net investments	1,603	—	Through 2003
Short-term borrowings	Net investment	Yen net investments	—	1,155	Through 2002
Long-term yen debt	Net investment	Yen net investments	506	457	2008
Swaps	Cash flow	U.K. pound intercompany loan	645	—	2006
Swaps	Cash flow	U.K. pound intercompany loan	466	428	Late 2003
Put options	Cash flow	Forecasted intercompany inventory purchase	460	—	Through 2003
Swaps	Fair value	Euro debt investments	230	160	Mid-2003
Swaps	Fair value	U.K. pound debt investments	—	146	Mid-2002
Swaps	Fair value	Euro loans of a foreign subsidiary	104	—	Mid-2003
Swaps	Fair value	Euro loans of a foreign subsidiary	—	90	December 2001

[1] Primarily from intercompany transactions in euros, Japanese yen and Australian dollars in 2002 and euros, U.K. pounds and Japanese yen in 2001. As these forward contracts mature, we usually enter into similar term forward contracts.

Interest Rate Risk

Our interest-bearing investments, loans and borrowings are subject to interest rate risk. We invest and borrow primarily on a short-term or variable-rate basis. Interest rate risk is also managed through the use of derivative financial instruments. At December 31, 2002 and 2001, the derivative financial instruments employed to manage interest rate risk follow:

Financial Instrument	Hedge Type	Hedged or Offset Item	Notional Amount (Millions of Dollars) 2002	2001	Maturity Date
Swaps	Cash flow	Yen "LIBOR" interest rate related to forecasted issuances of short-term debt[1]	$1,022	$924	Late 2003
Forward-starting swaps	Cash flow	Yen "LIBOR" interest rate related to forecasted issuances of short-term debt[2]	1,022	—	2006
Swaps	Fair value	U.S. dollar fixed rate debt[3]	600	600	2004
Swaps	Fair value	U.S. dollar fixed rate debt[3]	750	750	2006
Swaps	Fair value	U.S. dollar fixed rate debt[3]	250	250	2008
Swaps	Fair value	U.S. dollar fixed rate debt[3]	600	—	2009
Swaps	Cash flow	"LIBOR" interest rate related to forecasted purchases of short-term fixed-rate debt[4]	95	95	2004

(1) Serve to reduce variability by effectively fixing the maximum rates on short-term debt at 1.2%.
(2) Serve to reduce variability by effectively fixing the maximum rates on short-term debt at .9%. These forward-starting swaps will effectively replace existing yen interest rate swaps upon maturity in 2003.
(3) Serve to reduce exposure to long-term U.S. dollar interest rates by effectively converting fixed rates associated with long-term debt obligations to floating rates.
(4) Serve to reduce the variability of LIBOR interest rates by effectively fixing the rates on short-term debt securities at 3.5%. Investments will be classified as "Available-for-Sale."

Accounting Policies

All derivative contracts are reported at fair value, with changes in fair value reported in earnings or deferred, depending on the nature and effectiveness of the offset or hedging relationship, as follows:

Foreign Exchange Risk

- We recognize the earnings impact of foreign currency forward-exchange contracts during the terms of the contracts, along with the earnings impact of the items they generally offset.
- We recognize the earnings impact of foreign currency swaps designated as cash flow or fair value hedges upon the recognition of the foreign exchange gain or loss on the translation to U.S. dollars of the hedged item.
- We recognize the earnings impact of yen put options when the related inventory is sold to third-party customers.

Interest Rate Risk

- We recognize the earnings impact of interest rate swaps designated as cash flow hedges upon the recognition of the interest related to the hedged short-term debt and available-for-sale debt securities.
- We recognize the earnings impact of interest rate swaps designated as fair value hedges upon the recognition of the change in fair value for interest rate risk related to the hedged long-term debt.

Any ineffectiveness in a hedging relationship is recognized immediately into earnings. There was no significant ineffectiveness in 2002 or 2001.

The financial statements include the following items related to the derivatives and other financial instruments serving as offsets or hedges:

Prepaid expenses and taxes includes:
- fair value of foreign currency put options

Other assets, deferred taxes and deferred charges includes:
- fair value of forward-starting interest rate swaps in 2002 and interest rate swaps

Other current liabilities includes:
- fair value of foreign currency forward-exchange contracts
- fair value of foreign currency swaps

Other noncurrent liabilities includes:
- fair value of interest rate swaps designated as cash flow hedges and fair value of foreign currency swaps designated as cash flow hedges in 2001

Long-term debt includes:
- changes in the fair value of fixed rate debt hedged by interest rate swaps

Accumulated other comprehensive expense includes:
- changes in the fair value of interest rate swaps and forward-starting swaps designated as cash flow hedges and changes in the foreign exchange translation of yen debt and foreign currency put options
- changes in the fair value of foreign currency forward-exchange contracts designated as cash flow hedges in 2002

Other (income)/deductions—net includes:
- changes in the fair value of foreign currency forward-exchange contracts

- changes in the fair value of foreign currency swap contracts that hedge foreign exchange
- changes in the fair value of interest rate swap contracts that hedge interest expense

E. Fair Value

The following methods and assumptions were used to estimate the fair value of derivative and other financial instruments at the balance sheet date:

- short-term financial instruments (cash equivalents, accounts receivable and payable, held-to-maturity short-term investments and debt)—we use cost or contract value because of the short maturity period
- Available-for-sale debt securities—we use a valuation model that uses observable market quotes and credit ratings of the securities
- Derivative contracts—we use valuation models that use observable market quotes and our view of the creditworthiness of the derivative counterparty
- loans—we use cost because of the short interest-reset period
- held-to-maturity long-term investments and long-term debt—we use valuation models that use observable market quotes

The differences between the estimated fair values and carrying values of our financial instruments were not material at December 31, 2002.

1.187

PPG INDUSTRIES, INC. (DEC)

NOTES

1 (In Part): Summary of Significant Accounting Policies

Derivative Financial Instruments

Effective Jan. 1, 2001, the Company adopted the provisions of SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended by SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities." These standards require the Company to recognize all derivative instruments as either assets or liabilities at fair value, most of which were previously not recorded on the balance sheet. The accounting for changes in the fair value of a derivative depends on the use of the derivative. To the extent that a derivative is effective as a cash flow hedge of an exposure to future changes in value, the change in fair value of the derivative is deferred in other comprehensive income. Any portion considered to be ineffective will be reported in earnings immediately. To the extent that a derivative is effective as a hedge of an exposure to future changes in fair value, the change in the derivative's fair value will be offset in the statement of income by the change in fair value of the item being hedged.

Adoption of these new accounting standards on Jan. 1, 2001 resulted in an increase in current assets, current liabilities and other comprehensive income of $70 million, $26 million and $43 million, respectively, with a cumulative after-tax increase in net income of less than $1 million. This increase to other comprehensive income principally represents the deferred gain on outstanding natural gas option and swap contracts as of Jan. 1, 2001.

Prior to adoption of the provisions of SFAS No. 133, gains and losses on derivative financial instruments that were used to hedge foreign currency, interest rate, and natural gas price changes were not recognized until the hedged transaction was reflected in the statement of income. Premiums paid on foreign currency option contracts were amortized over the lives of the contracts. Unrealized gains and losses from forward currency contracts that hedged anticipated transactions did not previously qualify for deferral accounting treatment.

9. Derivative Financial Instruments

PPG uses derivative instruments to manage its exposure to fluctuating natural gas prices through the use of natural gas swap and option contracts. PPG also uses forward currency contracts as hedges against its exposure to variability in exchange rates on short-term intercompany borrowings denominated in foreign currencies and to translation risk, and interest rate swaps to hedge its exposure to changing interest rates.

PPG enters into derivative financial instruments with high credit quality counterparties and diversifies its positions among such counterparties in order to reduce its exposure to credit losses. The Company has not experienced any credit losses on derivatives during the three-year period ended Dec. 31, 2002.

PPG also manages its foreign currency transaction risk to minimize the volatility of cash flows caused by currency fluctuations by forecasting foreign currency-denominated cash flows of each subsidiary for a 12-month period and aggregating these cash inflows and outflows in each currency to determine the overall net transaction exposures. The expanding use of the euro has reduced our transaction risk because cash flows between our businesses in the twelve Euroland countries are now occurring in one currency. Decisions on whether to use derivative financial instruments to hedge the net transaction exposures are made based on the amount of those exposures, by currency, and an assessment of the near-term outlook for each currency. The Company's policy permits the use of foreign currency forward and option contracts to hedge up to 70% of its anticipated net foreign currency cash flows over the next 12-month period. These contracts do not qualify for hedge accounting. Therefore, the change in the fair value of these instruments is recorded in "Other charges" in the accompanying statement of income in the period of change. The amount recorded in earnings for the years ended Dec. 31, 2002 and 2001 was a loss of $3 million and a gain of $1 million, respectively. The fair value of these contracts was an asset of $1 million as of Dec. 31, 2002 and 2001.

The sales, costs, assets and liabilities of our non-U.S. operations must be reported in U.S. dollars in order to prepare consolidated financial statements which gives rise to translation risk. The Company monitors its exposure to translation risk and enters into derivative foreign currency contracts to hedge its exposure, as deemed appropriate. This risk management strategy does not qualify for hedge accounting under the provisions of SFAS No. 133; therefore, changes in the fair value of these instruments are recorded in "Other charges" in the accompanying statement of income in the period of change. A gain of $1 million was recorded for the

year ended Dec. 31, 2001. No derivative instruments were acquired to hedge translation risk during 2002.

PPG designates forward currency contracts as hedges against the Company's exposure to variability in exchange rates on short-term intercompany borrowings denominated in foreign currencies. To the extent effective, changes in the fair value of these instruments are deferred in accumulated other comprehensive income and subsequently reclassified to "Other charges" in the accompanying statement of income as foreign exchange gains and losses are recognized on the related intercompany borrowings. The portion of the change in fair value considered to be ineffective is recognized in "Other charges" in the accompanying statement of income. The amount recorded in earnings for the years ended Dec. 31, 2002 and 2001 was a loss of $2 million and a gain of less than $1 million, respectively. The fair value of these contracts was a liability of $1 million and $2 million as of Dec. 31, 2002 and 2001, respectively.

The Company manages its interest rate risk by balancing its exposure to fixed and variable rates while attempting to minimize its interest costs. Generally, the Company maintains variable interest rate debt at a level of 25% to 50% of total borrowings. PPG principally manages its fixed and variable interest rate risk by retiring and issuing debt from time to time. PPG also manages its interest rate risk through the use of interest rate swaps. Currently, these swaps convert $400 million of fixed rate debt to variable rate debt and are designated as fair value hedges. As such, the swaps are carried at fair value. Changes in the fair value of these swaps and that of the related debt are recorded in "Interest expense" in the accompanying statement of income, the net of which is zero. The fair value of these contracts was an asset of $23 million and a liability of $20 million as of Dec. 31, 2002 and 2001, respectively.

The Company uses derivative instruments to manage its exposure to fluctuating natural gas prices through the use of natural gas swap and option contracts. These instruments mature over the next twelve months. To the extent that these instruments are effective in hedging PPG's exposure to price changes, changes in the fair values of the hedge contracts are deferred in accumulated other comprehensive income and reclassified to cost of sales as the natural gas is purchased. Changes in the time value of option contracts have been excluded from the Company's assessment of hedge effectiveness and reported in earnings immediately. The amount of ineffectiveness, which is reported in "Other charges" in the accompanying statement of income for the years ended Dec. 31, 2002 and 2001, was not material. The fair value of these contracts was an asset of $24 million and a liability of $12 million as of Dec. 31, 2002 and 2001, respectively.

In November 2002, PPG entered into a one-year equity forward arrangement with a bank in order to partially mitigate the impact of changes in the fair value of PPG stock that is to be contributed to the asbestos settlement trust as discussed in Note 13. This instrument is recorded at fair value as an asset or liability and changes in the fair value of this instrument are reflected in "Asbestos settlement, net" in the accompanying statement of income. As of Dec. 31, 2002, PPG had recorded a current asset of $1 million and recognized income of $1 million for the year.

In accordance with the terms of this instrument the bank has purchased 504,900 shares of PPG stock on the open market at a cost of $24 million (principal amount). PPG will pay to the bank interest based on the principal amount and the bank will pay to PPG an amount equal to the dividends paid on these shares during the period this instrument is outstanding. The difference between the principal amount, and any amounts related to unpaid interest or dividends, and the current market price for these shares will represent the fair value of the instrument as well as the amount that PPG would pay or receive if the bank chose to net settle the instrument. Alternatively, the bank may, at its option, require PPG to purchase the shares covered by the arrangement at the market price on the date of settlement.

No derivative instrument initially designated as a hedge instrument was undesignated or discontinued as a hedging instrument during 2002 or 2001. During the year ended Dec. 31, 2002, the net change in accumulated other comprehensive loss related to derivatives was $17 million, net of tax. This was comprised of a $1 million realized loss which was reclassified from accumulated other comprehensive loss to earnings and an unrealized gain of $16 million. The realized loss relates to the settlement, during the period, of natural gas swap and forward currency contracts. The unrealized gain during the period relates primarily to the changes in fair value of the natural gas contracts offset, in part, by an unrealized loss for interest rate swaps owned by one of the Company's affiliates accounted for under the equity method of accounting. During the year ended Dec. 31, 2001, the net change in accumulated other comprehensive loss related to derivatives totaled $51 million, net of tax, excluding the transition adjustment. This was comprised of a $7 million realized gain which was reclassified from accumulated other comprehensive loss to earnings and an unrealized loss of $44 million.

The fair values of all outstanding derivative instruments were determined using quoted market prices.

1.188

TENNECO AUTOMOTIVE INC. AND CONSOLIDATED SUBSIDIARIES (DEC)

NOTES TO FINANCIAL STATEMENTS

1 (In Part): Summary of Accounting Policies

Risk Management Activities

We use derivative financial instruments, principally foreign currency forward purchase and sale contracts with terms of less than one year, to hedge our exposure to changes in foreign currency exchange rates, and interest rate swaps to hedge our exposure to changes in interest rates. Our primary exposure to changes in foreign currency rates results from intercompany loans made between affiliates to minimize the need for borrowings from third parties. Net gains or losses on these foreign currency exchange contracts that are designated as hedges are recognized in the income statement to offset the foreign currency gain or loss on the underlying transaction. Additionally, we enter into foreign currency forward purchase and sale contracts to mitigate our exposure to changes in exchange rates on some intercompany and third party trade receivables and payables. Since these anticipated transactions are not firm commitments, we mark these forward contracts to market each period and record any gain or loss in the income statement. From time to time we have also entered into forward contracts to hedge our net

investment in foreign subsidiaries. We recognize the after-tax net gains or losses on these contracts on the accrual basis in the balance sheet caption "Accumulated other comprehensive income (loss)." In the statement of cash flows, cash receipts or payments related to these exchange contracts are classified consistent with the cash flows from the transaction being hedged.

We do not currently enter into derivative financial instruments for speculative purposes.

5 (In Part): Financial Instruments

The carrying and estimated fair values of our financial instruments by class at December 31, 2002 and 2001, were as follows:

	2002		2001	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
(Millions)	Assets (Liabilities)			
Long-term debt (including current maturities)	$(1,314)	$(1,072)	$(1,431)	$(1,030)
Instruments with off-balance-sheet risk				
Foreign currency contracts	—	1	—	1
Financial guarantees	—	—	—	—
Interest rate swaps	—	(4)	—	(17)

Instruments With Off-Balance-Sheet Risk

Foreign Currency Contracts

Note 1, "Summary of Accounting Policies—Risk Management Activities" describes our use of and accounting for foreign currency exchange contracts. The following table summarizes by major currency the contractual amounts of foreign currency contracts we utilize:

	Notional Amount			
	December 31, 2002		December 31, 2001	
(Millions)	Purchase	Sell	Purchase	Sell
Foreign currency contracts (in U.S.$):				
Australian dollars	$ 10	$ 36	$ 1	$ 17
British pounds	152	77	139	83
Canadian dollars	12	22	4	34
Czech Republic koruna	1	17	—	11
Danish kroner	7	65	16	89
European euro	19	2	97	3
Norwegian krone	5	—	4	—
Polish zloty	14	28	—	—
South African rand	—	—	—	2
Swedish krona	10	4	4	1
U.S. dollars	49	29	5	29
Other	2	2	1	1
	$281	$282	$271	$270

We manage counter-party credit risk by entering into derivative financial instruments with major financial institutions that can be expected to fully perform under the terms of such agreements. Based on exchange rates at December 31, 2002 and 2001, the cost of replacing these contracts in the event of non-performance by the counterparties would not have been material.

Guarantees

We occasionally provide guarantees that could require us to make future payments in the event that the primary obligor does not make its required payments. We have not recorded a liability for any of these guarantees. The only third party guarantee we have made is the performance of lease obligations by a former affiliate. Our maximum liability under this guarantee was of approximately $4 million and $6 million at December 31, 2002 and 2001, respectively. We have no recourse in the event of default by the former affiliate. However, we have not been required to make any payments under this guarantee.

Additionally, we have from time to time issued guarantees for the performance of obligations by some of our subsidiaries, and some of our subsidiaries have guaranteed our debt. All of our then existing and future material domestic wholly-owned subsidiaries fully and unconditionally guarantee the $1.239 billion senior secured credit facility and the $500 million senior subordinated notes on a joint and several basis. You should also read Note 12 where we present the Supplemental Guarantor Condensed Consolidating Financial Statements.

We have issued guarantees through letters of credit in connection with some obligations of our affiliates. We have guaranteed through letters of credit support for local credit facilities, travel and procurement card programs, and cash management requirements for some of our subsidiaries totaling $45 million. We have also issued $13 million in letters of credit to support some of our subsidiaries' insurance arrangements. In addition, we have issued $3 million in guarantees through letters of credit to guarantee other obligations of subsidiaries primarily related to environmental remediation activities.

Interest Rate Swaps

Under the terms of our senior credit facility agreement, we hedged our exposure to floating interest rates by entering into floating to fixed interest rate swaps covering $300 million of our floating rate debt. The cost of replacing these contracts in the event of non-performance by the counterparties would not be material. These hedges are effective, so we have not recognized in earnings any amounts related to the ineffectiveness of the interest rate swaps. No amounts were excluded from the assessment of hedge effectiveness. The amount reported in other comprehensive income for these interest rate swaps will be recognized in income over the remaining period of the swaps. The swaps expired in February 2003.

OFF-BALANCE-SHEET FINANCIAL INSTRUMENTS

Financial Guarantees

1.189

ADOLPH COORS COMPANY AND SUBSIDIARIES (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4 (In Part): Debt

6⅜% Senior Notes Due 2012

On May 7, 2002, CBC completed a private placement of $850 million principal amount of 6⅜% Senior notes, due 2012, with interest payable semi-annually. The notes were priced at 99.596% of par for a yield to maturity of 6.43%, were unsecured, were not subject to any sinking fund provision and included a redemption provision (make-whole provision) which allowed us to retire the notes at whole or any time at a redemption price. The redemption price was equal to the greater of (1) 100% of the principal amount of the notes plus accrued and unpaid interest and (2) the make whole amount of the notes being redeemed, which was equal to the present value of the principal amount of the notes and interest to be redeemed. The notes were issued with registration rights and were guaranteed by Adolph Coors Company and certain domestic subsidiaries. Net proceeds from the sale of the notes, after deducting estimated expenses and underwriting fees, were approximately $841 million. The net proceeds were used to (1) repay the $750 million of loans outstanding under our senior unsecured bridge facility which we entered into in connection with our acquisition of CBL and (2) to repay approximately $91 million of outstanding term borrowings under our senior unsecured credit facilities.

19 (In Part): Supplemental Guarantor Information

On May 7, 2002, our wholly owned subsidiary, CBC (Issuer), completed a private placement of $850 million principal amount of 6⅜% Senior notes due 2012. The notes were issued with registration rights and were guaranteed on a senior and unsecured basis by Adolph Coors Company (Parent Guarantor) and certain domestic subsidiaries (Subsidiary Guarantors). The guarantees are full and unconditional, and joint and several. A significant amount of the Issuer's income and cash flow is generated by its subsidiaries. As a result, funds necessary to meet the Issuer's debt service obligations are provided in large part by distributions or advances from its subsidiaries. Under certain circumstances, contractual and legal restrictions, as well as our financial condition and operating requirements and those of certain domestic subsidiaries, could limit the Issuer's ability to obtain cash for the purpose of meeting its debt service obligation including the payment of principal and interest on the notes.

1.190

AT&T CORP. AND SUBSIDIARIES (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9 (In Part): Financial Instruments

In the normal course of business, we use various financial instruments, including derivative financial instruments, for purposes other than trading. These instruments include letters of credit, guarantees of debt and certain obligations of former affiliates, interest rate swap agreements, foreign currency exchange contracts, option contracts, equity contracts and warrants. Collateral is generally not required for these types of instruments. However, as the requirements for collateral are generally dependent upon debt ratings and market conditions, AT&T may be required to post collateral for interest rate and equity swaps, as well as letters of credit in the future.

By their nature, all such instruments involve risk, including the credit risk of nonperformance by counter-parties, and our maximum potential loss may exceed the amount recognized in our balance sheet. However, at December 31, 2002 and 2001, in management's opinion, there was no significant risk of loss in the event of nonperformance of the counter-parties to these financial instruments. We control our exposure to credit risk through credit approvals, credit limits and monitoring procedures. Other than the guarantee issued in connection with the split-off of AT&T Wireless, we do not have any significant exposure to any individual customer or counterparty, nor do we have any major concentration of credit risk related to any financial instruments.

Guarantees

From time to time, we guarantee the debt of our subsidiaries, and, in connection with the separation of certain subsidiaries, we issued guarantees for certain debt and other obligations of our former subsidiaries AT&T Capital Corp., NCR, AT&T Wireless and AT&T Broadband. We also issue indemnifications as part of our software license agreements.

Total notional amounts of guaranteed debt at December 31, 2002 and 2001, were $506 million and $59 million, respectively. Prior to the spin-off of AT&T Broadband, we had guaranteed certain debt of AT&T Broadband that matures in 2038. Such guarantee remained outstanding after the spin-off of AT&T Broadband and at December 31, 2002 totaled $500 million. Comcast has provided us with an indemnification for this debt and, under the terms of the merger agreement between AT&T Broadband and Comcast, if Comcast does not call the debt in 2003 they must provide us with a letter of credit in the amount of $500 million. The remaining guarantees for debt have expiration dates ranging from 2003 to 2020. Should the financial condition of debtors, including AT&T Broadband and Comcast, deteriorate to the point at which they are unable to meet their obligations, third party creditors could look to us for payment. We currently hold no collateral for these guarantees, and have not recorded corresponding obligations. At December 31, 2002 and 2001, there were no quoted market prices for similar agreements.

AT&T provides a guarantee of an obligation that AT&T Wireless has to NTT DoCoMo (DoCoMo). The amounts of the guarantee at December 31, 2002 and 2001, were $4.1 billion

and $3.9 billion, respectively. On January 21, 2001, DoCoMo invested approximately $9.8 billion for shares of AT&T preferred stock that were converted into AT&T Wireless common stock in connection with the split-off of AT&T Wireless. Of the initial investment, AT&T retained approximately $3.6 billion, with the remainder of the proceeds allocated to AT&T Wireless. In connection with that investment, AT&T and AT&T Wireless agreed that, under certain circumstances, including if AT&T Wireless fails to meet specific technological milestones by June 30, 2004, DoCoMo would have the right to require AT&T Wireless to repurchase its AT&T Wireless common stock for $9.8 billion, plus interest. In the event AT&T Wireless is unable to satisfy the entire obligation, AT&T is secondarily liable for up to $3.65 billion, plus accrued interest. On December 26, 2002, AT&T Wireless and DoCoMo entered into an amendment to the original agreement which, among other things, extended the deadline for compliance with the technological milestones to December 31, 2004. We currently hold no collateral for this guarantee, and have not recorded a corresponding obligation. At December 31, 2002 and 2001, there were no quoted market prices for similar agreements.

The total notional amount of other guaranteed obligations at December 31, 2002, was $458 million. Prior to the spin-off of AT&T Broadband, we had guaranteed various obligations of AT&T Broadband. In connection with the spin-off of AT&T Broadband, we continue to provide guarantees of these obligations, including operating leases for real estate, surety bonds, and equity hedges. These guarantees have expiration dates ranging from 2003 through 2007. Comcast has provided indemnifications for these guarantees of $458 million at December 31, 2002. Should the financial condition of AT&T Broadband and Comcast deteriorate to the point at which they are unable to meet their obligations, third party creditors could look to us for payment. We currently hold no collateral for these guarantees, and have not recorded corresponding obligations. At December 31, 2002, there were no quoted market prices for similar agreements.

The total notional amounts of software license indemnifications with a stated maximum liability, at December 31, 2002 and 2001, were approximately $50 million and $30 million, respectively. In addition, in a few instances, our liability is limited by the value of the licensing fees received or is not limited at all. Amounts related to these indemnifications cannot be estimated. The indemnifications generally have terms that coincide with the software license which may be until terminated by the licensee. Under the terms of these agreements, we indemnify licensees against damages, expenses and losses arising from third party claims and proceedings against trademark, copyright and/or patent infringement. We currently hold no collateral for these guarantees and have not recorded corresponding obligations. At December 31, 2002, there were no quoted market prices for similar agreements.

19 (In Part): New Accounting Pronouncements

In November 2002, the FASB issued FASB Interpretation No. (FIN) 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." FIN 45 requires that an entity issuing a guarantee (including those embedded in a purchase or sales agreement) must recognize, at the inception of the guarantee, a liability equal to the fair value of the guarantee. FIN 45 also requires detailed information about each guarantee or group of guarantees even if the likelihood of making a payment is remote. The disclosure requirements of this interpretation are effective for financial statements of periods ending after December 15, 2002, which makes them effective for AT&T for December 31, 2002 (see note 9 for the disclosures required under this interpretation). The recognition and measurement provisions of this Interpretation are applicable on a prospective basis to guarantees issued or modified after December 31, 2002. FIN 45 could have an impact on the future results of AT&T depending on guarantees issued; however, at this time we do not believe that the adoption of this statement will have a material impact on our results of operation, financial position or cash flows.

1.191

YORK INTERNATIONAL CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 13 (In Part): Commitments and Contingencies

Contingent Liabilities

We issue various types of guarantees in the normal course of business. As of December 31, 2002, we have the following guarantees outstanding:

(In thousands)	
Standby letters of credit and surety bonds	$ 88,784
Performance guarantees	148,600
Commercial letters of credit	17,939
Guarantee of affiliate debt	30,000

Standby letters of credit and surety bonds are issued to guarantee our performance under contractual obligations. The most significant of these obligations is collateral to insurance companies for our insurance programs. In the event we fail to pay insurance claims, the issuing bank or surety may be asked to release some or all of this collateral to the insurance companies. Standby letters of credit and surety bonds have a term of one year and automatically renew. As of December 31, 2002, our consolidated balance sheet included liabilities of $34.4 million related to these insurance programs.

Performance guarantees provided by standby letters of credit and performance bonds are issued to certain customers to guarantee the operation of the equipment we sell or to guarantee our ability to complete a contract. These performance guarantees have various terms, generally less than one year.

Commercial letters of credit are issued to certain suppliers to guarantee our payment for purchases under favorable trade terms. Once our suppliers provide the proper documentation, the issuing bank charges our account and pays the commercial letters of credit on our behalf. Commercial letters of credit have a term of one year or less.

The debt obligations of our subsidiaries are reflected in our consolidated balance sheets. In order to obtain favorable terms, guarantees of subsidiary debt are issued to local lending institutions requiring the parent company to repay the debt should our subsidiaries default on their debt obligations. There is a similar guarantee of affiliate debt relating to our 50% owned joint venture, Scroll Technologies. In the event

Scroll would default on its debt obligation, we are required to assume 50% of Scroll's outstanding debt ($25.3 million as of December 31, 2002). The guarantee of affiliate debt is for the entire term of the borrowing ending in January 2012.

We believe that various current claims and litigation have been adequately provided for or are covered by insurance. Therefore, the resolution of such matters is not expected to materially affect our financial position or future earnings.

Letters of Credit

1.192

FLUOR CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Fair Value of Financial Instruments

The estimated fair value of the company's financial instruments are as follows:

	2002		2001	
(In thousands)	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets:				
Cash and cash equivalents	$753,367	$753,367	$572,654	$572,654
Notes receivable, including noncurrent portion	18,077	18,033	26,262	26,229
Long-term investments	25,214	25,682	46,656	47,124
Liabilities:				
Commercial paper, loan notes and notes payable	—	—	38,442	38,442
Long-term debt, including current portion	17,613	18,857	17,594	17,915
Other noncurrent financial liabilities	14,728	14,728	12,898	12,898
Other financial instruments:				
Foreign currency contracts	(449)	(449)	273	273
Letters of credit	—	735	—	1,196
Lines of credit	—	672	—	788

Fair values were determined as follows:

The carrying amounts of cash and cash equivalents, short-term notes receivable, commercial paper, loan notes and notes payable approximate fair value because of the short-term maturity of these instruments.

Long-term investments are based on quoted market prices for these or similar instruments. Long-term notes receivable are estimated by discounting future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings.

The fair value of long-term debt, including current portion, is estimated based on quoted market prices for the same or similar issues or on the current rates offered to the company for debt of the same maturities.

Other noncurrent financial liabilities consist primarily of deferred payments, for which cost approximates fair value.

Foreign currency contracts are estimated by obtaining quotes from brokers.

Letters of credit and lines of credit amounts are based on fees currently charged for similar agreements or on the estimated cost to terminate or settle the obligations.

Financing Arrangements (In Part)

The company has unsecured committed revolving short- and long-term lines of credit with banks from which it may borrow for general corporate purposes up to a maximum of $314 million. Commitment and facility fees are paid on these lines. At December 31, 2002, there were no amounts outstanding under the committed and uncommitted lines of credit. Borrowings under these lines of credit bear interest at prime or rates based on the London Interbank Offered Rate ("LIBOR"), domestic certificates of deposit or other rates which are mutually acceptable to the banks and the company.

The company has $787 million in short-term committed and uncommitted lines of credit to support letters of credit. At December 31, 2002, $352 million of these lines of credit were used to support undrawn letters of credit. In addition, the company had $124 million in uncommitted lines for general cash management purposes.

Sale of Receivables With Recourse

1.193

FORD MOTOR COMPANY AND SUBSIDIARIES (DEC)

NOTES TO FINANCIAL STATEMENTS

Note 1 (In Part): Accounting Policies

Revenue Recognition—Financial Services Sector

Revenue from finance receivables, net of certain deferred loan origination costs that are included as a reduction of financing revenue, is recognized over the term of the receivable using the interest method. Revenue from operating leases, net of certain deferred origination costs, is recognized on a straight-line basis over the term of the lease. The accrual of interest on loans is discontinued at the time the loan is impaired. Subsequent amounts of interest collected are recognized in income only if full recovery of the remaining principal is probable. Interest supplements paid by the Automotive sector are recognized over the term of the receivable or operating lease.

Note 8. Finance Receivables—Financial Services Sector

Net finance receivables at December 31 were as follows (in millions):

	2002	2001
Retail	$63,141	$ 78,607
Wholesale	16,827	15,785
Other finance receivables	11,073	10,337
Total finance receivables	91,041	104,729
Allowance for credit losses	(2,630)	(2,283)
Other	314	267
Net finance and other receivables	$88,725	$102,713

Finance receivables that originated outside the U.S. were $41.5 billion and $41.6 billion at December 31, 2002 and 2001, respectively. Other finance receivables consisted primarily of real estate, commercial, and other collateralized loans and accrued interest. Included in other finance receivables at both December 31, 2002 and 2001 were $1.6 billion of accounts receivable purchased by certain Financial Services sector operations from Automotive sector operations.

Future maturities, exclusive of SFAS No. 133, of total finance receivables are as follows (in millions): 2003—$54,077; 2004—$17,912; 2005—$8,124; thereafter—$10,115. Experience indicates that a substantial portion of the portfolio generally is repaid before the contractual maturity dates.

The Financial Services sector has sold receivables to special purpose entities (SPE). At December 31, 2002, the number of these SPEs and the amount of assets held were as follows (in billions):

	Number of SPEs	2002
Ford Credit		
Retail finance receivables	55	$48.9
Wholesale finance receivables	1	22.4
Total Ford Credit	56	71.3
Automotive receivables	1	0.1
Total	57	$71.4

Retained interests in sold receivables were as follows (in millions):

	2002	2001
Wholesale receivables sold to securitization entities	$12,454	$ 7,586
Subordinated securities	2,845	2,039
Interest-only strips	1,696	1,235
Restricted cash held for the benefit of securitization entities	623	377
Senior securities	—	1,311
Total	$17,618	$12,548

Retained interests in sold wholesale receivables were $11.4 billion and $6.5 billion as of December 31, 2002 and 2001, respectively. These primarily represent our undivided interest in wholesale receivables that are available to support the issuance of additional securities by the securitization entity; the balance represents credit enhancements. Subordinated securities, interest-only strips and restricted cash are credit enhancement assets. Interest only strips represent the present value of monthly collections on the sold receivables in excess of amounts needed by the SPE (securitization trust) to pay interest and principal to investors and servicing fees to Ford Credit. Investments in subordinated securities and restricted cash are senior to interest only strips.

Finance receivables subject to fair value at December 31, 2002 and 2001 were (in millions) $88,357 and $103,710, respectively. The fiar value of these finance receivables at December 31, 2002 and 2001 was (in millions) $89,885 and $103,864, respectively.

Net investment in direct financing leases at December 31 was as follows (in millions):

	2002	2001
Total minimum lease rentals to be received	$5,665	$5,183
Less: Unearned income	(1,049)	(997)
Loan origination costs	37	49
Estimated residual values	3,689	3,288
Less: Allowance for credit losses	(37)	(46)
Net investment in direct financing leases	$8,305	$7,477

The investment in direct financing leases relates to the leasing of vehicles, various types of transportation and other equipment, and facilities. Minimum direct financing lease rentals are contractually due as follows (in millions): 2003—$1,983; 2004—$1,636; 2005—$1,286; thereafter—$760.

1.194

OCCIDENTAL PETROLEUM CORPORATION AND SUBSIDIARIES (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Trade Receivables

Occidental has an agreement in place to sell, under a revolving sale program, an undivided interest in a designated pool of trade receivables. This program is used by Occidental as a low-cost source of working capital funding. The balance of receivables sold at December 31, 2002 and 2001 was $360 million. This amount is not included in the debt and related trade receivables accounts, respectively, on Occidental's consolidated balance sheets. Receivables must meet certain criteria to qualify for the program.

Under this program, Occidental serves as the collection agent with respect to the receivables sold. An interest in new receivables is sold as collections are made from customers. Fees and expenses under this program are included in selling, general and administrative and other operating expenses. During the years ended December 31, 2002, 2001 and 2000, the cost of this program amounted to approximately 2.1 percent, 4.5 percent and 6.7 percent, respectively, of the weighted average amount of the receivables sold in each year. The fair value of any retained interests in the receivables sold is not material. The buyers of the receivables are protected against significant risk of loss on their purchase of receivables. Occidental provides for allowances for any doubtful receivables based on its periodic evaluation

of such receivables. The provisions for such receivables were not material in the years ended December 31, 2002, 2001 and 2000.

The program terminates upon certain events, including Occidental's senior debt rating falling below investment grade. In such an event, alternative funding would have to be arranged, which could result in an increase in debt recorded on the consolidated balance sheet, with a corresponding increase in the accounts receivable balance. The consolidated income statement effect of such an event would not be significant.

DISCLOSURES OF FAIR VALUE

1.195

BROWN-FORMAN CORPORATION (APR)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars expressed in millions)

8 Fair Value of Financial Instruments

The liquidation value of our cash, foreign currency contracts, and debt is essentially the same as our recorded book value. The fair value of cash and cash equivalents and commercial paper approximates the carrying amount due to the short maturities of these instruments. We estimate the fair value of long-term debt using discounted cash flows based on our incremental borrowing rates for similar debt. The fair value of foreign currency contracts is based on quoted market prices. A comparison of the fair values and carrying amounts of these instruments is as follows:

	2001		2002	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets:				
Cash and cash equivalents	$ 86	$ 86	$116	$116
Foreign currency contracts	4	4	(1)	(1)
Liabilities:				
Commercial paper	204	204	167	167
Long-term debt	40	42	40	42

1.196

HUMANA INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 (In Part): Summary of Significant Accounting Policies

Cash and Cash Equivalents

Cash and cash equivalents include cash, time deposits, money market funds, commercial paper, and certain U.S. Government securities with an original maturity of three months or less. Carrying value approximates fair value due to the short-term maturity of the investments.

Investment Securities

Investment securities, which consist primarily of debt and equity securities, have been categorized as available for sale and, as a result, are stated at fair value. Fair value of publicly traded debt and equity securities are based on quoted market prices. Non traded debt securities are priced independently by a third party vendor. Fair value of strategic venture capital debt securities that are privately held, or where an observable quoted market price does not exist, are estimated using a variety of valuation methodologies. Such methodologies include reviewing the value ascribed to the most recent financing, comparing the security with securities of publicly traded companies in a similar line of business, and reviewing the underlying financial performance including estimating discounted cash flows. Investment securities available for current operations are classified as current assets. Investment securities available for our capital spending, professional liability and long-term insurance product requirements, as well as strategic venture capital investments are classified as long-term assets. Unrealized holding gains and losses, net of applicable deferred taxes, are included as a component of stockholders' equity until realized.

For the purpose of determining gross realized gains and losses, the cost of investment securities sold is based upon specific identification. We regularly evaluate our investment securities for impairment. We consider factors affecting the investee, factors affecting the industry the investee operates within, and general debt and equity market trends. We consider the length of time an investment's fair value has been below carrying value, the near term prospects for recovery to carrying value, and our intent and ability to hold the investment until maturity or market recovery is realized. If and when a determination is made that a decline in fair value below the cost basis is other than temporary, the related investment is written down to its estimated fair value through earnings.

We participate in a securities lending program to maximize investment income. We loan certain investment securities for short periods of time in exchange for collateral, consisting of cash or U.S. Government securities, equal to at least 102% of the fair value of the investment securities on loan. The fair value of the loaned investment securities is monitored on a daily basis, with additional collateral obtained or refunded as the fair value of the loaned investment securities fluctuates. The collateral is deposited by the borrower with an independent lending agent, and retained and invested by the lending agent according to our investment guidelines to generate additional investment income. Loaned securities continue to be carried as investment securities on the consolidated balance sheets.

3. Investment Securities

Investment securities classified as current assets at December 31, 2002 and 2001 included the following:

	2002				2001			
(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Government obligations	$ 469,551	$ 9,379	$ —	$ 478,930	$ 374,421	$ 4,254	$ (2,249)	$ 376,426
Tax exempt municipal securities	510,991	13,712	(544)	524,159	637,898	7,706	(2,354)	643,250
Corporate and other securities	313,868	12,070	(5,597)	320,341	266,931	2,594	(2,878)	266,647
Mortgage-backed securities	13,890	661	—	14,551	904	13	—	917
Redeemable preferred stocks	19,887	61	(565)	19,383	29,773	36	(1,597)	28,212
Debt securities	1,328,187	35,883	(6,706)	1,357,364	1,309,927	14,603	(9,078)	1,315,452
Equity securities	52,060	427	(4,018)	48,469	80,275	894	(7,025)	74,144
Investment securities	$1,380,247	$36,310	$(10,724)	$1,405,833	$1,390,202	$15,497	$(16,103)	$1,389,596

Investment securities classified as long-term assets at December 31, 2002 and 2001 included the following:

	2002				2001			
(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Government obligations	$ 32,620	$ 409	$ —	$ 33,029	$ 31,906	$ 8	$ (218)	$ 31,696
Tax exempt municipal securities	131,353	3,887	(215)	135,025	65,877	727	(874)	65,730
Corporate and other securities	56,296	1,277	(396)	57,177	75,633	717	(1,550)	74,800
Mortgage-backed securities	15,837	27	—	15,864	22,449	—	—	22,449
Redeemable preferred stocks	31,625	7,377	—	39,002	48,387	22,001	(92)	70,296
Debt securities	267,731	12,977	(611)	280,097	244,252	23,453	(2,734)	264,971
Equity securities	9,828	35	(1,236)	8,627	21,764	25	(637)	21,152
Long-term investment securities	$277,559	$13,012	$(1,847)	$288,724	$266,016	$23,478	$(3,371)	$286,123

The contractual maturities of debt securities available for sale at December 31, 2002, regardless of their balance sheet classification, are shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

(In thousands)	Amortized Cost	Fair Value
Due within one year	$ 125,247	$ 125,094
Due after one year through five years	478,336	495,043
Due after five years through ten years	333,076	340,000
Due after ten years	659,259	677,325
Total debt securities	$1,595,918	$1,637,461

Gross realized investment gains were $24.7 million in 2002, $25.1 million in 2001 and $8.1 million in 2000. Gross realized investment losses were $34.8 million in 2002, $11.2 million in 2001, and $1.5 million in 2000. Gross realized losses in 2002 included impairment losses of $19.6 million related to privately held investment securities after an evaluation indicated that a decline in fair value below the cost basis was other than temporary.

Beginning in the fourth quarter of 2002 we began participation in a securities lending program where we loan certain investment securities for short periods of time in exchange for collateral, consisting of cash or U.S. Government securities, equal to at least 102% of the fair value of the investment securities on loan. As of December 31, 2002, investment securities with a fair value of $88.1 million were on loan. Investment income earned on security lending transactions for 2002 was less than $0.1 million.

7 (In Part): Debt

The following table presents our short-term and long-term debt outstanding at December 31, 2002 and 2001:

(In thousands)	2002	2001
Short-term debt:		
Conduit commercial paper financing program	$ 265,000	$ 263,000
Long-term debt:		
Senior notes	$ 334,368	$ 309,789
Other long-term borrowings	5,545	5,700
Total long-term debt	$ 339,913	$ 315,489

Senior Notes

The $300 million 7¼% senior, unsecured notes are due August 1, 2006.

In order to hedge the risk of changes in the fair value of our $300 million 7¼% senior notes attributable to fluctuations in interest rates, we entered into interest rate swap agreements.

Interest rate swap agreements, which are considered derivatives, are contracts that exchange interest payments on a specified principal amount, or notional amount, for a specified period. Our interest rate swap agreements exchange the 7¼% fixed interest rate under our senior notes for a variable interest rate, which was 3.06% at December 31, 2002. The $300 million swap agreements mature on August 1, 2006, and have the same critical terms as our senior notes. Changes in the fair value of the 7¼% senior notes and the swap agreements due to changing interest rates are assumed to offset each other completely, resulting in no impact to earnings from hedge ineffectiveness.

Our swap agreements are recognized in our consolidated balance sheet at fair value with an equal and offsetting adjustment to the carrying value of our senior notes. The fair value of our swap agreements are estimated based on quoted market prices of comparable agreements and reflects the amounts we would receive (or pay) to terminate the agreements at the reporting date. At December 31, 2002, the $34.9 million fair value of our swap agreements is included in other long-term assets. Likewise, the carrying value of our senior notes has been increased $34.9 million to its fair value. The counterparties to our swap agreements are major financial institutions with which we also have other financial relationships.

Commercial Paper Programs

We maintain indirect access to the commercial paper market through our conduit commercial paper financing program. Under this program, a third party issues commercial paper and loans the proceeds of those issuances to us so that the interest and principal payments on the loans match those on the underlying commercial paper. The $265 million, 364-day revolving credit agreement supports the conduit commercial paper financing program of up to $265 million. The weighted average interest rate on our conduit commercial paper borrowings was 1.76% at December 31, 2002. The carrying value of these borrowings approximates fair value as the interest rate on the borrowings varies at market rates.

We also maintain and may issue short-term debt securities under a commercial paper program when market conditions allow. The program is backed by our credit agreements described above. Aggregate borrowing under both the credit agreements and commercial paper program cannot exceed $530 million.

1.197

INTERNATIONAL BUSINESS MACHINES CORPORATION AND SUBSIDIARY COMPANIES (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A (In Part): Significant Accounting Policies

Derivatives

All derivatives are recognized in the Consolidated Statement of Financial Position at fair value and are reported in Prepaid expenses and other current assets, Investments and sundry assets, Other accrued expenses and liabilities or Other liabilities in the Consolidated Statement of Financial Position. Classification of each derivative as current or non-current is based upon whether the maturity of each instrument is less than or greater than 12 months. To qualify for hedge accounting in accordance with SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended by SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities," (SFAS No. 133), the company requires that the instruments are effective in reducing the risk exposure that they are designated to hedge. For instruments that are associated with the hedge of cash flows, hedge effectiveness criteria also require that it be probable that the underlying transaction will occur. Instruments that meet established accounting criteria are formally designated as hedges at the inception of the contract. These criteria demonstrate that the derivative is expected to be highly effective at offsetting changes in fair value or cash flows of the underlying exposure both at inception of the hedging relationship and on an ongoing basis. The assessment for effectiveness is formally documented at hedge inception and reviewed at least quarterly throughout the designated hedge period.

The company applies hedge accounting in accordance with SFAS No. 133, whereby the company designates each derivatives as a hedge of; (1) the fair value of a recognized asset or liability or of an unrecognized firm commitment ("fair value" hedge); (2) the variability of anticipated cash flows of a forecasted transaction or the cash flows to be received or paid related to a recognized asset or liability ("cash flow" hedge); or (3) a hedge of a long-term investment ("net investment" hedge) in a foreign operation. From time to time, however, the company may enter into derivatives that economically hedge certain of its risks, even though hedge accounting does not apply under SFAS No. 133 or is not applied by the company. In these cases, there generally exists a natural hedging relationship in which changes in fair value of the derivative, which are recognized currently in net income, act as an economic offset to changes in the fair value of the underlying hedged item(s).

Changes in the value of a derivative that is designated as a fair value hedge, along with offsetting changes in the fair value of the underlying hedged exposure, are recorded in earnings each period. For hedges of interest rate risk, the fair value adjustments are recorded as adjustments to Interest expense and Cost of Global Financing in the Consolidated Statement of Earnings. For hedges of currency risk associated with recorded assets or liabilities, derivative fair value adjustments generally are recognized in Other (income) and expense in the Consolidated Statement of Earnings. Changes in the value of a derivative that is designated as a cash flow hedge are recorded in the Accumulated gains and (losses) not affecting retained earnings, a component of Stockholders' equity. When net income is affected by the variability of the underlying cash flow, the applicable offsetting amount of the gain or loss from the derivative that is deferred in Stockholders' equity is released to net income and reported in Interest expense, Cost, SG&A expense or Other (income) and expense in the Consolidated Statement of Earnings based on the nature of the underlying cash flow hedged. Effectiveness for net investment hedging derivatives is measured on a spot to spot basis. The effective portion of changes in the fair value of derivatives and other non-derivative risk management instruments designated as net investment hedges are recorded as foreign currency

translation adjustments in the Accumulated gains and (losses) not affecting retained earnings section of Stockholders' equity. Changes in the fair value of the portion of a net investment hedging derivative excluded from the effectiveness assessment are recorded in Interest expense.

When the underlying hedged item ceases to exist, all changes in the fair value of the derivative are included in net income each period until the instrument matures. When the derivative transaction ceases to exist, a hedged asset or liability is no longer adjusted for changes in its fair value except as required under other relevant accounting standards. Derivatives that are not designated as hedges, as well as changes in the value of derivatives that do not offset the underlying hedged item throughout the designated hedge period (collectively, "ineffectiveness"), are recorded in net income each period and generally are reported in Other (income) and expense. See note L, "Derivatives and Hedging Transactions," on pages 84 to 86 for a description of the major risk management programs and classes of financial instruments used by the company.

Financial Instruments

In determining fair value of its financial instruments, the company uses a variety of methods and assumptions that are based on market conditions and risks existing at each balance sheet date. For the majority of financial instruments including most derivatives, long-term investments and long-term debt, standard market conventions and techniques such as discounted cash flow analysis, option pricing models, replacement cost and termination cost are used to determine fair value. Dealer quotes are used for the remaining financial instruments. All methods of assessing fair value result in a general approximation of value, and such value may never actually be realized.

D Financial Instruments (Excluding Derivatives)

Fair Value of Financial Instruments

Cash and cash equivalents, marketable securities, notes and other accounts receivable and other investments are financial assets with carrying values that approximate fair value. Accounts payable, other accrued expenses and liabilities, and short-term and long-term debt are financial liabilities with carrying values that approximate fair value.

Marketable Securities

The following table summarizes the company's marketable securities, all of which are considered available for sale, and alliance investments.

	Fair Value	
(Dollars in millions)	2002	2001
Marketable securities—current:		
Time deposits and other obligations	$593	$ 55
Non-U.S. government securities and other fixed-term obligations	—	8
Total	$593	$ 63
Marketable securities—non-current:		
Time deposits and other obligations	$172	$124
Non-U.S. government securities and other fixed-term obligations	20	—
Total	$192	$124
Non-equity method alliance investments	$249	$574

L (In Part): Derivatives and Hedging Transactions

The company operates in approximately 35 functional currencies and is a significant lender and borrower in the global markets. In the normal course of business, the company is exposed to the impact of interest rate changes and foreign currency fluctuations, and to a lesser extent equity price changes. The company limits these risks by following established risk management policies and procedures including the use of derivatives and, where cost-effective, financing with debt in the currencies in which assets are denominated. For interest rate exposures, derivatives are used to align rate movements between the interest rates associated with the company's lease and other financial assets and the interest rates associated with its financing debt. Derivatives are also used to manage the related cost of debt. For foreign currency exposures, derivatives are used to limit the effects of foreign exchange rate fluctuations on financial results.

The company does not use derivatives for trading or speculative purposes, nor is it a party to leveraged derivatives. Further, the company has a policy of only entering into contracts with carefully selected major financial institutions based upon their credit ratings and other factors, and maintains strict dollar and term limits that correspond to the institution's credit rating. When viewed in conjunction with the underlying and offsetting exposure that the derivatives are designed to hedge, the company has not sustained a material loss from these instruments.

In its hedging programs, the company employs the use of forward contracts, futures contracts, interest rate and currency swaps, options, caps, floors or a combination thereof depending upon the underlying exposure.

The following tables summarizes the net fair value of the company's derivative and other risk management instruments at December 31, 2002 and 2001 (included in the Consolidated Statement of Financial Position).

(Dollars in millions)	Risk Management Program			
	Hedge Designation			Non-Hedge/
At December 31, 2002	Fair Value	Cash Flow	Net Investment	Other
Derivatives:				
Debt risk management	$643	$ (7)	$ —	$ 3
Long-term investments in foreign subsidiaries ("net investments")	—	—	2	—
Anticipated royalties and cost transactions	—	(469)	—	—
Subsidiary cash and foreign currency asset/liability management	—	—	—	(109)
Equity risk management	—	—	—	6
Other derivatives	—	—	—	10
Total derivatives	643[(a)]	(476)[(b)]	2[(c)]	(90)[(d)]
Debt:				
Long-term investments in foreign subsidiaries ("net investments")	—	—	(2,474)*	—
Total	$643	$(476)	$(2,472)	$ (90)

* Represents fair value of foreign denominated debt issuances formally designated as a hedge of net investment.
(a) Comprises assets of $754 million and liabilities of $111 million.
(b) Comprises assets of $2 million and liabilities of $478 million.
(c) Comprises assets of $2 million.
(d) Comprises assets of $26 million and liabilities of $116 million.

(Dollars in millions)				
	Hedge Designation			Non-Hedge/
At December 31, 2001	Fair Value	Cash Flow	Net Investment	Other
Derivatives:				
Debt risk management	$301	$ (26)	$ —	$ (13)
Long-term investments in foreign subsidiaries ("net investments")	—	—	92	—
Anticipated royalties and cost transactions	—	375	—	—
Subsidiary cash and foreign currency asset/liability management	—	—	—	16
Equity risk management	—	—	—	22
Other derivatives	—	—	—	3
Total derivatives	301[(a)]	349[(b)]	92[(c)]	28[(d)]
Debt:				
Long-term investments in foreign subsidiaries ("net investments")	—	—	(5,519)*	—
Total	$301	$349	$(5,427)	$ 28

* Represents fair value of foreign denominated debt issuances formally designated as a hedge of net investment.
(a) Comprises assets of $301 million.
(b) Comprises assets of $383 million and liabilities of $34 million.
(c) Comprises assets of $92 million.
(d) Comprises assets of $60 million and liabilities of $32 million.

1.198

STANDARD MOTOR PRODUCTS, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Derivative Instruments and Hedging Activities

Derivative Instruments are accounted for in accordance with SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" and SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities." These statements establish accounting and reporting standards requiring that every derivative instrument be recorded on the balance sheet as either an asset or liability measured at its fair value. For derivatives that have been formally designated as a cash flow hedge (interest rate swap agreements), the effective portion of changes in the fair value of the derivatives are recorded in "other comprehensive income (loss)." Payment or receipts on interest rate swap agreements are recorded in the "interest expense" caption in the statement of operations.

17. Fair Value of Financial Instruments

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Cash and Cash Equivalents

The carrying amount approximates fair value because of the short maturity of those instruments.

Marketable Securities

The fair values of investments are estimated based on quoted market prices for these or similar instruments.

Long-Term Debt

The fair value of the Company's long-term debt is estimated based on quoted market prices or current rates offered to the Company for debt of the same remaining maturities.

Interest Rate Swaps

The fair value of the Company's financial instruments are based on market quotes and represents the net amount required to terminate the position, taking into consideration market rates and counterparty credit risk.

The estimated fair values of the Company's financial instruments are as follows:

(In thousands)

December 31, 2002	Carrying Amount	Fair Value
Cash and cash equivalents	$ 9,690	$ 9,690
Marketable securities	7,200	7,200
Long-term debt	(173,548)	(156,437)
Interest rate swaps	(1,905)	(1,905)

(In thousands)

December 31, 2001	Carrying Amount	Fair Value
Cash and cash equivalents	$ 7,496	$ 7,496
Marketable securities	7,200	7,200
Long-term debt	(201,850)	(177,520)
Interest rate swaps	(2,045)	(2,045)

CONCENTRATIONS OF CREDIT RISK

1.199

ARDEN GROUP, INC. AND CONSOLIDATED SUBSIDIARIES (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Accounting Policies

Accounts and Notes Receivable

The Company monitors vendor receivables and extensions of credit on an ongoing basis and has not experienced significant losses related to its receivables. At December 28, 2002, the Company did not have significant credit risk concentrations. No single group or customer represents greater than 2% of total accounts and notes receivable. Issuance costs related to Gelson's charge cards are not significant and are expensed as incurred.

1.200

POLO RALPH LAUREN (MAR)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

10. Concentration of Credit Risk

We sell our merchandise primarily to major upscale department stores across the United States and extend credit based on an evaluation of the customer's financial condition generally without requiring collateral. Credit risk is driven by conditions or occurrences within the economy and the retail industry and is principally dependent on each customer's financial condition. A decision by the controlling owner of a group of stores or any substantial customer to decrease the amount of merchandise purchased from us or to cease carrying our products could have a material adverse effect. We had three customers who in aggregate constituted approximately 35% and 52% of trade accounts receivable outstanding at March 30, 2002 and March 31, 2001.

We had three significant customers who accounted for approximately 10%, 9% and 9% each of net sales, in fiscal 2002. We had three significant customers who accounted for approximately 11%, 10% and 10% each of net sales in fiscal 2001, and for approximately 12%, 11% and 10% each of net sales in fiscal 2000. Additionally, we had four significant licensees who in aggregate constituted approximately

55%, 53% and 58% of licensing revenue in fiscal 2002, 2001 and 2000.

We monitor credit levels and the financial condition of our customers on a continuing basis to minimize credit risk. We believe that adequate provision for credit loss has been made in the accompanying consolidated financial statements.

We are also subject to concentrations of credit risk with respect to our cash and cash equivalents, marketable securities, interest rate swap agreements and forward foreign exchange contracts which we attempt to minimize by entering into these arrangements with major banks and financial institutions and investing in high-quality instruments. We do not expect any counterparties to fail to meet their obligations.

1.201

PRECISION CASTPARTS CORP. AND SUBSIDIARIES (MAR)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Concentration of Credit Risk

Approximately 52 percent of PCC's business activity in fiscal year 2002 was with companies in the aerospace industry, and 23 percent of total sales were to General Electric. Accordingly, PCC is exposed to a concentration of credit risk for this portion of receivables. The Company has long-standing relationships with its aerospace customers and management considers the credit risk to be low.

1.202

THE SCOTTS COMPANY (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 17. Concentrations of Credit Risk

Financial instruments which potentially subject the Company to concentration of credit risk consist principally of trade accounts receivable. The Company sells its consumer products to a wide variety of retailers, including mass merchandisers, home centers, independent hardware stores, nurseries, garden outlets, warehouse clubs and local and regional chains. Professional products are sold to commercial nurseries, greenhouses, landscape services, and growers of specialty agriculture crops.

At September 30, 2002, 67% of the Company's accounts receivable was due from customers in North America. Approximately 94% of these receivables were generated from the Company's North American Consumer segment. The most significant concentration of receivables within this segment was from home centers, which accounted for 32%, followed by mass merchandisers at 7% of the Company's receivables balance at September 30, 2002. No other retail concentrations (e.g., independent hardware stores, nurseries, etc. in similar markets) accounted for more than 5% of the Company's accounts receivable balance at September 30, 2002. The Company's two largest customers accounted for 33% of the North American Consumer accounts receivable balance at September 30, 2002.

The remaining 6% of North American accounts receivable was generated from customers of the Scotts LawnService® and Global Professional segments located in North America. As a result of the changes in distribution methods made in fiscal 2000 for the Global Professional segment customers in North America, nearly all products are sold through distributors. Accordingly, nearly all of the Global Professional segment's North American accounts receivable at September 30, 2002 is due from distributors.

The 33% of accounts receivable generated outside of North America is due from retailers, distributors, nurseries and growers. No concentrations of customers or individual customers within this group account for more than 10% of the Company's accounts receivable balance at September 30, 2002.

At September 30, 2002, the Company's concentrations of credit risk were similar to those existing at September 30, 2001.

The Company's two largest customers accounted for the following percentage of net sales in each respective period:

	Largest Customer	2nd Largest Customer
2002	25.8%	13.2%
2001	24.3%	12.5%
2000	20.0%	7.6%

Sales to the Company's two largest customers are reported within Scott's North American Consumer segment. No other customers accounted for more than 10% of fiscal 2002, 2001 or 2000 net sales.

1.203

SEARS, ROEBUCK AND CO. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Credit Card Receivables

Credit card receivables arise under revolving credit accounts used primarily to finance purchases. Sears Card products are typically available only on purchases of merchandise and services offered by the Company, whereas MasterCard is widely accepted by merchants outside the Company. Additional MasterCard product receivables are generated from balance transfers and cash advances. These accounts have various billing and payment structures, including varying minimum payment levels and finance charge rates and fees. Based on historical payment patterns, the full receivable balance will not be repaid within one year.

Credit card receivables are shown net of an allowance for uncollectible accounts. The allowance is an estimate of losses inherent in the portfolio (including current accounts, finance charges and credit card fee balances) as of the balance sheet date. The Company calculates the allowance using a

model that analyzes factors such as bankruptcy filings, delinquency rates, historical charge-off patterns, recovery rates and other portfolio data. The Company's calculation is then reviewed by management to assess whether, based on economic events, additional analyses are required to appropriately estimate losses inherent in the portfolio.

The entire balance of an account is contractually delinquent if the minimum payment is not received by the payment due date. The Company's current credit processing system charges off an account automatically when a customer's number of missed monthly payments outstanding reaches eight; however, accounts may be charged off sooner in the event of customer bankruptcy. Bankrupt customer accounts are charged off 60 days after the first meeting of the creditors for a filing under Chapter 7 of the U.S. Bankruptcy Code and 90 days after the first meeting of the creditors for a filing under Chapter 13 of the U.S. Bankruptcy Code. All amounts collected on previously charged off accounts are included in recoveries for the determination of net charge-offs.

Note 3 (In Part): Credit Card Receivables

Significant Group Concentrations of Credit Risk

The Company grants credit to a large and diverse group of customers throughout North America. The five states and the respective receivable balances in which the Company had the largest amount of credit card receivables were as follows:

(Millions)	2002	% of Balance	2001	% of Balance
California	$3,417	11.2%	$2,982	10.9%
Texas	2,380	7.8%	2,139	7.9%
Florida	2,140	7.0%	1,919	7.0%
New York	1,960	6.4%	1,699	6.2%
Pennsylvania	1,506	4.9%	1,349	5.0%

SUBSEQUENT EVENTS

1.204 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. SAS No. 1, section 560, *Subsequent Events*, as amended by SAS No. 12, *Inquiry of a Client's Lawyer Concerning Litigation, Claims, and Assessments*, 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.

1.205 Examples of subsequent event disclosures follow.

1.206

TABLE 1-14: SUBSEQUENT EVENTS

	Number of Companies			
	2002	**2001**	**2000**	**1999**
Debt incurred, reduced or refinanced	76	83	72	35
Discontinued operations	68	50	33	44
Business combinations pending or effected	67	72	63	88
Litigation	38	30	31	29
Capital stock issued or purchased	18	20	16	27
Employee benefits	8	12	4	5
Reorganization/bankruptcy	6	11	N/C*	N/C*
Stock splits or dividends	3	7	5	11
Stock purchase rights	3	5	2	7
Other—described	68	76	84	79

* N/C = Not compiled. Line item was not included in the table for the year shown.

Debt Incurred, Reduced, or Refinanced

1.207

CHAMPION ENTERPRISES, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 8 (In Part): Debt

In January 2003, subsequent to year end, CHB entered into a three-year, $75 million revolving credit facility to be used in support of letters of credit and for general corporate purposes. Under this facility, letter of credit fees range from 2.5% to 3.5% annually on amounts outstanding and borrowings bear interest at either the prime interest rate plus from 0.0% to 0.5% or the Eurodollar rate plus from 2.5% to 3.5%. In addition, there is an annual fee of $0.1 million plus 0.375% of the unused portion of the facility. Availability under the new line is subject to a borrowing base calculated as percentages of eligible accounts receivable, inventory and fixed assets. The facility agreement contains certain financial covenants that require the Company, only in the event that its liquidity falls below $35 million, to maintain certain levels of earnings before interest, taxes, depreciation and amortization ("EBITDA") and certain ratios of EBITDA to fixed charges, as defined in the agreement. In addition the facility contains covenants that limit the Company's ability to incur additional indebtedness and liens, and, if liquidity falls below $35 million, make certain investments, pay dividends and purchase or redeem its common stock. The line of credit is collateralized by accounts receivable, inventories, property, plant, and equipment and, to a lesser degree, cash and other assets. As of March 1, 2003, $60.4 million of letters of credit were outstanding on this line and the Company was in compliance with all covenants.

Upon completion of the new $75 million credit facility, from January through March 1, 2003, substantially all of the fully cash collateralized letters of credit were terminated resulting in the release to the Company of restricted cash of $47 million. Additionally, $9.6 million of cash deposits were released to the Company upon replacing cash collateral for

surety bonds with letters of credit under the new credit facility.

Subsequent to year end, through March 14, 2003, the Company purchased and retired $12.9 million of the Senior Notes due 2009 and $15.0 million of the Senior Notes due 2007 for a total of $20.5 million, resulting in pretax gains totaling $6.7 million.

1.208

GLOBALSANTAFE CORPORATION AND SUBSIDIARIES (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4 (In Part): Long-Term Debt

Subsequent to the balance sheet date, on February 11, 2003, the Company issued $250 million of 5% Notes due 2013 (the "5% Notes") in a private placement and received cash proceeds of approximately $247.6 million after deduction for discount, underwriting fees and estimated expenses. The Company plans to use the funds for general corporate purposes. The 5% Notes are unsecured senior obligations of the Company and rank equally with all other senior unsecured indebtedness of the Company. The 5% Notes, however, have a junior position to the claims of holders of the indebtedness and capital lease obligations of Global Marine and its subsidiaries on Global Marine's assets and earnings. The indenture relating to the 5% Notes contains limitations on the Company's ability to incur indebtedness for borrowed money secured by certain liens and on its ability to engage in certain sale/leaseback transactions. The indenture, however, does not restrict the Company's ability to incur additional senior indebtedness. Interest on the 5% Notes is payable on February 15 and August 15 of each year beginning on August 15, 2003. No principal payments are required with respect to the 5% Notes prior to their final maturity date.

The Company may redeem the 5% Notes in whole or in part, at any time and from time to time, at a price equal to 100% of the principal amount plus accrued interest to the redemption date, plus a premium relating to the then-prevailing Treasury Yield and the remaining life of the notes. The Company has agreed to file a registration statement with the Securities and Exchange Commission relating to an exchange offer to exchange the 5% Notes for registered notes having substantially identical terms.

1.209

SKYWORKS SOLUTIONS, INC. (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 15 Subsequent Event

On November 13, 2002, the Company successfully closed a private placement of $230 million of 4.75 percent convertible subordinated notes due 2007. These notes can be converted into 110.4911 shares of common stock per $1,000 principal balance, which is the equivalent of a conversion price of approximately $9.05 per share. The net proceeds from the note offering were principally used to prepay debt owed to Conexant under a financing agreement entered into with Conexant immediately following the Merger. The payments to Conexant retired $105 million of the $150 million note relating to the purchase of the Mexicali Operations and repaid the $65 million principal amount outstanding as of November 13, 2002 under the loan facility, dissolving the $100 million facility and resulting in the release of Conexant's security interest in all assets and properties of the Company.

In connection with the prepayment by the Company of $105 million of the $150 million note owed to Conexant relating to the purchase of the Mexicali Operations, the remaining $45 million principal balance on the note was exchanged for new 15% convertible debt securities with a maturity date of June 30, 2005. These notes can be converted into the Company's common stock at a conversion rate based on the applicable conversion price, which is subject to adjustment based on, among other things, the market price of the Company's common stock. Based on this adjustable conversion price, the Company expects that the maximum number of shares that could be issued under the note is approximately 7.1 million shares, subject to adjustment for stock splits and other similar dilutive occurrences.

In addition to the retirement of $170 million in principal amount of indebtedness owing to Conexant, the Company also retained approximately $53 million of net proceeds of the private placement to support its working capital needs.

1.210

TOYS"R"US, INC. AND SUBSIDIARIES (JAN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Subsequent Events (In Part)

On March 24, 2003, the company filed a "shelf" registration statement with the Securities and Exchange Commission, giving the company the capability to sell up to $800 of debt securities that would be used to repay outstanding debt and for general corporate purposes. In April 2003, the company sold and issued $400 million in notes bearing interest at a coupon rate of 7.875%, maturing on April 15, 2013. The notes were sold at a price of 98.305%, resulting in an effective yield of 8.125%. Simultaneously with the sale of the notes, we entered into interest rate swap agreements. As a result of these swap agreements, interest will accrue at the rate of LIBOR plus 3.622%. Interest is payable semi-annually commencing on October 15, 2003. The company plans to use the proceeds from these notes for the repayment of indebtedness maturing in the 2004 calendar year, and pending such repayment, for working capital needs and other general corporate purposes.

Discontinued Operations

1.211

CIGNA CORPORATION (DEC)

NOTES TO THE FINANCIAL STATEMENTS

Note 4 (In Part): Acquisitions and Dispositions

A. Sale of Lovelace Health Systems

In January 2003, CIGNA sold the operations of Lovelace, an integrated health care system located in New Mexico that includes a multi-specialty physician group practice, a hospital, family practice clinics and a health plan, for cash proceeds of approximately $210 million. The sale generated an after-tax gain of approximately $30 million which will be recognized in the first quarter of 2003. In the fourth quarter of 2002, CIGNA began reporting this business as discontinued operations and prior year financial information has been reclassified.

During 2002, CIGNA increased reserves for a Medicare cost reporting matter associated with Lovelace (see page 73) by $9 million after-tax ($14 million pre-tax). In the fourth quarter of 2002, Lovelace entered into a settlement agreement with the federal government related to this matter. This charge is included in results of discontinued operations.

Summarized financial data for discontinued operations are outlined below:

(In millions)	2002	2001	2000
Income statement data			
Revenues	$567	$508	$468
Income before taxes	$ 1	$ 28	$ 10
Income taxes	2	10	4
Income (loss) from discontinued operations	$ (1)	$ 18	$ 6

(In millions)	2002	2001
Balance sheet data		
Cash	$ 23	$ 15
Accounts receivable	34	34
Property and equipment	94	91
Goodwill and other assets	49	39
Total assets	$200	$179
Insurance liabilities	$ 47	$ 37
Accounts payable and other liabilities	28	25
Total liabilities	$ 75	$ 62

B. Sale of Brazilian Health Care Operations

In January 2003, CIGNA sold its Brazilian health care operations. CIGNA expects to record a net gain of approximately $15 million after-tax in the first quarter of 2003 associated with this sale, primarily as a result of the disposition of the net liabilities associated with these operations. The gain will be reported as part of discontinued operations. Revenues, expenses and results of operations of the Brazilian health care operations are not material to CIGNA's consolidated financial statements.

1.212

THE GOODYEAR TIRE & RUBBER COMPANY AND SUBSIDIARIES (DEC)

NOTES TO FINANCIAL STATEMENTS

Note 24 (In Part): Subsequent Events

First Quarter 2003 Rationalization Actions

Goodyear expects to record a rationalization charge of approximately $62 million to $68 million in the first quarter of 2003. These actions consist of retail and administrative consolidations in North America and Europe and provide for the release of approximately 900 associates. Of the estimated charge, approximately $36 million to $40 million relates to future cash outflows, primarily associate severance costs, and $26 million to $28 million are non-cash charges, primarily the writeoff of equipment taken out of service and pension curtailments. The Company is in the process of finalizing the costs of these plans.

1.213

LOUISIANA-PACIFIC CORPORATION (DEC)

NOTES TO FINANCIAL STATEMENTS

18 (In Part): Subsequent Events

On February 18, 2003, LP announced it had signed a letter of intent to sell approximately 55,000 acres of timberland near Cleveland, Texas, to an undisclosed buyer for approximately $38 million. The transaction is expected to close before the end of LP's second fiscal quarter.

On February 24, 2003, LP announced the sale of its Missoula, Montana, particleboard mill to Roseburg Forest Products for approximately $20 million, including inventories.

On February 25, 2003, LP announced it had signed a definitive agreement to sell its two sawmills in Florida, located in Marianna and West Bay, to Grayson Lumber Corporation. Terms of the transactions were not disclosed.

• • • • • •

On February 27, 2003, LP announced it had signed a letter of intent to sell approximately 27,000 acres of timberland in and around San Augustine County, Texas, to an undisclosed buyer for approximately $20 million.

1.214

TRANSTECHNOLOGY CORPORATION (MAR)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

14. Subsequent Event

On April 16, 2002, the Company completed the sale of all of the shares of its Aerospace River Manufacturers Corporation Inc. subsidiary for $3.2 million of cash consideration plus the assumption of certain liabilities.

On May 30, 2002, the Company completed the sale of substantially all of the net assets of its U.S. retaining ring business for $2.9 million of cash, a promissory note of $0.8 million and warrants for 5% of the equity of the purchaser.

Business Combinations

1.215

AIR PRODUCTS AND CHEMICALS, INC. AND SUBSIDIARIES (SEP)

NOTES TO THE FINANCIAL STATEMENTS
(Millions of dollars)

5. Subsequent Events

In October 2002, the company acquired American Homecare Supply, LLC (AHS), a homecare market leader throughout the northeastern United States, for approximately $165. In November 2002, AHS acquired Home Health Services, Inc., a provider of homecare services located in West Virginia. Prior to these acquisitions, the company and its affiliates had a homecare position serving approximately 180,000 patients. With these acquisitions, the company and its affiliates will provide home medical services to more than 280,000 patients in 14 countries from more than 200 locations, a significant step in the company's strategy to be a global healthcare provider. With annual sales of more than $120 and more than 800 employees, AHS is ranked among the ten largest U.S. homecare providers of respiratory therapy and home medical equipment.

1.216

AK STEEL HOLDING CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in millions)

15. Subsequent Events

On January 30, 2003, AK Steel entered into an asset purchase agreement with National Steel Corporation providing for the acquisition by AK Steel of substantially all of National's assets. National has been operating as a debtor-in-possession under Chapter 11 of the Bankruptcy Code since March 6, 2002. The purchase price specified in the agreement is $1,125.0, of which $925.0 is payable in cash and $200.0 consists of certain assumed liabilities, primarily operating leases for steelmaking equipment. Pursuant to the agreement, AK Steel would not assume National's pension obligations or other postretirement employee benefit liabilities, consisting primarily of healthcare liabilities. The agreement also contemplates the negotiation of a new contract with the United Steelworkers of America, which represents most of National's hourly employees. The agreement is subject to various contingencies, including approval of the Bankruptcy Court following a formal auction, currently scheduled for early April 2003, at which competing bids could be submitted and considered in accordance with procedures established by the Bankruptcy Court.

1.217

CURTISS-WRIGHT CORPORATION AND SUBSIDIARIES (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

21. Subsequent Events

Acquisitions

On February 28, 2003, the Corporation acquired the assets of Collins Technologies from G.L Collins Corporation. The purchase price of the acquisition, subject to adjustment as provided for in the Asset Purchase Agreement, was $12.0 million in cash and the assumption of certain liabilities. Management funded the purchase price from credit available under the Corporation's Short-Term Credit Agreement. Revenues of the purchased business totaled approximately $8.3 million for the year ending March 31, 2002. Management intends to incorporate the operations of G.L. Collins Corporation into the Corporation's Motion Control Segment.

On March 11, 2003, the Corporation acquired selected assets of Advanced Material Process Corp. ("AMP"), a private company with operations located in Wayne, Michigan. The purchase price of the acquisition, subject to adjustment as provided for in the Asset Purchase Agreement, was $5.7 million in cash and the assumption of certain liabilities. Management funded the purchase price from credit available under the Corporation's Short-Term Credit Agreement. Annual sales of the purchased business are approximately $5.0 million. Management intends to incorporate the operations of AMP into the Corporation's Metal Treatment Segment.

On March 19, 2003, the Corporation entered into an agreement to acquire selected assets of E/M Engineered Coatings Solutions ("E/M Coatings"). The purchase price of the acquisition, subject to adjustment as provided in the Asset Purchase Agreement, was $16.7 million in cash and the assumption of certain liabilities. Management's intention is to fund the purchase price from credit available under the Corporation's Short-Term Credit Agreement. Revenues of the purchased business totaled approximately $26.0 million for the year ending December 31, 2002. Management intends to incorporate the operations of E/M Coatings into the Corporation's Metal Treatment Segment.

1.218

THE J.M. SMUCKER COMPANY (APR)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note C: Subsequent Event

On June 1, 2002, the Company merged the *Jif* peanut butter and *Crisco* shortening and oils businesses of The Procter & Gamble Company (P&G) with and into the Company in a tax-free stock transaction. Under the terms of the agreement, P&G spun off its *Jif* and *Crisco* businesses to its shareholders and immediately thereafter those businesses were merged with and into the Company. P&G shareholders received one Company Common Share for every 50 P&G common shares that they held as of the record date for the distribution of the *Jif* and *Crisco* businesses to the P&G shareholders. The Company's shareholders received 0.9451 of a new Company Common Share for each Company Common Share that they held immediately prior to the merger. Approximately 26,000,000 Common Shares were issued to the P&G shareholders resulting in an aggregate purchase price of approximately $781,000,000 based on the average market price of the Company's Common Shares over the period from three days before to three days after the terms of the acquisition were announced. Upon completion of the merger, the Company had 49,531,376 shares outstanding.

The merger and the combination of three bands—*Smucker's, Jif* and *Crisco*—enhances the Company's strategic and market position. For accounting purposes, the Company is the acquiring enterprise. The merger was accounted for as a purchase business combination. Accordingly, the results of the *Jif* and *Crisco* operations will be included in the Company's fiscal 2003 consolidated financial statements from the date of the merger.

The purchase price will be allocated to the underlying assets acquired and liablities assumed based upon their estimated fair values at the date of acquisition. The Company will determine the estimated fair values based on independent appraisals, discounted cash flows, quoted market prices, and estimates made by management. To the extent that the purchase price exceeds the fair value of the net identifiable tangible and intangible assets acquired, such excess will be allocated to goodwill.

The following table summarizes the initial estimated fair values of the assets acquired and liabilities assumed at the date of acquisition. The allocation of the purchase price is preliminary and subject to adjustment following completion of the valuation process:

(Dollars in thousands)	June 1, 2002
Assets:	
Tangible assets	$156,460
Intangible assets not subject to amortization	280,000
Intangible assets subject to amortization (15 year weighted-average useful life)	37,333
Goodwill	454,094
Total assets acquired	927,887
Total liabilities assumed	(146,887)
Net assets acquired	$781,000

The $454,094,000 of goodwill relates to the domestic segment and will not be deductible for tax purposes.

Had the merger of the *Jif* and *Crisco* businesses with and into the Company occurred at the beginning of fiscal 2001, pro forma consolidated results would have been as follows:

(Dollars in thousands)	2002	2001
Net sales	$1,283,000	$1,267,000
Operating income, excluding indirect expenses of the *Jif* and *Crisco* businesses	$ 235,000	$ 230,000

Litigation

1.219

ATMEL CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 17 (In Part): Subsequent Events

On February 7, 2003, a class action entitled *Pyevich v. Atmel Corporation, et al.*, was filed in the United States District Court for the Northern District of California, against the Company and certain of its current officers and a former officer. The Complaint alleges that the Company made false and misleading statements concerning its financial results and business during the period from January 20, 2000 to July 31, 2002 as a result of sales of allegedly defective product to a customer and alleges that the Company violated Section 10(b) of the Securities Exchange Act of 1934. Additional, virtually identical complaints were subsequently filed and will be consolidated into this action. The Complaints do not identify the alleged monetary damages. The Company disputes plaintiffs' claims and intends to defend the lawsuit vigorously.

On February 19, 2003, a derivative class action entitled *Cappano v. Perlegos, et al.*, was filed in the Superior Court for the State of California for the County of Santa Clara. The Complaint names as defendants the certain directors, officers and a former officer of the Company, and the Company is also named as a nominal defendant. The Complaint alleges that between January 2000 and July 31, 2002, defendants breached their fiduciary duties to the Company by permitting it to sell defective products to customers. The Complaint alleges claims for breach of fiduciary duty, mismanagement, abuse of control, waste, and unjust enrichment. The Complaint seeks unspecified damages and equitable relief as against the individual defendants. An additional, virtually identical complaint alleging the same allegations also was filed. The Company disputes plaintiffs' claims and intends to defend the lawsuit vigorously.

1.220

NORTHROP GRUMMAN CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Litigation, Commitments and Contingencies (In Part)

On February 3, 2003, the Department of Justice filed a civil False Claims Act case against Newport News Shipbuilding, Inc. in the United States District Court for the Eastern District of Virginia. The government seeks single damages in an amount in excess of $72 million, plus penalties, costs and interest. Damages may be trebled under the False Claims Act. The complaint alleges that the company improperly charged certain independent research and development costs to its government contracts with respect to the years 1994 through 1999. The company denies the allegations and intends to vigorously defend the matter.

Capital Stock Issued or Purchased

1.221

BALDOR ELECTRIC COMPANY AND AFFILIATES (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note M (In Part): Subsequent Events

On February 14, 2003, pursuant to the Company's stock repurchase plan, the Company repurchased 1.5 million shares of its common stock for cash in the amount of $26.7 million.

Employee Benefits

1.222

THE DOW CHEMICAL COMPANY (DEC)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

U. Subsequent Event

On February 13, 2003, the Board of Directors authorized a 10-year Employees' Stock Purchase Plan, subject to the approval of shareholders at the annual meeting on May 8, 2003. Under the plan, most employees would be eligible to purchase shares of common stock of the Company valued at up to 10 percent of their annual base earnings. The value would be determined using the plan price times the number of shares subscribed to by the employee. The plan price of the stock would be set annually at no less than 85 percent of market price.

Reorganization/Bankruptcy

1.223

FEDERAL-MOGUL CORPORATION (DEC)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Voluntary Reorganization Under Chapter 11 and Administration

On January 31, 2003, the Company announced that it had reached an agreement in principle with its major U.S. creditor constituencies as to the terms of a consensual plan of reorganization. Although a number of issues remain to be resolved, the consensual plan of reorganization is expected to be filed by March 6, 2003. The agreement in principle provides that the noteholders and asbestos claimants, present and future, will convert all of their claims into equity of the reorganized Company. Specifically, 49.9% of newly authorized and issued conversion stock will be distributed to the noteholders, and 50.1% of newly authorized and issued conversion stock will be distributed to a trust established pursuant to Section 524(g) of the Bankruptcy Code for the benefit of existing and future asbestos claimants. United States trade creditors are expected to receive one or more cash distributions under the consensual plan. Subject to negotiation, the Plan of Reorganization currently provides for the cancellation of pre-petition equity interests. The filing of the Plan of Reorganization will be followed by various critical documents, specifically, the Plan Disclosure Statement detailing the reorganization transaction and the U.K. scheme of arrangement.

There are two possible types of U.K. schemes of arrangements. The first is under Section 425 of the Companies Act of 1985, which may involve a scheme for the reconstruction of the Company. If a majority in number representing three-fourths in value of the creditors or members or any class of them agree to the compromise or arrangement, it is binding if sanctioned by the High Court. Section 425 may be invoked where there is an Administration order in force in relation to the Company. The other possible type of scheme arises under Section 1 of the Insolvency Act of 1986 in relation to Company Voluntary Arrangements ("CVA"). If a majority in value representing more than three-fourths of the creditors agrees to the compromise or arrangement set out in the CVA proposal, it will be approved.

The Company is unable to predict with a high degree of certainty at this time what treatment will be accorded under any such plan of reorganization to intercompany indebtedness, licenses, executory contracts, transfers of goods and services, and other intercompany arrangements, transactions and relationships that were entered into prior to the Petition Date. Various parties in the Chapter 11 cases may challenge these arrangements, transactions, and relationships, and the outcome of those challenges, if any, may have an impact on the treatment of various claims under such plan of reorganization. The Bankruptcy Court has set March 3, 2003 as a bar date for asbestos property damage claims and for general and commercial claims.

The Bankruptcy Court may confirm a plan of reorganization only upon making certain findings required by the Bankruptcy Code, and a plan may be confirmed over the dissent of non-accepting creditors and equity security holders if certain requirements of the Bankruptcy Code are met. The payment

rights and other entitlements of pre-petition creditors and equity security holders may be substantially altered by any plan of reorganization confirmed in the Chapter 11 Cases. There is no assurance that there will be sufficient assets to satisfy the Debtors' pre-petition liabilities in whole or in part, and the pre-petition creditors of some Debtors may be treated differently than those of other Debtors.

19 (In Part): Subsequent Events

Plan of Reorganization

On January 31, 2003, the Company announced that it had reached an agreement in principle with its major U.S. creditor constituencies to the terms of a consensual plan of reorganization. This agreement is more fully discussed in Note 1 to the consolidated financial statements.

Stock Splits/Dividends

1.224

ALLIANT TECHSYSTEMS INC. (MAR)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

16 (In Part): Subsequent Events

On May 7, 2002, the Company's Board of Directors approved a 3-for-2 split (in the form of a stock dividend) of the Company's common stock payable on or about June 10 to shareholders of record on May 17. Also on May 7, 2002, the Board of Directors declared a dividend distribution of one right for each share of common stock of the Company outstanding at the close of business on May 28, pursuant to the terms of a Rights Agreement, dated as of May 7, by and between the Company and a rights agent.

Stock Purchase Rights

1.225

ADVO, INC. (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 8 (In Part): Stockholders' Equity (Deficiency)

The Company has a Shareholder Protection Rights Plan (the "Rights Plan") to protect shareholders from potential unfair hostile takeovers. Subsequent to year-end the Company amended the Rights Plan extending the expiration date to February 11, 2013, as well as updated the plan to reflect current market prices and benchmarks. Pursuant to the Rights Plan, common shareholders have one Right for each share of common stock held. The Rights become exercisable only in the event that any person acquires or commences a tender offer to acquire 15% or more of the Company's common stock, as defined.

Spin-Off

1.226

H.J. HEINZ COMPANY AND SUBSIDIARIES (MAY)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

18. Subsequent Events

On June 13, 2002, Heinz announced that it will transfer to a wholly owned subsidiary ("Spinco") certain assets and liabilities of its U.S. and Canadian pet food and pet snacks, U.S. tuna, U.S. retail private label soup and gravy, *College Inn* broths and U.S. infant feeding businesses and distribute all of the shares of Spinco common stock on a pro rata basis to its shareholders. Immediately thereafter, Spinco will merge with a wholly owned subsidiary of Del Monte Foods Company ("Del Monte") resulting in Spinco becoming a wholly owned subsidiary of Del Monte (the "Merger"). In connection with the Merger, each share of Spinco common stock will be automatically converted into shares of Del Monte common stock that will result in the fully diluted Del Monte common stock at the effective time of the Merger being held approximately 74.5% by Heinz shareholders and approximately 25.5% by the Del Monte shareholders. As a result of the transaction, Heinz will receive approximately $1.1 billion in cash that will be used to retire debt.

Included in the transaction will be the following brands: *StarKist, 9-Lives, Kibbles 'n Bits, Pup-Peroni, Snausages, Nawsomes, Heinz Nature's Goodness* baby food and *College Inn* broths. The following is a summary of the operating results over the past three years of the businesses to the spun off:

(Dollars in thousands)	Fiscal 2002	Fiscal 2001	Fiscal 2000
Revenues	$1,809,593	$1,817,163	$2,028,131
Operating income/(loss)	275,292	(8,788)	241,164
Operating income excluding special items	280,814	330,537	369,899

The Merger, which has been approved by the Board of Directors of Heinz and Del Monte, is subject to the approval of the shareholders of Del Monte and receipt of a ruling from the Internal Revenue Service that the contribution of the assets and liabilities to Spinco and the distribution of the shares of common stock of Spinco to Heinz shareholders will be tax-free to Heinz, Spinco and the shareholders of Heinz. The Merger is also subject to receipt of applicable governmental approvals and the satisfaction of other customary closing conditions. The company expects that the transaction will close late in calendar year 2002 or early in calendar year 2003.

Change in Functional Currency

1.227

BELLSOUTH CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note N (In Part): Change in Functional Currency

In January 2003, Venezuela's central bank halted foreign exchange trading to stem capital flight during a seven-week-old opposition strike to the President. Venezuela's local Bolivar currency has lost nearly a third of its value against the US Dollar since the strike against the President began on December 2, 2002. In February 2003, Venezuela's central bank fixed the Bolivar's exchange rate at 1,596 Bolivar to the US Dollar. Because of the net monetary position of this entity, depreciation of the Bolivar results in foreign currency transaction gains being recognized in the income statement. The depreciation of the Bolivar, however, will have the effect of lowering both local currency revenues and expenses when translated into the US Dollar for financial reporting purposes. In addition, inflation in Venezuela is increasing at a significant rate, which absent price increases, could negatively affect our earnings. If the three-year cumulative inflation rate exceeds 100%, the economy will be considered hyperinflationary resulting in a requirement to change the functional currency to the US Dollar.

Write-Down of Capitalized Production Costs

1.228

THE WALT DISNEY COMPANY AND SUBSIDIARIES (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 16. Subsequent Events

On November 27, 2002, the Company released its new animated film, *Treasure Planet.* The film's opening week box office performance was significantly less than expectations, requiring a downward revision of its projected revenues and a corresponding $74 million writedown of capitalized film production costs. In accordance with film accounting rules, this reduction of capitalized film production costs was recorded as of September 30, 2002. As a result, the Company's fiscal 2002 earnings differ from the amounts initially reported in its November 7, 2002 earnings release to reflect this change in estimate.

RELATED PARTY TRANSACTIONS

1.229 SFAS No. 57, *Related Party Disclosures*, specifies the nature of information which should be disclosed in financial statements about related party transactions. In 2002, 238 survey companies disclosed related party transactions. Examples of related party disclosures follow.

Sale of Receivables to Subsidiary

1.230

GENERAL MOTORS CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (In Part): Significant Accounting Policies

New Accounting Standards (In Part)

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities" (FIN 46), which requires the consolidation of certain entities considered to be variable interest entities (VIEs). An entity is considered to be a VIE when it has equity investors which lack the characteristics of a controlling financial interest, or its capital is insufficient to permit it to finance its activities without additional subordinated financial support. Consolidation of a VIE by an investor is required when it is determined that the investor will absorb a majority of the VIE's expected losses or residual returns if they occur. FIN 46 provides certain exceptions to these rules, including qualifying SPEs subject to the requirements of SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." VIEs created after January 31, 2003 must be consolidated immediately, while VIEs that existed prior to February 1, 2003 must be consolidated as of July 1, 2003.

GM may be required to consolidate certain VIEs (previously collectively referred to as SPEs) with which it does business. Management is currently reviewing existing VIEs that may require consolidation. However, it is reasonably possible that certain VIEs with assets totaling approximately $1.1 billion, established exclusively to facilitate GM's leasing activities related to the ACO business, may require consolidation. Should GM default on all of its obligations with respect to its involvement in these entities, GM's maximum exposure to loss would be approximately $1.1 billion.

With respect to the FIO business, VIE structures are used to facilitate various activities of GMAC, including securitization of loans, mortgage funding, and other investing activities. Based on management's preliminary assessment, it is reasonably possible that VIEs with assets totaling approximately $17.5 billion may require consolidation. Management is considering restructuring alternatives to ensure the continued non-consolidation of such assets. In the absence of successful alternatives, the consolidation of such VIEs would have the effect of increasing both assets and liabilities in an amount equal to the assets of the VIEs, GM's exposure to loss related to these entities is approximately $3.2 billion.

Note 5. Finance Receivables and Securitizations

Finance Receivables—Net

Finance receivables—net included the following:

(Dollars in millions)	2002	2001
Consumer		
Retail automotive	$ 77,392	$ 66,560
Residential mortgages	15,238	2,879
Total consumer	92,630	69,439
Commercial		
Automotive:		
Wholesale	21,462	15,580
Leasing and lease financing	5,985	8,572
Term loans to dealers and others	5,584	5,545
Commercial and industrial	9,461	10,350
Commercial real estate:		
Commercial mortgage	621	473
Construction	1,963	1,419
Total commercial	45,076	41,939
Total finance receivables and loans	$137,706	$111,378
Allowance for financing losses	3,059	(2,167)
Total consolidated finance receivables—net[1]	$134,647	$109,211

[1] Net of unearned income of $6.5 billion and $5.8 billion at December 31, 2002 and 2001.

Finance receivables that originated outside the U.S. were $23.4 billion and $20.2 billion at December 31, 2002 and 2001, respectively. The aggregate amount of total finance receivables maturing in each of the five years following December 31, 2002 is as follows: 2003—$60.4 billion; 2004—$25.6 billion; 2005—$19.4 billion; 2006—$13.0 billion; 2007—$7.1 billion; and 2008 and thereafter—$18.7 billion. Actual maturities may differ from those scheduled due to prepayments.

Securitizations of Finance Receivables and Mortgage Loans

The Corporation securitizes automotive and mortgage financial assets as a funding source. The Corporation sells retail finance receivables, wholesale loans, residential mortgage loans, commercial mortgage loans, and commercial investment securities.

The Corporation retains servicing responsibilities and subordinated interests for all of its securitizations of retail finance receivables and wholesale loans. Servicing responsibilities are retained for the majority of its residential and commercial mortgage loan securitizations; subordinate interests are retained for some of these securitizations. As of December 31, 2002, the weighted-average servicing fees for GM's primary servicing activities were 190 basis points, 100 basis points, 33 basis points, and 9 basis points of the outstanding principal balance for sold retail finance receivables, wholesale loans, residential mortgage loans, and commercial mortgage loans, respectively. Additionally, the Corporation receives the rights to cash flows remaining after the investors in the securitization trusts have received their contractual payments.

The Corporation maintains cash reserve accounts at predetermined amounts for certain securitization activities in the unlikely event that deficiencies occur in cash flows owed to the investors. The amounts available in such cash reserve accounts are recorded in other assets and totaled $280 million, $937 million, $365 million, and $24 million as of December 31, 2002 for retail finance receivable, wholesale loan, residential mortgage loan, and commercial mortgage loan securitizations, respectively, and $255 million, $893 million, $378 million, and $7 million as of December 31, 2001, respectively.

The following table summarizes pre-tax gains on securitizations and certain cash flows received from and paid to securitization trusts for sales that were completed during 2002, 2001, and 2000:

	2002			
	Retail Finance	Wholesale	Mortgage Loans	
(In millions)	Receivables	Loans	Residential	Commercial
Pre-tax gains on securitizations	$ 239	$ —	$ 619	$ 30
Cash flow information				
Proceeds from new securitizations	$9,982	$ 2,327	$38,025	$1,848
Servicing fees received	251	$ 146	268	17
Other cash flows received on retained interests	$1,120	$ 235	$ 1,044	$ 86
Purchases of delinquent or foreclosed assets	$ (299)	$ —	$ (131)	$ —
Pool buyback cash flows	$ (289)	$ (55)	$ (714)	$ —
Servicing advances	$ (117)	$ —	$ (2,470)	$ (122)
Repayments of servicing advances	$ 117	$ —	$ 2,352	$ 116
Proceeds from collections reinvested in revolving securitizations	$ 482	$104,485	$ —	$ —

(In millions)	2001 Retail Finance Receivables	Wholesale Loans	Mortgage Loans Residential	Commercial
Pre-tax gains on securitizations	$ 210	$ —	$ 966	$ 24
Cash flow information				
Proceeds from new securitizations	$7,331	$ 7,055	$35,137	$2,934
Servicing fees received	$ 168	$ 124	$ 256	$ 16
Other cash flows received on retained interests	$1,160	$ 400	$ 844	$ 60
Purchases of delinquent or foreclosed assets	$ (240)	$ —	$ (34)	$ —
Pool buyback cash flows	$ (270)	$ —	$ (390)	$ —
Servicing advances	$ (88)	$ —	$ (1,861)	$ (95)
Repayments of servicing advances	$ 66	$ —	$ 1,817	$ 71
Proceeds from collections reinvested in revolving securitizations	$ —	$81,563	$ 364	$ —

(In millions)	2000 Retail Finance Receivables	Wholesale Loans	Mortgage Loans Residential	Commercial
Pre-tax gains on securitizations	$ 14	$ —	$ 682	$ 33
Cash flow information				
Proceeds from new securitizations	$4,559	$ 4,199	$24,959	$2,310
Servicing fees received	$ 105	$ 85	$ 212	$ 13
Other cash flows received on retained interests	$1,550	$ 631	$ 483	$ 44
Purchases of delinquent or foreclosed assets	$ (182)	$ —	$ (282)	$ —
Pool buyback cash flows	$ (348)	$ —	$ —	$ —
Servicing advances	$ (75)	$ —	$ (617)	$ (82)
Repayments of servicing advances	$ 66	$ —	$ 586	$ 74
Proceeds from collections reinvested in revolving securitizations	$ —	$50,463	$ —	$ —

Pre-tax gains recognized on commercial investment securities were $18 million, $17 million, and $7 million for the years ended December 31, 2002, 2001, and 2000, respectively. Cash proceeds from new securitizations of commercial investment securities were $439 million, $643 million, and $382 million for the years ended December 31, 2002, 2001, and 2000, respectively. In addition, cash flows received on retained interests of commercial investment securities aggregated $37 million, $16 million, and $2 million for the years ended December 31, 2002, 2001, and 2000, respectively.

Key economic assumptions used in measuring the retained interests of sales completed during 2002 and 2001, as of the dates of such sales, were as follows:

	2002				2001			
	Retail Finance Receivables[a]	Mortgage Loans		Commercial Investment Securities	Retail Finance Receivables[b]	Mortgage Loans		Commercial Investment Securities
		Residential[a]	Commercial			Residential[b]	Commercial	
Key assumptions (rates per annum):								
Annual prepayment rate[c]	0.8–1.3%	6.9–54.7%	0.0–50.0%	0.0–90.0%	0.8–1.3%	9.8–38.0%	0.0–50.0%	0.0–25.0%
Weighted-average life (in years)	1.5–2.6	1.3–4.5	1.0–7.8	2.7–16.4	1.5–1.8	1.7–6.4	1.2–9.3	3.5–14.9
Expected credit losses	[d]	0.0–24.8%	0.0–1.5%	0.0–0.9%	[c]	0.0–22.9%	0.0–1.9%	0.0–0.8%
Discount rate	9.5–12.0%	6.5–13.5%	2.8–37.4%	3.4–23.9%	9.5–12.0%	6.5–13.5%	6.9–54.7%	9.8–19.5%
Variable returns to transferees	1 month LIBOR + contractual spread	Interest rate yield curve + contractual spread			1 month LIBOR + contractual spread	Interest rate yield curve + contractual spread		

[a] The fair value of retained interests in wholesale securitizations approximates cost due to the short-term and floating rate nature of wholesale loans.
[b] Included within residential mortgage loans are home equity loans and lines, high loan-to-value loans, and residential first and second mortgage loans.
[c] Based on the weighted-average maturity (WAM) for finance receivables and constant prepayment rate (CPR) for mortgage loans and commercial mortgage securities.
[d] A reserve totaling $127 million and $92 million at December 31, 2002 and 2001, respectively, has been established for expected credit losses on sold retail finance receivables.

The table below outlines the key economic assumptions and the sensitivity of the estimated fair value of retained interests at December 31, 2002 to immediate 10% and 20% adverse changes in those assumptions:

(Dollars in millions)	Retail Finance Receivables[a]	Mortgage Loans		Commercial Investment Securities
		Residential	Commercial	
Carrying value/fair value of retained interests	$1,850[b]	$1,661	$624	$336
Weighted-average life (in years)	0.1–2.6	1.3–4.6	0.1–19.4	1.2–20.9
Annual prepayment rate	0.2–1.5% WAM	6.6–80.7% CPR	0.0–50.0% CPR	0.0–90.0% CPR
Impact of 10% adverse change	$ —	$(144)	$ —	$ (1)
Impact of 20% adverse change	—	(267)	—	(2)
Loss assumption	[b]	0.0–24.8%	0.0–4.1%	0.0–36.8%
Impact of 10% adverse change	$ (13)	$(205)	$ (4)	$ (5)
Impact of 20% adverse change	(26)	(399)	(8)	(9)
Discount rate	9.5–14.0%	6.5–13.5%	2.8–45.0%	3.6–28.5%
Impact of 10% adverse change	$ (11)	$ (39)	$(14)	$(21)
Impact of 20% adverse change	(21)	(78)	(27)	(41)
Market rate[d]	1.3–3.6%	[c]	[c]	[c]
Impact of 10% adverse change	$ (13)	$ (33)	$ —	$ —
Impact of 20% adverse change	(26)	(62)	—	—

[a] The fair value of retained interests in wholesale securitizations approximates cost due to the short-term and floating rate nature of wholesale receivables.
[b] The fair value of retained interests in retail securitizations is net of a reserve for expected credit losses totaling $127 million at December 31, 2002.
[c] Forward benchmark interest rate yield curve plus contractual spread.
[d] Represents the rate of return paid to the investors.

These sensitivities are hypothetical and should be used with caution. As the figures indicate, changes in fair value based on a 10% variation in assumptions generally cannot be extrapolated because the relationship of the change in assumption to the change in fair value may not be linear. Also, in this table, the effect of a variation in a particular assumption on the fair value of the retained interest is calculated without changing any other assumption. In reality, changes in one factor may result in changes in another, which may magnify or counteract the sensitivities. Additionally, the Corporation hedges interest rate and prepayment risks associated with the retained interests; the effects of such hedge strategies have not been considered herein.

Expected static pool net credit losses include actual incurred losses plus projected net credit losses divided by the original balance of the outstandings comprising the securitization pool. The table below displays the expected static pool net credit losses based on securitizations occurring in that year.

Loans Securitized in:[(a)]

Years Ended December 31,	2002	2001	2000
Retail automotive	0.4%	0.4%	1.0%
Residential mortgage	0.0–24.8%	0.0–22.9%	0.0–21.7%
Commercial mortgage	0.0–4.1%	0.0–2.3%	0.0–3.0%
Commercial investment securities	0.0–36.8%	0.0–17.0%	0.0–0.8%

[(a)] Static pool losses not applicable to wholesale finance receivable securitizations due to their short-term nature.

The following table presents components of securitized financial assets and other assets managed, along with quantitative information about delinquencies and net credit losses:

	Total Finance Receivables and Loans		Amount 60 Days or More Past Due		Net Credit Losses	
(In millions)	2002	2001	2002	2001	2002	2001
Retail automotive	$ 92,890	$ 78,071	$ 637	$ 358	$ 844	$ 575
Residential mortgage	102,525	95,076	4,012	3,388	864	305
Total consumer	195,415	173,147	4,649	3,746	1,708	880
Wholesale	38,877	31,807	88	64	(15)	6
Commercial mortgage	18,356	16,503	350	250	8	1
Other automotive and commercial	22,994	25,885	317	376	176	281
Total commercial	80,227	74,195	755	690	169	288
Total managed portfolio[(a)]	275,642	247,342	$5,404	$4,436	$1,877	$1,168
Securitized finance receivables and loans	(123,337)	(125,735)				
Loans held for sale	(14,599)	(10,229)				
Total finance receivables and loans	$ 137,706	$ 111,378				

[(a)] Managed portfolio represents finance receivables and loans on the balance sheet or that have been securitized, excluding securitized finance receivables and loans that the Corporation continues to service but with which it has no other continuing involvement.

Transaction Between Reporting Entity and Investee

1.231

HURCO COMPANIES, INC. (OCT)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9. Related Party Transactions

We own approximately 24% of one of our Taiwanese-based contract manufacturers. This investment of $504,054 is accounted for using the equity method and is included in Other Assets on the Consolidated Balance Sheet. Purchases of product from this contract manufacturer totaled $5.9 million, $12.2 million and $8.6 million for the years ended October 31, 2002, 2001 and 2000, respectively.

Trade payables to this contract manufacturer were $1.0 million at October 31, 2002, and $2.2 million at October 31, 2001. Trade receivables were $43,000 at October 31, 2002.

As of October 31, 2002, we owned 35% of Hurco Automation, Ltd. (HAL), a Taiwan based company. HAL's scope of activities includes the design, manufacture, sales and distribution of industrial automation products, software systems and related components, including control systems and components manufactured under contract for sale exclusively to us. We are accounting for this investment using the equity method. The investment of $1.1 million at October 31, 2002 is included in Other Assets on the Consolidated Balance Sheet. Purchases of product from this supplier amounted to $4.1 million, $4.1 million and $4.2 million in 2002, 2001 and 2000, respectively. Trade payables to HAL were $145,000 and $200,000 at October 31, 2002 and 2001, respectively. Trade receivables from HAL were $311,000 and $173,000 at October 31, 2002 and 2001, respectively.

Summary financial information for the two affiliates accounted for using the equity method of accounting are as follows:

(000's)	2002	2001	2000
Net sales	$25,751	$42,691	$33,850
Gross profit	4,296	7,305	6,303
Operating income	130	2,047	2,179
Net income	438	1,609	1,005
Current assets	$12,915	$14,345	$16,025
Non-current assets	1,766	1,535	1,490
Current liabilities	9,514	11,335	14,249

Transaction Between Reporting Entity and Major Stockholder

1.232

COCA-COLA ENTERPRISES INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (In Part): Significant Accounting Policies

The Company's Business

Coca-Cola Enterprises Inc. ("CCE", "we", "our", or "us") is the world's largest marketer, distributor, and producer of bottle and can nonalcoholic beverages. We distribute our bottle and can products to customers and consumers in the United States and Canada through franchise territories in 46 states in the United States, the District of Columbia, and the 10 provinces of Canada. We are also the sole licensed bottler for products of The Coca-Cola Company (TCCC) in Belgium, continental France, Great Britain, Luxembourg, Monaco, and the Netherlands.

Note 16 Related Party Transactions

At December 31, 2002, TCCC owned approximately 38 percent of our outstanding common shares. Approximately 93 percent of our sales volume is generated through sales of TCCC products. CCE and TCCC have entered into various transactions and agreements in the ordinary course of business. The following summarizes significant transactions between CCE and TCCC and its affiliates:

Marketing Support and Other Arrangements

CCE and TCCC engage in a variety of marketing programs, local media advertising, and other similar arrangements to promote the sale of products of TCCC in territories operated by us. The levels of programs are determined annually and as the programs progress during the year, and are impacted by our territory acquisitions. Payments made under the programs, except for amounts paid under the Jumpstart programs, generally are received or made within the year they are due or shortly thereafter. TCCC is under no obligation to participate in the programs or continue past levels of funding into the future, and the terms of similar programs may differ with other parties.

Marketing support programs funded to us provide financial support principally based on product sales to offset a portion of the costs of the programs to us. TCCC also administers certain other marketing programs directly with our customers. In 2002, 2001, and 2000, total direct marketing support paid or payable to us, or to customers in our territories by TCCC, totaled approximately $1,041 million, $888 million, and $754 million, respectively. This includes amounts paid directly to our customers by TCCC of approximately $201 million for 2002, $279 million for 2001, and $221 million for 2000, as well as $3 million paid in 2002 and 2001 for TCCC's participation in long-term agreements.

We recently reached agreement with TCCC modifying the terms of the Sales Growth Initiative (SGI) agreement for 2003 and beyond. Under the amended agreement, funding from TCCC for 2003 will be $200 million, $50 million higher than the funding received under the agreement in 2002. In addition, the amendment outlines that each company can retain

their respective cost savings generated from future system efficiency initiatives.

We participate in Jumpstart programs with TCCC designed to accelerate the placement of cold drink equipment. TCCC's support payments under these programs were paid in the early years of the agreements. We have also received support payments for other market and infrastructure development costs incurred by us. Funding under Jumpstart and these other programs paid or payable to us from TCCC approximated $3 million, $159 million, and $223 million for the years 2002, 2001, and 2000, respectively. No future amounts are payable under the Jumpstart agreements.

We participate in cooperative advertising and brand and trade arrangements with TCCC. Prior to 2002, we paid TCCC a portion of the costs for participation in these programs. Beginning in 2002, all costs in our North American territories associated with CTM, excluding certain specific customers, shifted to us and all costs for local media programs in our North American territories shifted to TCCC. However, we continue to pay TCCC, and TCCC pays the customers because of their established national relationship with the customers. Pursuant to these arrangements, we paid TCCC $248 million, $252 million, and $195 million in 2002, 2001, and 2000, respectively, for local media, brand, and marketing programs. Our payments in 2002 to TCCC reflect the change in our arrangements related to CTM.

Participation in Marketing Programs With TCCC

On occasion, we participate in marketing programs outside the scope of recurring arrangements with TCCC. In 2002, we paid TCCC approximately $16 million for participation in marketing programs.

Syrup, Concentrate, Sweetener, and Finished Products

We purchase syrup and concentrate requirements from TCCC to manufacture, package, distribute, and sell TCCC products under franchise licensing agreements. These franchise licensing agreements give TCCC complete discretion to set prices of the syrups and concentrates. We also purchase finished products and fountain syrup from TCCC for sale within our territories and have an agreement with TCCC to purchase substantially all our requirements for sweetener in the United States.

Fountain Syrup and Packaged Product Sales

We sell fountain syrup back to TCCC in certain territories and deliver this syrup to certain major fountain accounts of TCCC. We will, on behalf of TCCC, invoice and collect amounts receivable for these fountain sales. We also sell bottle and can product to TCCC at prices that are generally similar to the prices charged by us to our major customers.

Customer Marketing Group and Media Staff Cost Reimbursements

CCE and TCCC reached an agreement in 2000 to transfer certain responsibilities and the associated staffing for customer marketing group (CMG) efforts to us from TCCC and for local media activities from us to TCCC. Under the agreement, TCCC reimburses us for CMG staffing costs transferred to us and we reimburse TCCC for local media staffing costs transferred to TCCC.

Other Transactions

Other transactions with TCCC include packaging fees, management fees, reimbursements of repair costs on equipment owned by TCCC, office space leases, and purchases of point-of-sale and other advertising items.

The following table presents amounts included in the statements of income for transactions with TCCC:

(Income (expense) in millions)	2002	2001	2000
Net operating revenues:			
Direct marketing support	$ 837	$ 606	$ 533
Fountain syrup and packaged product sales	461	395	460
Cooperative trade arrangements	(248)	(200)	(136)
Other transactions	18	10	6
	$ 1,068	$ 811	$ 863
Cost of sales:			
Purchases of syrup and concentrate	$(4,269)	$(3,806)	$(3,567)
Purchases of sweetener	(325)	(295)	(298)
Purchases of finished products	(498)	(441)	(393)
	$(5,092)	$(4,542)	$(4,258)
Selling, delivery, and administrative expenses:			
Operating expense support payments	$ 77	$ 74	$ 222
Cooperative advertising programs	—	(52)	(59)
Marketing programs	(16)	—	—
Operating expense reimbursements:			
To TCCC	(17)	(16)	—
From TCCC	38	25	3
Reimbursement of repair costs	51	56	51
Other transactions	—	(2)	(6)
	$ 133	$ 85	$ 211

New Arrangements

Beginning in 2003, TCCC assumed responsibility for hot-fill production in North America. Accordingly, we agreed to sell our Truesdale, Missouri hot-fill plant to TCCC for approximately $60 million in early 2003. In addition, beginning in 2003, we will receive funding equal to 50 percent of TCCC's profits generated from the Danone joint venture in our North American territories. This arrangement is not expected to have a significant impact on our 2003 results.

We also entered into two arrangements with TCCC designed to strengthen our brand portfolio in Belgium. In the first arrangement, we agreed with TCCC to jointly acquire the Chaudfontaine water business in Belgium. This transaction is expected to close in the first half of 2003. In the second arrangement, beginning in 2003, expanded responsibility for the production and distribution of Minute Maid juice products in Belgium and Luxembourg was transferred to us by TCCC. This arrangement will result in the transfer of approximately 30 positions from TCCC to CCE and is expected to increase our sales volume by approximately 4 million physical cases in 2003.

Transaction Between Reporting Entity and Officer/Director

1.233

WAXMAN INDUSTRIES, INC. AND SUBSIDIARIES (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9 (In Part): Lease Commitments

Consumer Products leases certain warehouse space from related parties. Related parties' rent expense totaled $0.3 million in each of fiscal 2002, fiscal 2001 and fiscal 2000. Those related party relationships consist of the following:

- Aurora Investment Co., a partnership owned by Melvin Waxman, Chairman of the Board and Co-Chief Executive Officer of the Company, and Armond Waxman, President and Co-Chief Executive Officer of the Company, together with certain other members of their families, is the owner and lessor of the building used by Consumer Products for its executive offices, administrative functions and, until the move of the warehouse to Groveport, Ohio, one of its distribution facilities. Rent expense under this lease was $326,712 in each of fiscal 2002, 2001 and 2000. All but 97,000 square feet of the warehouse portion of this facility was subleased to Handl-it, Inc. (see Note 10 for information regarding related party ownership of Handl-it) through the June 30, 2002 term of the lease. Consumer Products renewed the lease for the 9,000 square feet of office space and 20,000 square feet of warehouse space that it uses effective July 1, 2002.
- Handl-it Inc., a corporation owned by John S. Peters, a director and consultant to the Company, together with certain other members of his family, Melvin Waxman and Armond Waxman, sublet warehouse space from Consumer Products through June 30, 2002. The Company reported rental income from Handl-it, Inc. of $191,079, $290,496 and $290,970 in fiscal 2002, 2001 and 2000, respectively, for subleasing the warehouse in Bedford Hts., Ohio. See Note 10 for additional information regarding this related party transaction.
- From July 1, 1999 through April 2001, WAMI Sales utilized Handl-it Inc. to provide all warehousing, labor and shipping functions in Cleveland, Ohio for a fee equal to a percentage of monthly sales plus other direct expenses from this operation. The charge amounted to $67,000 in fiscal 2001 and $74,000 in fiscal 2000. The Company believes these terms are comparable to those that would be available from unaffiliated third parties.

10. Related-Party Transactions

The Company purchases certain products, which it can not manufacture with its existing operations, from WDI International, Inc., a company owned in part by certain members of the Waxman family and other non-affiliated individuals. In fiscal 2002, 2001 and 2000, purchases from WDI International amounted to $1.6 million, $1.7 million and $3.7 million, respectively. The Company believes that the prices it receives are on terms comparable to those that would be available from unaffiliated third parties.

The Company leases certain facilities from Aurora Investment Co., a partnership owned by members of the Waxman family (see Note 9 for additional information regarding this arrangement). Aurora Investments developed the building currently leased by Consumer Products for office and warehouse space in Bedford Hts., Ohio. The lease, which expired on June 30, 2002, was renewed for the office area and a portion of the warehouse being used by Consumer Products for a period of 5 years. Rent expense under this lease was $326,712 in each of fiscal 2002, 2001 and 2000. All but 97,000 square feet of the warehouse portion of this facility was subleased to Handl-it, Inc. (see below for information regarding affiliated ownership of Handl-it Inc.) through the June 30, 2002 term of the lease. Beginning in fiscal 2003, Consumer Products's annual payment to Aurora Investments Co. will be approximately $96,000 for lease of 9,000 square feet of office space and 20,000 square space of warehouse space.

At June 30, 2002 and 2001, the Company had the following receivables from related parties (in thousands):

Related Party	2002	2001
Melvin Waxman, Co-CEO	$ 60	$ 60
Armond Waxman, Co-CEO	135	86
Waxman Development	84	72
Aurora Investments Co.	71	71
Handl-it Inc.	134	99
All other related parties	64	64
Total	$548	$452

All of the related party notes receivable are documented by a promissory note, which will begin to bear interest in July 2002 at the minimum rates established by the Internal Revenue Service to avoid imputed interest attribution. Principal payments of $10,000 will be made by each officer beginning in fiscal 2003, as well as quarterly interest payments. The receivable from Waxman Development relates to a real estate development venture initially formed to build facilities for Barnett, a former affiliate, and other operations. The Barnett stock owned by the Company was disposed of in September 2000. The promissory notes for Waxman Development and Aurora Investments bear interest at the minimum rates established by the Internal Revenue Service to avoid imputed interest. Aurora Investments has been paying interest, while Waxman Development will begin to pay interest in fiscal 2003. Principal payments on the Aurora Investments and Waxman Development notes begin in fiscal 2007 and are payable over a ten year period.

Handl-it Inc., a corporation owned by John S. Peters, a director and consultant to the Company, together with another member of his family, and Melvin Waxman and Armond Waxman, sublet warehouse space in Bedford Hts., Ohio from Consumer Products through June 30, 2002. In order to facilitate Consumer Products move to a more efficient warehouse that was also logistically beneficial in serving their customer base, Handl-it agreed to sublease 97,000 square feet of office space, which it would attempt to utilize for the warehousing needs of its customers. Due to the prolonged economic downturn in this area, Handl-it was unable to fully utilize the warehouse, and negotiated an adjustment with Consumer Products to offset its revenue shortfall for this warehouse. Accordingly, Consumer Products reduced its rental charge to Handl-it by approximately $99,000, and received concessions of $26,000 over the next 26 months from Aurora Investments. The Company charged Handl-it, Inc. $191,079

in fiscal 2002 (after the rent adjustment), $290,496 in fiscal 2001 and $290,970 in fiscal 2000 for the subleasing of warehouse space. At June 30, 2002 and 2001, Handl-it owed Consumer Products $134,000 and $99,000 in unpaid rent, respectively, which is evidenced by a promissory note, which bears interest at a rate of 5.25% per annum. Effective July 1, 2002, Consumer Products entered into an agreement to sublease 17,000 square feet of space from Handl-it at a monthly charge of $5,100. Consumer Products will offset the receivable it has from Handl-it by the future monthly rental payments that would otherwise be paid to Handl-it until the receivable has been repaid. Consumer Products also utilizes Con-Pak Inc., an outside packaging operation, in certain instances where the packaging can not be performed by the Company's operations in Asia. Con-Pak, Inc. was acquired by Handl-it in 1999, received $377,599, $234,368 and $110,577 for these services in fiscal 2002, 2001 and 2000, respectively. Consumer Products also paid Handl-it Inc. approximately $27,000 and $40,000 for the cost of transportation of products in fiscal 2001 and 2000, respectively. Handl-it is also compensated for the consulting services provided to the Company by Mr. Peters, which amounted to approximately $115,000, $73,000 and $45,000 in fiscal 2002, 2001 and 2000, respectively.

Melvin Waxman and Armond Waxman are directors and co-owners of Handl-it, and each received director fees of $8,000 and consulting income of $20,000 from Handl-it in the twelve months ended June 30, 2002.

Transaction Between Reporting Entity and Employee Benefit Trust

1.234

UNOVA, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note M (In Part): Related Party Transactions

During 2000 and the first half of 2001, the Company leased executive offices located in a building that was owned by the UNOVA Master Trust, an entity that holds the assets of the Company's primary U.S. pension plans. In conjunction with the reversion of surplus pension plan assets in June 2001, ownership of the building was transferred to the Company and the lease agreement was terminated. Prior to the June 2001 transfer, rental expense under the provisions of this lease was $1.1 million in the year ended December 31, 2000 and $0.4 million in the year ended December 31, 2001. In April 2002, the Company sold the building to an independent buyer.

Consolidated Tax Return

1.235

GENERAL ELECTRIC COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 7 (In Part): Provision for Income Taxes

(In millions)	2002	2001	2000
GE			
Current tax expense	$2,833	$3,632	$3,331
Deferred tax expense from temporary differences	1,004	561	468
	3,837	4,193	3,799
GECS			
Current tax expense (benefit)	(1,488)	517	1,229
Deferred tax expense from temporary differences	1,409	863	683
	(79)	1,380	1,912
Consolidated			
Current tax expense	1,345	4,149	4,560
Deferred tax expense from temporary differences	2,413	1,424	1,151
Total	$3,758	$5,573	$5,711

GE and GECS file a consolidated U.S. federal income tax return. The GECS provision for current tax expense includes its effect on the consolidated return.

• • • • • •

A reconciliation of the U.S. federal statutory tax rate to the actual tax rate is provided below.

Reconciliation of U.S. Federal Statutory Tax Rate to Actual Rate	Consolidated			GE			GECS		
	2002	2001	2000	2002	2001	2000	2002	2001	2000
Statutory U.S. federal income tax rate	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%
Increase (reduction) in rate resulting from:									
Inclusion of after-tax earnings of GECS in before-tax earnings of GE	—	—	—	(8.5)	(10.7)	(11.0)	—	—	—
Amortization of goodwill	—	1.0	1.1	—	0.8	0.7	—	0.9	1.1
Tax-exempt income	(1.2)	(1.3)	(1.5)	—	—	—	(5.1)	(3.8)	(4.0)
Tax on international activities including exports	(10.6)	(5.4)	(4.9)	(5.2)	(3.2)	(3.0)	(22.5)	(6.7)	(5.8)
Americom/Rollins goodwill	—	(1.1)	—	—	—	—	—	(3.2)	—
All other—net	(3.3)	0.1	1.3	(1.1)	1.0	1.3	(9.1)	(2.4)	0.6
	(15.1)	(6.7)	(4.0)	(14.8)	(12.1)	(12.0)	(36.7)	(15.2)	(8.1)
Actual income tax rate	19.9%	28.3%	31.0%	20.2%	22.9%	23.0%	(1.7)%	19.8%	26.9%

Tax Sharing Agreement

1.236

XO COMMUNICATIONS, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

14. (In Part): Income Taxes

The Company will join with the affiliated group of corporations controlled by Mr. Icahn in filing a consolidated federal income tax return. As such, the Company entered into a Tax Allocation Agreement with Starfire Holding Corporation ("Starfire"), the Parent entity of the affiliated group of corporations controlled by Mr. Icahn. Generally, the Tax Allocation Agreement provides that Starfire will pay all consolidated federal income taxes on behalf of the consolidated group that includes XO, and XO will make payments to Starfire in an amount equal to the tax liability, if any, that it would have if it were to file as a consolidated group separate and apart from Starfire.

20. (In Part): Related Party Transactions

XO Parent has entered into a Tax Allocation Agreement, dated January 16, 2003, between XO Parent and Starfire, a company controlled by Mr. Icahn, which in turn indirectly controls Cardiff, in connection with the fact that it is contemplated that these entities will be filing consolidated federal income tax returns, and possibly combined returns for state tax purposes. The Tax Allocation Agreement, which was approved by the Bankruptcy Court in connection with XO Parent's Chapter 11 proceedings, establishes the methodology for the calculation and payment of income taxes in connection with the consolidation of the Company with Starfire for income tax purposes. Generally, the Tax Allocation Agreement provides that Starfire will pay all consolidated federal income taxes on behalf of the consolidated group that includes the Company, and the Company will make payments to Starfire in an amount equal to the tax liability, if any, that it would have if it were to file as a consolidated group separate and apart from Starfire.

INFLATION ACCOUNTING

1.237 Effective for financial reports issued after December 2,1986, SFAS No. 89, *Financial Reporting and Changing Prices,* states that companies previously required to disclose current cost information are no longer required to disclose such information.

1.238 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.

1.239

ABM INDUSTRIES INCORPORATED AND SUBSIDIARIES (OCT)

EFFECT OF INFLATION AND ENERGY CRISIS

The low rates of inflation experienced in recent years have had no material impact on the financial statements of the Company. The Company attempts to recover increased costs by increasing sales prices to the extent permitted by contracts and competition.

The energy crisis in the State of California has not had a material impact on the Company.

1.240

ASHLAND INC. AND CONSOLIDATED SUBSIDIARIES (SEP)

EFFECTS OF INFLATION AND CHANGING PRICES

Ashland's financial statements are prepared on the historical cost method of accounting and, as a result, do not reflect changes in the purchasing power of the U.S. dollar. Although annual inflation rates have been low in recent years, Ashland's results are still affected by the cumulative inflationary trend from prior years.

In the capital-intensive industries in which Ashland operates, replacement costs for its properties would generally exceed their historical costs. Accordingly, depreciation, depletion and amortization expense would be greater if it were based on current replacement costs. However, since replacement facilities would reflect technological improvements and changes in business strategies, such facilities would be expected to be more productive than existing facilities, mitigating part of the increased expense.

Ashland uses the LIFO method to value a substantial portion of its inventories to provide a better matching of revenues with current costs. However, LIFO values such inventories below their replacement costs.

Monetary assets (such as cash, cash equivalents and accounts receivable) lose purchasing power as a result of inflation, while monetary liabilities (such as accounts payable and indebtedness) result in a gain, because they can be settled with dollars of diminished purchasing power. Ashland's monetary liabilities exceed its monetary assets, which results in net purchasing power gains and provides a hedge against the effects of future inflation.

EVENTS OF SEPTEMBER 11, 2001

1.241 Several of the survey companies include comments about the impact of events on September 11, 2001 in their Footnotes to Financial Statements. Examples of such disclosures follow. Additional discussion and examples are shown in section 3.

1.242

B/E AEROSPACE, INC. (FEB)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (In millions)

3. Facility Consolidations and Other Special Charges

The rapid decline in industry conditions brought about by the terrorist attacks on September 11, 2001 caused the company to implement a facility consolidation plan designed to re-align its capacity and cost structure with changed conditions in the airline industry. Under the plan, the company intends to close five facilities and reduce its workforce by about 1,000 employees. As a result, the company recorded a charge of $98.9 which included cash expenses of approximately $15.6 and non-cash charges totaling approximately $62.9 associated with the write-down of fixed assets, inventory and other assets and $20.4 million associated with the impairment of related intangible assets. In addition, the company incurred approximately $5.7 of transition costs associated with the facilities and personnel consolidation program, which are expensed as incurred. The charge has been included in cost of sales for the year ended February 23, 2002.

The $15.6 of cash charges related to involuntary severance and benefit programs for approximately 1,000 employees, lease termination costs and preparing facilities of disposal and sale. As of February 23, 2002, the company had terminated approximately 201 employees and paid $1.1 in severance and related termination benefits. As of April 30, 2002, 536 employees had been terminated leaving approximately 464 employees to be terminated by November 30, 2002. The balance of the accrual for cash charges was related to lease termination costs and estimated costs of preparing facilities for disposal and sale, of which $2.0 was paid as of February 23, 2002.

Non-cash charges included impairment charges relating to property and equipment ($24.1), inventory ($34.5) and other assets ($4.3). The charge associated with property and equipment resulted from the decision to close five factories and relocate production activities to other facilities. As a result of changed industry conditions, early retirement of aircraft, program cancellations and modifications and plant closures, the combined carrying value of inventories and other assets at seven plants was reduced by approximately $38.8. As of February 23, 2002, approximately $24.1 of inventory and other assets had been charged off and physically disposed of.

Due to changed industry conditions, early retirement of aircraft and related product lines and plant closures, certain intangible assets having an aggregate carrying value of approximately $20.4 were determined to be permanently impaired and were written off as of February 23, 2002.

Cash requirements related to facility consolidation activities were funded from operations. Pretax cash outlays are expected to aggregate approximately $12.5 during fiscal 2003.

The following table summarizes the facility consolidation costs accrued during the year ended February 23, 2002:

	Original Accrual	Dispositions	Paid in Cash	Balance at Feb. 23, 2002
Accrued liability for severance, lease termination and other costs	$15.6	$ —	$(3.1)	$12.5
Impaired inventories, property and equipment	62.9	(50.8)	—	12.1
Impaired intangible assets	20.4	(20.4)	—	—
	$98.9	$(71.2)	$(3.1)	$24.6

1.243

ROCKWELL COLLINS, INC. (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 (In Part): Significant Accounting Policies

Concentration of Risks (In Part)

The Company's customers consist primarily of commercial and military aircraft manufacturers, commercial airlines, and the United States and other foreign governments. The Company is subject to certain risks associated with these industries. The commercial aerospace market has been historically cyclical and subject to downturns during periods of weak economic conditions. In addition, the terrorist acts of September 11, 2001 have resulted in sharp reductions in air travel, which resulted in reduced demand for the products and services of the Commercial Systems business and adversely affected the financial condition of many of its customers. The Company performs ongoing credit evaluations on the financial condition of its customers and maintains allowances for uncollectible accounts receivable based upon expected collectibility. Although management believes its allowances are adequate, the Company is not able to predict with certainty the changes in the financial stability of its customers. Any material change in the financial status of any one or group of customers could have a material adverse effect on the Company's results of operations. Commercial Systems receivables at September 30, 2002 were $254 million, of which approximately $116 million were associated with commercial airlines.

16 (In Part): 2001 Restructuring, Goodwill and Asset Impairment Charges

2001 Restructuring

In September 2001, the Company announced a comprehensive restructuring plan to reduce its workforce and streamline certain operations. These actions were undertaken in response to the sudden and severe decline in anticipated sales volumes in the commercial aerospace market resulting from the September 11, 2001 terrorist acts. As a result of this plan, the Company recorded charges of $34 million in the fourth quarter of 2001 which was comprised of $28 million of employee separation costs, $4 million of facility exit costs, and $2 million of asset write-downs. These charges were recorded in Cost of Sales and Selling, General, and Administrative Expenses in the amounts of $27 million and $7 million, respectively, in the Statement of Operations.

The restructuring plan anticipated involuntary separations of approximately 2,800 employees. These employee separations were broad based and affected all business groups, with the largest number of reductions in the Commercial Systems business and organizations that support commercial product lines. All of the employee separations have been completed and $19 million of employee separation costs have been paid as of September 30, 2002 with the remaining employee separation costs expected to be paid in early 2003. Employee separation costs include severance, fringe benefits during the severance period, and outplacement costs.

The restructuring plan also included the consolidation of the in-flight entertainment product line into one facility in Pomona, California; the closure of certain service centers, sales and other offices in California, Illinois, and Southeast Asia; and the consolidation of certain manufacturing operations. Facility exit costs are comprised primarily of lease payments or cancellation costs pursuant to contractual obligations. Facility exit actions have been completed. Exit costs associated with these facility actions of $2 million have been paid as of September 30, 2002, and payments will continue through the term of the lease periods for these facilities.

In the second quarter of 2002, the Company determined that the cost of these restructuring actions would be $4 million lower than originally planned and recorded favorable adjustments of $3 million to Cost of Sales and $1 million to Selling, General and Administrative expenses. The primary reason for the reduction in costs relates to lower than expected severance costs resulting from higher than expected employee attrition.

The changes in the restructuring reserves during the year ended September 30, 2002 are as follows (in millions):

	Reserve at September 30, 2001	Cash Payments	Reserve Adjustment	Reserve at September 30, 2002
Employee separation costs	$28	$(19)	$(4)	$5
Facility exit costs	4	(2)	—	2
Restructuring reserves	$32	$(21)	$(4)	$7

Section 2: Balance Sheet

BALANCE SHEET TITLE

2.01 Table 2-1 summarizes the titles used to describe the statement of assets, liabilities and stockholders' equity.

2.02

TABLE 2-1: BALANCE SHEET TITLE

	2002	2001	2000	1999
Balance Sheet	574	573	571	569
Statement of Financial Position	24	25	27	28
Statement of Financial Condition	2	2	2	3
Total Companies	**600**	**600**	**600**	**600**

BALANCE SHEET FORMAT

2.03 Table 2-2 summarizes the different balance sheet formats used by the survey companies. 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.

2.04 Effective for fiscal years ending after December 15, 1988, Statement of Financial Accounting Standards (SFAS) No. 94, *Consolidation of All Majority-Owned Subsidiaries,* requires that companies consolidate subsidiaries having nonhomogeneous operations. This requirement resulted in certain survey companies presenting an unclassified balance sheet (12 companies in 2002) or a balance sheet classified as to industrial operations but showing assets and liabilities of nonhomogeneous operations as segregated amounts (4 companies in 2002). Prior to the effective date of *SFAS No. 94,* the survey companies, with rare exception, presented classified balance sheets.

2.05 Occasionally, the survey companies disclose reclassifications of balance sheet amounts. Examples of a reclassification follow.

2.06

TABLE 2-2: BALANCE SHEET FORMAT

	2002	2001	2000	1999
Report form	507	494	502	477
Account form	92	105	97	122
Financial position form	1	1	1	1
Total Companies	**600**	**600**	**600**	**600**

Reclassifications

2.07

JDS UNIPHASE CORPORATION (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Reclassification (In Part)

The following amounts reported in prior years have been reclassified to conform to the current year presentation:

Consolidated Balance Sheets

- Warranty accrual of $49.7 million as of June 30, 2001 is shown as a separate line item in the current year presentation.
- Short-term capital lease obligations of $1.2 million as of June 30, 2001 are shown as a separate line item in the current year presentation.
- Long-term debt of $12.8 million as of June 30, 2001 is included in "Other non-current liabilities" in the current year presentation.

2.08

WASTE MANAGEMENT, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 (In Part): Summary of Significant Accounting Policies

Reclassifications

Certain reclassifications have been made to the prior year balance sheet to conform to the current year presentation. In the Company's Annual Report on Form 10-K for the year ended December 31, 2001, the Company reported accrued interest of $137 million as a component of accounts payable. In 2002, the Company started reporting accrued interest as a

component of accrued liabilities instead of accounts payable. In order to conform the prior period presentation of accrued interest to the current period presentation, the Company has reclassified the $137 million of accrued interest at December 31, 2001 to accrued liabilities in the consolidated balance sheet presented elsewhere herein.

CASH AND CASH EQUIVALENTS

2.09 Cash is commonly considered to consist of currency and demand deposits. SFAS No. 95, *Statement of Cash Flows,* defines cash equivalents as "short-term, highly liquid investments" that will mature within three months or less after being acquired by the holder. 457 survey companies stated explicitly that the carrying amount of cash and cash equivalents approximated fair value.

2.10 Table 2-3 lists the balance sheet captions used by the survey companies to describe cash and cash equivalents. As indicated in Table 2-3, the most frequently used caption is cash and cash equivalents. Examples of cash and cash equivalents presentations and disclosures follow.

2.11

TABLE 2-3: CASH AND CASH EQUIVALENTS—BALANCE SHEET CAPTIONS

	2002	2001	2000	1999
Cash	35	35	53	57
Cash and cash equivalents	501	496	473	469
Cash and equivalents	32	32	37	35
Cash includes certificates of deposit or time deposits	2	4	7	8
Cash combined with marketable securities	25	27	27	29
No amount for cash	5	6	3	2
Total Companies	**600**	**600**	**600**	**600**

2.12

ALCOA INC. (DEC)

(In millions)	2002	2001
Current assets:		
Cash and cash equivalents (V)	$ 344	$ 512
Short-term investments	69	15
Receivables from customers, less allowances: 2002–$120; 2001–$121	2,378	2,386
Other receivables	174	286
Inventories	2,441	2,385
Deferred income taxes	468	409
Prepaid expenses and other current assets	439	456
Total current assets	$6,313	$6,449

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars in millions)

A (In Part): Summary of Significant Accounting Policies

Cash Equivalents

Cash equivalents are highly liquid investments purchased with an original maturity of three months or less.

V (In Part): Other Financial Instruments and Derivatives

Other Financial Instruments (In Part)

The carrying values and fair values of Alcoa's financial instruments at December 31 follow:

	2002		2001	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Cash and cash equivalents	$ 344	$ 344	$ 512	$ 512
Short-term investments	69	69	15	15
Noncurrent receivables	74	74	42	42
Available-for-sale investments	135	135	159	159
Short-term debt	122	122	264	264
Long-term debt	8,365	8,935	6,384	6,531

The methods used to estimate the fair values of certain financial instruments follow.

Cash and Cash Equivalents, Short-Term Investments, and Short-Term Debt

The carrying amounts approximate fair value because of the short maturity of the instruments.

2.13

APPLE COMPUTER, INC. (SEP)

(In millions)	2002	2001
Current assets:		
Cash and cash equivalents	$2,252	$2,310
Short-term investments	2,085	2,026
Accounts receivable, less allowances of $51 and $51, respectively	565	466
Inventories	45	11
Deferred tax assets	166	169
Other current assets	275	161
Total current assets	$5,388	$5,143

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2 (In Part): Financial Instruments

The carrying amounts of cash and cash equivalents, accounts receivable, accounts payable, and accrued liabilities approximate their fair value due to the short maturities of those instruments.

Cash, Cash Equivalents and Short-Term Investments

The following table summarizes the fair value of the Company's cash and available-for-sale securities held in its short-term investment portfolio, recorded as cash and cash equivalents or short-term investments as of September 28, 2002, and September 29, 2001 (in millions):

	2002	2001
Cash	$ 161	$ 138
U.S. Treasury and Agency securities	47	—
U.S. corporate securities	1,952	1,998
Foreign securities	92	174
Total cash equivalents	2,091	2,172
U.S. Treasury and Agency securities	681	1,042
U.S. corporate securities	988	692
Foreign securities	416	292
Total short-term investments	2,085	2,026
Total cash, cash equivalents, and short-term investments	$4,337	$4,336

The Company's U.S. corporate securities include commercial paper, loan participations, certificates of deposit, time deposits and corporate debt securities. Foreign securities include foreign commercial paper, loan participation, certificates of deposit and time deposits with foreign institutions, most of which are denominated in U.S. dollars. Net unrealized gains on the Company's investment portfolio, primarily related to investments with stated maturities greater than 1 year, were $20 million as of September 28, 2002 and $11 million as of September 29, 2001. The Company occasionally sells short-term investments prior to their stated maturities. As a result of such sales, the Company recognized net gains of $7 million in 2002 and $1 million in 2001. These net gains were included in interest and other income, net.

As of September 28, 2002, approximately $1.087 billion of the Company's short-term investments had underlying maturities of between 1 and 5 years. The remaining short-term investments as of September 28, 2002 all had maturities of between 3 and 12 months. As of September 29, 2001, approximately $313 million of the Company's short-term investments in U.S. agency securities had underlying maturities of between 1 and 4 years. The remaining short-term investments as of September 29, 2001, all had maturities of between 3 and 12 months.

2.14

HILTON HOTELS CORPORATION (DEC)

(In millions)	2001	2002
Current assets		
Cash and equivalents	$ 35	$ 54
Accounts receivable, net	291	294
Inventories	148	139
Deferred income taxes	61	61
Current portion of notes receivable, net	40	16
Current portion of long-term receivable	300	—
Other current assets	121	66
Total current assets	$996	$630

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (In Part)

Cash and Equivalents

Cash and equivalents include investments with initial maturities of three months or less. Cash and equivalents includes cash related to certain consolidated hotels, the use of which is restricted for hotel purposes under the terms of collateralized borrowings, totaling approximately $19 million and $34 million at December 31, 2001 and 2002, respectively.

Financial Instruments (In Part)

The estimated fair values of our financial instruments at December 31, 2001 and 2002 are as follows:

	2001		2002	
(In millions)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and equivalents and long-term marketable securities	$ 64	$ 64	$ 75	$ 75
Timeshare notes receivable (including current portion)	177	184	96	100
Other notes receivable (including current portion)	88	89	73	74
Long-term debt (including current maturities)	(5,315)	(5,196)	(4,565)	(4,571)
Derivative instruments	(2)	(2)	(2)	(2)

Cash Equivalents and Long-Term Marketable Securities

The fair value of cash equivalents and long-term marketable securities is estimated based on the quoted market price of the investments.

MARKETABLE SECURITIES

2.15 SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities,* is the authoritative pronouncement on accounting for and reporting investments in equity securities that have readily determinable fair value and all investments in debt securities. Paragraphs 19–22 of *SFAS No. 115,* as amended by SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities,* state the disclosure requirements for such investments.

2.16 By definition, investments in debt and equity securities are financial instruments. For investments subject to *SFAS No. 115* requirements, SFAS No. 107, *Disclosure about Fair Value of Financial Instruments,* as amended by *SFAS No. 133,* requires disclosure of both the fair value and the bases for estimating the fair value of marketable securities unless it is not practicable to estimate that value. 233 survey companies made 249 fair value disclosures. 107 of those disclosures used market or broker quotes of the investments in debt and equity securities to determine fair value. 17 of those disclosures estimated fair value using other valuation methods. 150 disclosures presented carrying amounts which approximated fair value of marketable securities. In addition there were 59 disclosures in which carrying value was compared to fair value in an exposition or a table.

2.17 *SFAS No. 115* requires that certain debt and equity securities be classified into one of three categories: held-to-maturity, available-for-sale, or trading securities. Investments in debt securities that the enterprise has the positive intent and ability to hold to maturity are classified as held-to-maturity and reported at amortized cost in the statement of financial position. Securities that are bought and held principally for the purpose of selling them in the near term (thus held for only a short period of time) are classified as trading securities and reported at fair value. Trading generally reflects active and frequent buying and selling, and trading securities are generally used to generate profit on short-term differences in price. Investments not classified as either held-to-maturity or trading securities are classified as available-for-sale securities and reported at fair value. 145 survey companies identified their marketable securities as available-for-sale.

2.18 Statement of Financial Accounting Concepts (SFAC) No. 7, *Using Cash Flow Information and Present Value in Accounting Measurements,* was issued in February 2000. It provides a framework for using future cash flows and present value as the basis for accounting measurements of fair value of an asset or a liability at initial recognition or fresh-start measurements and for future-cash-flow-based amortization techniques, such as interest method amortization. Fresh-start measurements are measurements in periods following initial recognition that establish a new carrying amount unrelated to previous amounts and accounting conventions. Reporting certain marketable securities at fair value under *SFAS No. 115* is an example of a fresh-start measurement.

2.19 When observable marketplace-determined values are not available, discounted cash flows are often used to estimate fair value. Accounting applications of present value typically use a single set of estimated cash flows and a risk-adjusted discount rate. *SFAC No. 7* introduces the expected cash flow approach, which differs from the traditional approach by focusing on explicit assumptions about the range of possible cash outcomes and their respective probabilities.

2.20 While *SFAC No. 7* does not require modification of any existing pronouncements, its concepts may be used to determine fair value. This Standard will be used in developing future accounting standards. No data on the use of expected cash flow approach or discounted cash flow applications were compiled.

2.21 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.

2.22

TABLE 2-4: MARKETABLE SECURITIES—BASES

	Number of Companies			
	2002	2001	2000	1999
Market/fair value	168	163	136	137
Cost	54	52	46	63
Lower of cost or market	1	2	0	2

Available-for-Sale Securities

2.23

ADMINISTAFF, INC. (DEC)

(In thousands)	2002	2001
Current assets:		
Cash and cash equivalents	$ 71,799	$ 53,000
Marketable securities	14,714	47,961
Accounts receivable:		
Trade	5,161	4,314
Unbilled	74,358	70,206
Other	2,956	1,440
Prepaid insurance	10,409	244
Other current assets	12,126	3,495
Notes receivable from employees	—	694
Deferred income taxes	641	767
Total current assets	$192,164	$182,121

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Accounting Policies

Marketable Securities

The Company accounts for marketable securities in accordance with SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities.* The Company determines the appropriate classification of all marketable securities as held-to-maturity, available-for-sale or trading at the time of purchase, and re-evaluates such classification as of each balance sheet date. At December 31, 2002 and 2001, all of the Company's investments in marketable securities were classified as available-for-sale, and as a result, were reported at fair value. Unrealized gains and losses

are reported as a component of accumulated other comprehensive income (loss) in stockholders' equity. The amortized cost of debt securities is adjusted for amortization of premiums and accretion of discounts from the date of purchase to maturity. Such amortization is included in interest income as an addition to or deduction from the coupon interest earned on the investments. The Company follows its invesment managers' methods of determining the cost basis in computing realized gains and losses on the sale of its available-for-sale securities, which includes both the specific identification and average cost methods. Realized gains and losses are included in other income (expense).

3. Marketable Securities

The following is a summary of the Company's available-for-sale marketable securities as of December 31, 2002 and 2001:

(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
December 31, 2002:				
U.S. treasury securities and obligations of U.S. government agencies	$11,095	$228	$ —	$11,323
Foreign corporate debt securities	2,009	7	—	2,016
U.S. corporate debt securities	1,352	19	—	1,371
Fixed income mutual funds	4	—	—	4
	$14,460	$254	$ —	$14,714
December 31, 2001:				
U.S. corporate debt securities	$16,350	$267	$ (1)	$16,616
U.S. treasury securities and obligations of U.S. government agencies	13,367	111	(44)	13,434
Fixed income mutual funds	10,068	126	—	10,194
Obligations of state and local government agencies	4,909	47	—	4,956
Foreign corporate debt securities	1,634	28	—	1,662
Commercial paper	1,098	1	—	1,099
	$47,426	$580	$(45)	$47,961

For the years ended December 31, 2002, 2001 and 2000, the Company's realized gains and losses recognized on sales of available-for-sales marketable securities are as follows:

(In thousands)	Realized Gains	Realized Losses	Net Realized Gains (Losses)
2002	$354	$(33)	$321
2001	56	—	56
2000	—	(31)	(31)

As of December 31, 2002, the contractual maturities of the Company's marketable securities were as follows:

(In thousands)	Amortized Cost	Estimated Fair Value
Less than one year	$ 7,427	$ 7,497
One to five years	7,033	7,217
Total	$14,460	$14,714

2.24

ANALOGIC CORPORATION AND SUBSIDIARIES (JUL)

(In thousands)	2002	2001
Current assets:		
Cash and cash equivalents	$123,168	$ 46,013
Marketable securities, at market (Note 3)	58,621	76,899
Accounts and notes receivable, net of allowance for doubtful accounts of $1,308 in 2002, and $1,268 in 2001	57,027	65,937
Accounts receivable from affiliates, net	4,092	2,350
Inventories	65,128	60,696
Refundable and deferred income taxes	9,023	9,045
Other current assets	7,969	7,410
Total current assets	$325,028	$268,350

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (In thousands)

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

m) Marketable Securities

The Company's marketable securities are categorized as available-for-sale securities, as defined by the Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities." Unrealized marketable securities gains and losses are reflected as a net amount under the caption of accumulated other comprehensive income within the statement of stockholders' equity. Realized gains and losses are recorded within the statement of income under the caption other income or expenses. For the purpose of computing realized gains and losses, cost is identified on a specific identification basis.

r) Fair Value of Financial Instruments

The carrying amounts of cash, cash equivalents, receivables, mortgages and other notes payable approximate fair value. The fair values of marketable securities are estimated based on quoted market price for these securities.

3. Marketable Securities

Marketable securities are categorized as available-for-sale securities and summarized as follows:

		Gross Unrealized		
	Cost	Gain	Loss	Fair Value
July 31, 2002				
Debt securities issued by various state and local municipalities and agencies	$56,390	$2,231	$—	$58,621
July 31, 2001				
Debt securities issued by various state and local municipalities and agencies	$75,125	$1,775	$(1)	$76,899

The cost and estimated fair value of current debt securities at July 31, 2002, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because the issuers of the securities may have the right to repay obligations without prepayment penalties.

	Cost	Fair Value
Debt securities:		
Due in one year or less	$15,350	$15,540
Due after one year through five years	41,040	43,081
Total debt securities	$56,390	$58,621

There are no realized gains or losses on marketable securities as the Company has not sold any marketable securities during the periods presented and cost has approximated fair value at the maturity dates.

2.25

CORNING INCORPORATED AND SUBSIDIARY COMPANIES (DEC)

(In millions)	2002	2001
Current assets:		
Cash and cash equivalents	$1,471	$1,037
Short-term investments, at fair value (Note 7)	619	1,182
Total cash and short-term investments	2,090	2,219
Trade accounts receivable, net of doubtful accounts and allowances—$59 and $60	470	593
Inventories	559	725
Deferred income taxes	296	347
Other accounts receivable	358	149
Prepaid expenses and other current assets	52	74
Total current assets	$3,825	$4,107

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Short-Term Investments

Corning's short-term investments consist of debt securities classified as available-for-sale, which are stated at estimated fair value. These debt securities include U.S. treasury notes, state and municipal bonds, asset-backed securities, corporate bonds, commercial paper and certificates of deposit. These investments are on deposit with a major financial institution. Unrealized gains and losses, net of tax, are computed on the basis of specific identification and are reported as a separate component of accumulated other comprehensive income (loss) in shareholders' equity until realized.

7. Short-Term Investments

Short-term investments held by Corning are debt securities classified as available-for-sale. Corning invests in publicly traded, highly liquid securities of entities with credit ratings of A, or better. Unrealized gains and losses, net of related

income taxes, for available-for-sale securities are included as a separate component of shareholders' equity. Corning determines cost on the specific identification basis. The following is a summary of available-for-sale securities (in millions):

December 31, 2002	Amortized Cost	Fair Value	Unrealized Gains
Bonds, notes, and other securities			
United States government and agencies	$314	$315	$1
States and municipalities	127	127	
Asset-backed securities	54	54	
Commercial paper	10	10	
Other debt securities	112	113	1
Total short-term investments	$617	$619	$2

December 31, 2001	Amortized Cost	Fair Value	Unrealized Gains
Bonds, notes, and other securities			
United States government and agencies	$ 262	$ 262	
States and municipalities	206	206	
Asset-backed securities	365	369	$4
Corporate bonds	206	206	
Commercial paper	20	20	
Certificates of deposit	16	16	
Other debt securities	103	103	
Total short-term investments	$1,178	$1,182	$4

Unrealized losses were under $1 million in 2002 and 2001.

All of these securities are available for immediate sale. The following table summarizes the contractual maturities of debt securities at December 31, 2002 (in millions):

	Amortized Cost	Fair Value
Less than one year	$120	$121
Due in 1–2 years	324	325
Due in 2–5 years	103	103
Due after 5 years	70	70
Total	$617	$619

Proceeds from sales of short-term investments totaled $2,204 million and $660 million in 2002 and 2001. The gross realized gains related to sales of short-term investments were $10 million in 2002 and $2 million in 2001. The gross realized losses related to sales of short-term investments were $8 million in 2002 and $2 million in 2001.

2.26

NATIONAL PRESTO INDUSTRIES, INC. AND SUBSIDIARIES (DEC)

(In thousands)	2002		2001	
Current assets:				
Cash and cash equivalents		$114,637		$ 83,877
Marketable securities		92,578		106,606
Accounts receivable	$28,378		$31,101	
Less allowance for doubtful accounts	480	27,898	480	30,621
Inventories:				
Finished goods	17,675		19,505	
Work in process	3,355		5,349	
Raw materials	2,976		8,262	
Supplies	981	24,987	881	33,997
Other current assets		998		896
Total current assets		$261,098		$255,997

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A (In Part): Summary of Significant Accounting Policies

3 (In Part): Cash, Cash Equivalents and Marketable Securities

Marketable Securities

The Company has classified all marketable securities as available-for-sale which requires the securities to be reported at fair value, with unrealized gains and losses, net of tax, reported as a separate component of stockholders' equity.

At December 31, 2002 and 2001, cost for marketable securities was determined using the specific identification method. A summary of the amortized costs and fair values of the Company's marketable securities at December 31 is shown in the table:

	Marketable Securities			
	Amortized Cost	Fair Value	Unrealized Gains	Unrealized Losses
December 31, 2002				
Tax-exempt government bonds	$ 90,409,000	$ 91,626,000	$1,257,000	$ 40,000
Equity securities	1,142,000	952,000	132,000	322,000
Total marketable securities	$ 91,551,000	$ 92,578,000	$1,389,000	$ 362,000
December 31, 2001				
Tax-exempt government bonds	$105,601,000	$105,965,000	$ 828,000	$ 464,000
Equity securities	1,391,000	641,000	9,000	759,000
Total marketable securities	$106,992,000	$106,606,000	$ 837,000	$1,223,000

Proceeds from sales of marketable securities totaled $60,651,000 in 2002, $104,144,000 in 2001, and $57,997,000 in 2000. Gross gains related to sales of marketable securities totaled $16,000, $47,000, and $9,000 in 2002, 2001, and 2000. Gross losses related to sales of marketable securities were $231,000, $0, and $15,000 in 2002, 2001, and 2000. Net unrealized gains and losses are reported as a separate component of accumulated other comprehensive income and were a gain of $1,027,000, a loss of $386,000, and a loss of $273,000 before taxes at December 31, 2002, 2001, and 2000.

The contractual maturities of the marketable securities held at December 31, 2002 are $42,276,000 in 2003, $20,402,000 in 2004, $11,892,000 in 2005, $17,056,000 beyond 2005, and $952,000 with indeterminate maturities.

2.27

TERADYNE, INC. (DEC)

(In thousands)	2002	2001
Current assets:		
Cash and cash equivalents	$251,521	$ 317,591
Marketable securities	73,833	50,096
Accounts receivable, less allowance for doubtful accounts of $5,749 and $6,294 in 2002 and 2001, respectively	174,838	169,630
Income tax receivable and prepaid amounts	4,816	97,000
Inventories		
Parts	165,149	262,520
Assemblies in process	106,156	132,097
Finished goods	8,245	12,372
	279,550	406,989
Deferred tax assets	—	141,013
Prepayments and other current assets	24,715	24,703
Total current assets	$809,273	$1,207,022

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

G (In Part): Financial Instruments

Marketable Securities

Teradyne classifies investments in marketable securities as trading, available-for-sale or held-to-maturity at the time of purchase and periodically re-evaluates such classification. There were no securities classified as trading at December 31, 2002 or 2001. Securities are classified as held-to-maturity when Teradyne has the positive intent and ability to hold the securities to maturity. Held-to-maturity securities are stated at cost with corresponding premiums or discounts amortized over the life of the investment to interest income. Securities classified as available-for-sale are reported at fair value. Realized gains and losses and declines in value judged to be other-than-temporary on available-for-sale securities are included in interest income. Unrealized gains and losses are included in accumulated other comprehensive income. The cost of securities sold is based on the specific identification method.

The short-term marketable securities mature in less than one year. Long-term marketable securities have maturities of one to five years. At December 31, 2002 and 2001 these investments are reported as follows (in thousands):

	Available-for-Sale			
2002	Cost	Fair Market Value	Net Unrealized Gain/(Loss)	Held-to-Maturity
Short-term marketable securities:				
U.S. treasury and government agency securities	$ 21,617	$ 21,817	$ 200	$29,905
Corporate debt securities	21,740	22,111	371	
	$ 43,357	$ 43,928	$ 571	$29,905
Long-term marketable securities:				
U.S. treasury and government agency securities	$102,889	$104,781	$1,892	
Corporate debt securities	107,024	110,922	3,898	
	$209,913	$215,703	$5,790	

	Available-for-Sale			
2001	Cost	Fair Market Value	Net Unrealized Gain/(Loss)	Held-to-Maturity
Short-term marketable securities:				
U.S. treasury and government agency securities	$ 7,255	$ 7,282	$ 27	$30,000
Corporate debt securities	12,634	12,814	180	
	$ 19,889	$ 20,096	$ 207	$30,000
Long-term marketable securities:				
U.S. treasury and government agency securities	133,456	$133,958	$ 502	
Corporate debt securities	82,390	84,586	2,196	
	$215,846	$218,544	$2,698	

Trading Securities

2.28

CURTISS-WRIGHT CORPORATION AND SUBSIDIARIES (DEC)

(In thousands)	2002	2001
Current assets:		
Cash and cash equivalents	$ 47,717	$ 25,495
Short-term investments	330	41,658
Receivables, net	142,800	87,055
Inventories, net	80,166	55,784
Deferred tax assets, net	21,840	9,565
Other current assets	8,833	5,770
Total current assets	$301,686	$225,327

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

E. Short-Term Investments

The investments with which the Corporation is involved are primarily of a traditional nature. The Corporation's short-term investments are comprised of equity and debt securities, all classified as trading securities, which are carried at their fair value based upon the quoted market prices of those investments at period end. Accordingly, net realized and unrealized gains and losses on trading securities are included in net earnings.

5. Short-Term Investments

The composition of short-term investments is as follows:

	2002		2001	
(In thousands)	Cost	Fair Value	Cost	Fair Value
Money market preferred stocks	$ —	$ —	$11,850	$11,850
Common and preferred stocks	104	155	104	208
Tax exempt revenue bonds	—	—	29,600	29,600
Capital insurance funds	256	175	—	—
Total short-term investments	$360	$330	$41,554	$41,658

Investment income derived from short-term investments and cash equivalents consists of:

(In thousands)	2002	2001	2000
Interest and dividend income, net	$ 725	$2,480	$2,521
Net realized gains on the sales of short-term investments	—	77	135
Net unrealized holding (losses) gains	(134)	42	206
Investment income, net	$ 591	$2,599	$2,862

Held-to-Maturity Securities

2.29

ORACLE CORPORATION (MAY)

(In millions)	2002	2001
Current assets:		
Cash and cash equivalents	$3,095	$4,449
Short-term investments	2,746	1,438
Trade receivables, net of allowances of $413 in 2002 and $403 in 2001	2,036	2,432
Other receivables	293	282
Deferred tax assets	452	273
Prepaid expenses and other current assets	106	89
Total current assets	$8,728	$8,963

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3 (In Part): Cash, Cash Equivalents and Investments in Debt and Equity Securities

Our investment portfolio consists of cash, cash equivalents and investments in debt and equity securities. Cash and cash equivalents consist primarily of highly liquid investments in time deposits of major banks, commercial paper, United States government agency discount notes, money market mutual funds and other money market securities with original maturities of 90 days or less. Short-term investments primarily consist of commercial paper, corporate notes and United States government agency notes with original maturities of greater than 91 days but less than one year.

Investments in Debt Securities

In accordance with SFAS No. 115 *"Accounting for Certain Investments in Debt and Equity Securities,"* and based on our intentions regarding these instruments, we classify all marketable debt securities and long-term debt investments as held-to-maturity and account for these investments at amortized cost. The table below presents the amortized principal amount, related weighted average interest rates, maturities and major security type for our investments in debt securities. The amortized principal amount approximates fair value at May 31, 2002 and 2001.

	2002		2001	
(Dollars in millions)	Amortized Principal Amount	Weighted Average Interest Rate	Amortized Principal Amount	Weighted Average Interest Rate
Short-term investments (91 days–1 year)	$2,746	2.45%	$1,438	4.74%
Long-term investments (1–2 years)	406	3.11%	—	—
Total investments in debt securities	$3,152	2.53%	$1,438	4.74%
Debt securities issued by United States governmental entities	$ 739		$ 203	
Corporate and other debt securities	2,413		1,235	
Total investments in debt securities	$3,152		$1,438	

2.30

VARIAN MEDICAL SYSTEMS, INC. AND SUBSIDIARY COMPANIES (SEP)

(Dollars in thousands)	2002	2001
Current assets		
Cash and cash equivalents	$160,285	$218,961
Short-term marketable securities	41,035	—
Accounts receivable, net	237,345	227,794
Inventories	123,815	111,777
Other current assets	88,879	60,971
Total current assets	$651,359	$619,503

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Marketable Securities

The Company has classified its marketable securities as held-to-maturity as the Company has the intent and ability to hold these securities to maturity. The securities are carried at amortized cost using the specific identification method. Interest income is recorded using an effective interest rate, with the associated premium or discount amortized to interest income. Realized gains and losses are included in earnings. Additionally, the Company assesses whether an other-than-temporary impairment loss on the investments has occurred due to declines in fair value or other market conditions. Declines in fair value that are considered other than temporary are recorded as charges in the statement of earnings. At September 27, 2002, all investments were in compliance with the corporate investment policy which requires a credit rating of A or better and a maturity of less than three years.

Note 2 (In Part): Balance Sheet Components

Marketable Securities

(Dollars in millions)	2002	2001
Municipal bonds	$ 93.0	$—
Corporate debt securities	45.5	—
	138.5	—
Less: Short-term marketable securities	41.0	—
Long-term marketable securities	$ 97.5	$—

At September 27, 2002, scheduled maturities of held-to-maturity investments are as follows:

(Dollars in millions)	
Due within one year	$ 41.0
Due after one year through three years	97.5
	$138.5

CURRENT RECEIVABLES

2.31 As stated in paragraph 13 of *SFAS No. 107,* as amended by *SFAS No. 133,* fair value disclosure is not required for trade receivables when the carrying amount of the trade receivable approximates its fair value. 290 survey companies made 294 fair value disclosures. 278 disclosures presented carrying amounts which approximated fair value of trade receivables.

2.32 Effective for fiscal years beginning after December 15, 2001, Statement of Position (SOP) 01-6, *Accounting by Certain Entities (Including Entities With Trade Receivables) That Lend to or Finance the Activities of Others,* issued by Accounting Standards Division of the American Institute of Certified Public Accountants (AICPA) requires that loans or trade receivables may be presented on the balance sheet as aggregate amounts. However, such receivables held for sale should be a separate balance-sheet category. Major categories of loans or trade receivables should be presented separately either in the balance sheet or in the notes to the financial statements. The allowance for credit losses, the allowance for doubtful accounts, and, as applicable, any unearned income, any unamortized premium and discounts, and any net unamortized deferred fees and costs, should be disclosed in the financial statements.

2.33 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 presented as current assets. Examples of presentations and disclosures for current receivables follow.

2.34

TABLE 2-5: CURRENT RECEIVABLES

	2002	2001	2000	1999
Trade Receivable Captions:				
Accounts receivable	289	285	294	282
Receivables	127	134	131	133
Trade accounts receivable	117	117	108	125
Accounts and notes receivable	51	51	61	57
No caption for current receivables	16	13	6	3
Total Companies	**600**	**600**	**600**	**600**
Receivables Other Than Trade Receivables:	**Number of Companies**			
Tax refund claims	69	50	48	50
Investees	45	39	35	29
Contracts	35	35	36	41
Retained interest in sold receivables	29	14	7	4
Finance	26	26	24	20
Installment notes or accounts	8	5	2	4
Insurance claims	6	7	3	4
Employees	4	3	1	1

RECEIVABLES OTHER THAN TRADE RECEIVABLES

Tax Refund Claims

2.35

ACTERNA CORPORATION (MAR)

(Amounts in thousands)	2002	2001
Current assets:		
Cash and cash equivalents	$ 42,739	$ 63,054
Accounts receivable, net of allowance of $7,872 and $10,741 respectively	126,381	233,371
Inventories, net:		
Raw materials	39,511	61,009
Work in process	36,759	48,266
Finished goods	36,331	48,206
Total inventory	112,601	157,481
Deferred income taxes	18,878	37,961
Income tax receivable	77,479	—
Notes receivable	1,422	2,033
Other current assets	33,265	37,577
Total current assets	$412,765	$531,477

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

M (In Part): Income Taxes

During the fourth quarter of the fiscal year ended March 31, 2002, new U.S. tax legislation was enacted which increased the period over which net operating losses may be carried back, from two years to five. Consistent with these new laws, the Company filed claims for a refund of approximately $61 million of taxes paid in prior years. The entire $61 million was collected during the first quarter of fiscal 2003.

2.36

AIRGAS, INC. AND SUBSIDIARIES (MAR)

(In thousands)	2002	2001
Current assets		
Trade receivables, less allowances for doubtful accounts of $8,176 in 2002 and $7,402 in 2001	$ 88,634	$143,129
Inventories, net	154,045	155,024
Deferred income tax asset, net	13,210	10,143
Prepaid expenses and other current assets	47,654	25,549
Total current assets	$303,543	$333,845

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

17 (In Part): Income Taxes

As of March 31, 2002, the Company has reflected a tax refund receivable of $27.7 million in Prepaid expenses and other current assets. The tax refund was principally the result of the 2002 Job Creation and Work Assistance Act ("the Act"),

which provided for a 30% bonus depreciation deduction for assets placed in service after September 10, 2001. As a result of the Act and the Company's significant acquisitions subsequent to September 10, 2001, the Company recognized a current period tax benefit and deferred tax expense related to the bonus depreciation deduction. The bonus depreciation deduction was a principle contributor to a current net operating loss position, which the company elected to carry back to prior tax years.

Receivables From Affiliates

2.37

COX COMMUNICATIONS, INC. (DEC)

(Thousands of dollars)	2002	2001
Current assets		
Cash	$228,704	$ 86,860
Accounts and notes receivable, less allowance for doubtful accounts of $33,607 and $33,514	354,928	421,111
Amounts due from Cox Enterprises, Inc. (CEI)	21,109	13,245
Other current assets	267,341	211,460
Total current assets	$872,082	$732,676

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

15. Transactions With Affiliated Companies

Cox receives certain services from, and has entered into certain transactions with, CEI. Costs of the services that are allocated to Cox are based on actual direct costs incurred or on CEI's estimate of expenses relative to the services provided to other subsidiaries of CEI. Cox believes that these allocations were made on a reasonable basis, and that receiving these services from CEI creates cost efficiencies; however, there has been no study or any attempt to obtain quotes from third parties to determine what the cost of obtaining such services from third parties would have been.

- Cox receives day-to-day cash management services from CEI, with settlements of outstanding balances between Cox and CEI occurring periodically at market interest rates. The amounts due to CEI are generally due on demand and represent the balance of the intercompany transactions. Outstanding amounts due from CEI bear interest equal to CEI's current commercial paper borrowing rate and outstanding amounts due to CEI bear interest at 50 basis points above CEI's current commercial borrowing rate as payment for the services provided. Amounts due from CEI to Cox were approximately $21.1 million and $13.2 million at December 31, 2002 and 2001, respectively, and the interest rate was 1.8% and 3.0% at December 31, 2002 and 2001, respectively. Included in amounts due from CEI are the following transactions:

(Thousands of dollars)	
Intercompany due from CEI, December 31, 1999	$ 114,821
Cash transferred from CEI	(16,039)
Net operating expense allocations and reimbursements	(92,974)
Intercompany due from CEI, December 31, 2000	5,808
Cash transferred to CEI	151,260
Net operating expense allocations and reimbursements	(143,823)
Intercompany due from CEI, December 31, 2001	13,245
Cash transferred to CEI	92,061
Net operating expense allocations and reimbursements	(84,197)
Intercompany due from CEI, December 31, 2002	$ 21,109

- Cox receives certain management services from CEI including legal, corporate secretarial, tax, internal audit, risk management, employee benefit (including pension plan) administration, fleet and other support services. Cox was allocated expenses for the year ended December 31, 2002, 2001 and 2000 of approximately $6.2 million, $5.3 million and $3.9 million, respectively, related to these services.
- In connection with these management services, Cox reimburses CEI for payments made to third-party vendors for certain goods and services provided to Cox under arrangements made by CEI on behalf of CEI and its affiliates, including Cox. Cox believes such arrangements result in Cox receiving such goods and services at more attractive pricing than Cox would be able to secure separately. Such reimbursed expenditures include insurance premiums for coverage through the CEI insurance program, which provides coverage for all of its affiliates, including Cox. Rather than self-insuring these risks, CEI purchases insurance for a fixed-premium cost from several insurance companies, including an insurance company indirectly owned by descendants of Governor James M. Cox, the founder of CEI, including James C. Kennedy, Chairman of Cox's Board of Directors, and his sister, who each own 25%. This insurance company is an insurer and reinsurer on various insurance policies purchased by CEI, and it employs an independent consulting actuary to calculate the annual premiums for general/auto liability and workers compensation insurance based on Cox's loss experience, consistent with insurance industry practice. Cox's portion of these insurance costs was approximately $27.2 million, $23.7 million and $19.7 million for 2002, 2001 and 2000, respectively.
- Cox's employees participate in certain CEI employee benefit plans, and Cox made payments to CEI in 2002, 2001 and 2000 for the costs incurred by reason of such participation, including self-insured employee medical insurance costs of approximately $77.5 million, $48.2 million and $28.0 million, respectively; retiree medical payments of approximately $3.9 million, $3.0 million and $2.6 million, respectively; and executive pension plan payments of approximately $2.8 million, $5.1 million and $3.1 million, respectively.
- Cox and CEI share resources relating to aircraft owned by each company. Depending on need, each occasionally uses aircraft owned by the other, paying a cost-based hourly rate. CEI also operates and maintains two

airplanes owned by Cox. Cox pays CEI on a quarterly basis for fixed and variable operations and maintenance costs relating to these two airplanes. During 2002, 2001 and 2000 Cox paid approximately $0.7 million, $0.9 million and $0.8 million, respectively, for use of CEI's aircraft and maintenance of Cox's aircraft by CEI, net of aircraft costs paid by CEI to Cox for use of Cox's aircraft.

- Cox pays rent and certain other occupancy costs to CEI for its corporate headquarters building. CEI holds the long-term lease of the Cox headquarters building and prior to 2002, Cox and CEI and its other affiliates shared occupancy of the headquarters building. During 2002, CEI and its other affiliates moved to a new facility and Cox purchased from CEI business equipment located in that building at its depreciated net book value of approximately $7.2 million, which is believed to approximate fair value. Cox is now the sole occupant of its headquarters building. Related rent and occupancy expense is allocated based on occupied space and for the year ended December 31, 2002, 2001 and 2000 was approximately $7.4 million, $7.2 million and $6.1 million, respectively.
- From 1997 through 2002, Cox entered into a series of local joint ventures with Cox Interactive Media, Inc., an indirect wholly owned subsidiary of CEI, to develop, operate and promote advertising supported local Internet content, or "City Sites," in the markets where Cox operates cable television systems featuring high-speed Internet access. Cox contributed approximately $41.1 million in the aggregate to the joint ventures for the period from inception through May 31, 2002 to fund its share of operating costs. During 2002, Cox and Cox Interactive Media agreed to terminate the relationship and entered into a transition services agreement under which Cox paid Cox Interactive Media approximately $7.0 million to continue to operate Cox's city sites during a transition period. The joint venture entities were dissolved as of December 31, 2002, and pursuant to a separate agreement dated December 31, 2002, Cox purchased certain assets used in the operation of the City Sites for insignificant cash consideration. Cox will use those assets to develop the City Sites as part of Cox High Speed Internet service. Cox Interactive Media agreed to reimburse Cox approximately $0.2 million for certain expenses incurred in connection with obtaining certain software licenses related to the City Sites.
- In connection with CEI's sale of shares of Cox Class A common stock to two private investors in 2001, Cox entered into agreements providing the two private investors with certain demand and piggyback registration rights. CEI has agreed to pay all fees and expenses associated with Cox's performance under these registration rights agreements.
- In September 2002, Cox and CEI amended their tax allocation agreement to provide that if one of CEI or Cox has overpaid its taxes and the other has underpaid, the underpaid taxpayer may apply the overpayment to its taxes if such credit is permitted by the respective tax authority. The underpaid party will be obligated to immediately repay the borrowed amount to the overpaid party, to pay interest from the effective date of the credit until repayment, and to bear any other expenses incurred. The underpaid party will indemnify the overpaid party if subsequent tax adjustments cause any detriment to the overpaid party as a result of use of the credit by the underpaid party. For the tax year 2001, Cox overpaid, and CEI underpaid, its estimated federal income taxes. Pursuant to the amended agreement, on September 3, 2002, $20.0 million of Cox's overpayment of its 2001 federal income taxes was applied to CEI' 2001 federal income taxes, and CEI contemporaneously paid Cox $20.0 million, plus interest, in cash. Cox pays fees to certain entities in which it has an ownership interest in exchange for cable programming. Programming fees paid to such affiliates for the years ended December 31, 2002, 2001 and 2000 were approximately $78.8 million, $69.7 million and $64.0 million, respectively.

2.38

SEABOARD CORPORATION (DEC)

(Thousands of dollars)	2002	2001
Current assets:		
Cash and cash equivalents	$ 23,242	$ 22,997
Short-term investments	30,337	126,795
Receivables:		
Trade	150,563	156,779
Due from foreign affiliates	41,360	27,187
Other	26,047	24,021
	217,970	207,987
Allowance for doubtful receivables	(16,178)	(20,571)
Net receivables	201,792	187,416
Inventories	243,949	205,345
Deferred income taxes	15,481	10,075
Other current assets	42,896	36,343
Total current assets	$557,697	$588,971

Contracts

2.39

HALLIBURTON COMPANY (DEC)

(Millions of dollars)	2002	2001
Current assets:		
Cash and equivalents	$1,107	$ 290
Receivables:		
Notes and accounts receivable (less allowance for bad debts of $157 and $131)	2,533	3,015
Unbilled work on uncompleted contracts	724	1,080
Total receivables	3,257	4,095
Inventories	734	787
Current deferred income taxes	200	154
Other current assets	262	247
Total current assets	$5,560	$5,573

NOTES TO ANNUAL FINANCIAL STATEMENTS

Note 1 (In Part): Significant Accounting Policies

Engineering and Construction Contracts

Revenues from engineering and construction contracts are reported on the percentage of completion method of accounting using measurements of progress toward completion appropriate for the work performed. Progress is generally based upon physical progress, man-hours or costs incurred based upon the appropriate method for the type of job. When revenue and costs are recorded from engineering and construction contracts, we comply with paragraph 81 of American Institute of Certified Public Accountants Statement of Position 81-1, also known as SOP 81-1. Under this method, revenues are recognized as the sum of costs incurred during the period plus the gross profit earned, measured using the percentage of completion method of accounting. All known or anticipated losses on contracts are provided for when they become evident in accordance with paragraph 85 of SOP 81-1. Claims and change orders which are in the process of being negotiated with customers, for extra work or changes in the scope of work, are included in revenue when collection is deemed probable. For more details of revenue recognition, including other aspects of engineering and construction accounting, including billings, claims and change orders and liquidated damages, see Note 8 and Note 12.

Note 8. Unapproved Claims and Long-Term Construction Contracts

Billing practices for engineering and construction projects are governed by the contract terms of each project based upon costs incurred, achievement of milestones or pre-agreed schedules. Billings do not necessarily correlate with revenues recognized under the percentage of completion method of accounting. Billings in excess of recognized revenues are recorded in "Advance billings on uncompleted contracts." When billings are less than recognized revenues, the difference is recorded in "Unbilled work on uncompleted contracts." With the exception of claims and change orders which are in the process of being negotiated with customers, unbilled work is usually billed during normal billing processes following achievement of the contractual requirements.

Recording of profits and losses on long-term contracts requires an estimate of the total profit or loss over the life of each contract. This estimate requires consideration of contract revenue, change orders and claims reduced by costs incurred and estimated costs to complete. Anticipated losses on contracts are recorded in full in the period they become evident. Profits are recorded based upon the total estimated contract profit multiplied by the current percentage complete for the contract.

When calculating the amount of total profit or loss on a long-term contract, we include unapproved claims as revenue when the collection is deemed probable based upon the four criteria for recognizing unapproved claims under the American Institute of Certified Public Accountants Statement of Position 81-1, "Accounting for Performance of Construction-Type and Certain Production-Type Contracts." Including unapproved claims in this calculation increases the operating income (or reduces the operating loss) that would otherwise be recorded without consideration of the probable unapproved claims. Unapproved claims are recorded to the extent of costs incurred and include no profit element. In substantially all cases, the probable unapproved claims included in determining contract profit or loss are less than the actual claim that will be or has been presented to the customer.

When recording the revenue and the associated unbilled receivable for unapproved claims, we only accrue an amount equal to the costs incurred related to probable unapproved claims. Therefore, the difference between the probable unapproved claims included in determining contract profit or loss and the probable unapproved claims recorded in unbilled work on uncompleted contracts relates to forecasted costs which have not yet been incurred. The amounts included in determining the profit or loss on contracts, and the amounts booked to "Unbilled work on uncompleted contracts" for each period are as follows:

(Millions of dollars)	2002	2001
Probable unapproved claims (included in determining contract profit or loss)	$279	$137
Unapproved claims in unbilled work on uncompleted contracts	$210	$102

The claims at December 31, 2002 listed in the above table relate to ten contracts, most of which are complete or substantially complete. We are actively engaged in claims negotiation with the customer in all but one case, and in that case we have initiated the arbitration process. The probable unapproved claim in arbitration is $2 million. The largest claim relates to the Barracuda-Caratinga contract which was approximately 63% complete at the end of 2002. The probable unapproved claims included in determining this contract's loss were $182 million at December 31, 2002 and $43 million at December 31, 2001. As the claim for this contract most likely will not be settled within one year, amounts in unbilled work on uncompleted contracts of $115 million at December 31, 2002 and $10 million at December 31, 2001 included in the table above have been recorded to long-term unbilled work on uncompleted contracts which is included in "Other assets" on the balance sheet. All other claims included in the table above have been recorded to "Unbilled work on uncompleted contracts" included in the "Total receivables" amount on the balance sheet.

A summary of unapproved claims activity for the years ended December 31, 2002 and 2001 is as follows:

	Total Probable Unapproved Claims		Probable Unapproved Claims Accrued Revenue	
(Millions of dollars)	2002	2001	2002	2001
Beginning balance	$137	$ 93	$102	$ 92
Additions	158	92	105	58
Costs incurred during period	—	—	19	—
Approved claims	(4)	(15)	(4)	(15)
Write-offs	(7)	(33)	(7)	(33)
Other*	(5)	—	(5)	—
Ending balance	$279	$137	$210	$102

* Other primarily relates to claims in which the customer has agreed to a change order relating to the scope of work.

In addition, our unconsolidated related companies include probable unapproved claims as revenue to determine the amount of profit or loss for their contracts. Our "Equity in earnings of unconsolidated affiliates" includes our equity percentage of unapproved claims related to unconsolidated projects. Amounts for unapproved claims from our related companies are included in "Equity in and advances to related companies" and totaled $9 million at December 31, 2002 and $0.3 million at December 31, 2001.

Unbilled amounts on cost-reimbursement contracts represent recoverable costs and accrued profits not yet billed. These amounts are billable upon receipt of contract funding, final settlement of indirect expense rates, or contract completion.

Allowances for estimated nonrecoverable costs are primarily to provide for losses which may be sustained on contract costs awaiting funding and for the finalization of indirect expenses. Unbilled amounts at December 31, 2002 and 2001 are reduced by allowances for estimated nonrecoverable costs of $512,000 and $1,510,000, respectively.

2.40

SEQUA CORPORATION AND SUBSIDIARIES (DEC)

(Amounts in thousands)	2002	2001
Current assets		
Cash and cash equivalents	$138,814	$127,103
Trade receivables, net	214,598	217,064
Unbilled receivables, net (Note 3)	31,736	34,379
Inventories	380,900	375,602
Deferred income taxes	56,785	55,704
Other current assets	36,310	34,098
Total current assets	$859,143	$843,950

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Revenue Recognition

Generally, sales are recorded when products are shipped and risk of loss has transferred to the customer or when services are rendered. Long-term contracts are accounted for under the percentage-of-completion method, whereby sales are primarily recognized based upon costs incurred as a percentage of estimated total costs, and gross profits are recognized under a more conservative "efforts-expended" method primarily based upon direct labor costs incurred as a percentage of estimated total direct labor costs. Changes in estimates for sales, costs and gross profits are recognized in the period in which they are determinable using the cumulative catch-up method. Any anticipated losses on contracts are charged to current operations as soon as they are determinable.

Note 3. Unbilled Receivables, Net

Unbilled receivables, net consist of the following:

(Amounts in thousands)	2002	2001
Fixed-price contracts	$26,157	$30,666
Cost-reimbursement contracts	5,579	3,713
	$31,736	$34,379

Unbilled receivables on fixed-price contracts arise as revenues are recognized under the percentage-of-completion method. These amounts are billable at specified dates when deliveries are made or at contract completion, which is expected to occur within one year. All amounts included in unbilled receivables are related to long-term contracts and are reduced by appropriate progress billings.

Retained Interest in Sold Receivables

2.41

AVNET, INC. AND SUBSIDIARIES (JUN)

(Thousands)	2002	2001
Current assets:		
Cash and cash equivalents	$ 159,234	$ 97,279
Receivables, less allowances of $99,073 and $65,204, respectively (Note 3)	1,374,017	1,629,566
Inventories	1,417,305	1,917,044
Other	254,976	103,600
Total current assets	$3,205,532	$3,747,489

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Accounts Receivable Securitization

The Company has an accounts receivable securitization program whereby the Company sells receivables in securitization transactions and retains a subordinated interest and servicing rights to those receivables. The Company accounts for the program under the FASB's Statement of Financial Accounting Standards No. 140 ("SFAS 140"), "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities." The gain or loss on sales of receivables is determined at the date of transfer based upon the relative fair value of the assets sold and the interests retained. The Company estimates fair value based on the present value of future expected cash flows using management's best estimates of the key assumptions, including collection period and discount rates. See Note 3 for further discussion.

3. Accounts Receivable Securitization

In June 2001, the Company entered into a five-year accounts receivable securitization program (the "Program") with a financial institution. The Program agreement was amended in February 2002 to include participation by a second financial institution. The Program allows the Company to sell, on a revolving basis, an undivided interest in up to $350,000,000 in eligible U.S. receivables while retaining a subordinated interest in a portion of the receivables. The eligible receivables are sold without legal recourse to third party conduits through a wholly owned bankruptcy-remote special purpose entity that is consolidated for financial reporting purposes. The Company continues servicing the sold receivables and

charges the third party conduits a monthly servicing fee at market rates; accordingly, no servicing asset or liability has been recorded. Cash received from the Program has been used primarily to pay down outstanding external financing.

The Program qualifies for sale treatment under SFAS 140. As of June 28, 2002 and June 29, 2001, the outstanding balance of securitized accounts receivable held by the third party conduits totaled $324,570,000 and $513,138,000, respectively, of which the Company's subordinated retained interest was $124,570,000 and $163,138,000, respectively. Accordingly, $200,000,000 and $350,000,000 of accounts receivable balances, net of applicable allowances, were removed from the consolidated balance sheets at June 28, 2002 and June 29, 2001, respectively, with those funds being used to reduce outstanding debt. Expenses associated with the Program totaled $10,130,000 and $3,896,000 in the years ended June 28, 2002 and June 29, 2001, respectively. In 2002, $8,511,000 of these expenses related primarily to the loss on sale of receivables and discount on retained interests, net of the related servicing revenues, are recorded in interest expense in the accompanying consolidated statement of operations with the remainder, representing program and facility fees and professional fees associated with the Program, recorded to selling, general and administrative expenses. The entire 2001 charge is included in selling, general and administrative expenses.

The Company measures the fair value of its retained interests at the time of a securitization and throughout the term of the Program using a present value model incorporating two key assumptions: (1) a weighted average life of 45 days and (2) a discount rate of 6.75% per annum. At June 28, 2002, a 10 and 20 percent adverse change in the assumed weighted average life or the assumed discount rate would not have a material impact on the Company's financial position or results of operations.

Finance Receivables

2.42

STEELCASE INC. (FEB)

(In millions)	2002	2001
Current assets:		
Cash and cash equivalents	$ 69.4	$ 39.0
Short-term investments	1.8	0.5
Accounts receivable, less allowances of $81.8 and $58.9	367.2	603.2
Notes receivable and leased assets	194.5	270.4
Inventories	147.1	184.7
Prepaid expenses	28.7	22.2
Deferred income taxes	73.3	85.7
Total current assets	$882.0	$1,205.7

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 (In Part): Summary of Significant Accounting Policies

Revenue Recognition

Furniture revenue includes product sales and service revenue. Product sales are recognized when products are shipped and service revenue is recognized when services are rendered. Service revenue is not material.

Finance revenues include interest income from dealer financing and leasing revenue. Interest income is recognized at established interest rates as earned over time. Direct finance lease revenues include interest earned on the net investments in leased assets, which is recognized over the lease term as a constant percentage return. Operating lease revenue is recognized as income as payments are scheduled to be received over the lease term.

The recognition of lease finance income is discontinued when, in the opinion of management, there is sufficient doubt that the borrower will be able to meet their scheduled repayments.

6. Notes Receivable and Leased Assets

Notes receivable and leased assets are primarily associated with our Financial Services segment. See Note 17 for additional information on the assets of our Financial Services segment.

(In millions)

Notes Receivable and Leased Assets	2002	2001
Notes receivable:		
Project financing	$ 12.2	$ 34.0
Asset-based lending	56.8	117.9
Term financing	51.5	49.6
Other	4.8	2.5
Net investment in leased asssets:		
Direct financing leases:		
Minimum lease payments receivable	388.4	381.4
Estimated residual value	55.8	44.1
Unearned revenue	(76.7)	(77.8)
Total direct financing leases	367.5	347.7
Operating leases:		
Operating leases assets	131.6	144.6
Accumulated depreciation	(58.8)	(42.5)
Net operating leases	72.8	102.1
Allowance for credit losses	(35.3)	(41.5)
	530.3	612.3
Current portion	194.5	270.4
Long-term portion	$335.8	$341.9

Notes receivable includes three distinct programs of dealer financing: project financing; asset-based lending; and term financing. Through these programs, we help dealers secure interim financing, establish working capital lines of credit, finance ownership changes and restructure debt.

The terms of notes receivable range from a few months for project financing to 13 years for certain term financing. Interest rates are both floating and fixed, reaching up to 11.0% as of February 22, 2002. The notes are generally secured by certain dealer assets and, in some cases, the common stock of the dealership. Additionally, our asset-based lending

("ABL") programs with our dealers, as of February 22, 2002, have $108.7 million in total commitments, approximately $51.0 million of which is the outstanding balance. These ABL outstanding balances are secured with $56.3 million in collateral. Unused ABL credit lines are subject to available collateral. These commitments generally expire in one year and are reviewed periodically for renewal.

(In millions)

Future Minimum Lease Payments Receivable	Direct Financing Leases	Operating Leases
2003	$117.9	$27.9
2004	101.2	21.3
2005	75.1	10.7
2006	49.5	1.1
2007 and thereafter	44.7	0.2
	$388.4	$61.2

Approximately 34% of direct financing leases call for transfer of ownership to customers at lease-end. The original equipment cost at lease inception for leases in effect as of February 22, 2002 is $563.6 million for direct financing leases and $131.6 million for operating leases.

Approved but unfunded lease financing amounted to approximately $68.8 million as of February 22, 2002, subject to final customer delivery and acceptance.

(In millions)

Allowance for Credit Losses of Notes Receivable and Net Leased Assets	2002	2001	2000
Balance at beginning of year	$ 41.5	$13.2	$ 7.5
Provision for credit losses	19.8	30.9	6.6
Excess of accounts written off over recoveries	(26.0)	(2.6)	(0.9)
Balance at end of year	$ 35.3	$41.5	$13.2

During 2002, lease portfolio write-offs totaled $10.3 million; in addition we wrote off $16.1 million related to restructuring of a dealer transition.

Direct financing leased assets consist of the present value of the future minimum lease payments receivable plus the present value of the estimated residual value. Residual value is an estimate of the fair market value of the leased equipment at the end of the lease term and requires estimation of the future value of the leased products at the inception of the lease. We record and periodically review residual values based on historical experience and market studies conducted by independent third parties that estimate future value based on the following factors: economic life of products, type of products, availability of a secondary market, present value of future net cash flows expected to be generated from the product, cost to disassemble and move products, and current cost of reproducing the product.

Operating lease assets consist of the equipment cost less accumulated depreciation. Depreciation is recognized on a straight-line basis over the lease term to the estimated residual value, which is determined on the same basis as direct financing leases as set forth above.

(In millions)

Estimated Residual Values by Year of Lease Termination	Direct Financing Leases	Operating Leases
2003	$ 3.9	$ 2.5
2004	3.6	7.7
2005	6.5	10.3
2006	13.4	5.4
2007 and thereafter	28.4	0.2
	$55.8	$26.1

Installment Receivables

2.43

PRAB, INC. (OCT)

	2002	2001
Current assets		
Cash	$1,240,017	$ 621,795
Accounts receivable, net of allowance for doubtful accounts of $52,707 in 2002 and $58,257 in 2001	2,030,476	1,846,566
Inventories	1,173,904	1,504,818
Note receivable (Note 4)	145,700	—
Deferred income taxes	316,259	288,910
Other current assets	216,456	245,321
Total current assets	$5,122,812	$4,507,410

NOTES TO FINANCIAL STATEMENTS

Note 4—Note Receivable

During the year ended October 31, 2002, the Company entered into a note agreement to finance a purchase of equipment made by a customer. Under the terms of the agreement, the customer is required to pay a lump sum of $100,000 in November 2002, including accrued interest, followed by eighteen monthly payments of $5,091, including interest at 8.5 percent, commencing in December 2002 and ending in May 2004. The note is collateralized by the related equipment.

Insurance Claims

2.44

GUILFORD MILLS, INC. (SEP)

(In thousands)	2002	2001
Cash and cash equivalents	$ 25,074	$ 5,645
Receivables, net	91,614	103,484
Inventories	62,341	90,937
Prepaid income taxes	—	460
Other current assets	13,169	14,212
Total current assets	$192,198	$ 214,738

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (In thousands)

6. Receivables

Receivables at September 29, 2002 and September 30, 2001 consisted of the following:

	2002	2001
Trade accounts receivable	$80,744	$112,837
Insurance receivables	17,887	—
Other	825	1,614
	99,456	114,451
Less—allowances	7,842	10,967
Receivables, net	$91,614	$103,484

Insurance receivables at September 29, 2002 consist of death benefits from life insurance policies and cash surrender value proceeds. Receivables, net at September 29, 2002 approximated fair value for purposes of Fresh Start Reporting.

Credit Card Receivables

2.45

BARNES & NOBLE, INC. (JAN)

(Thousands of dollars)	2003	2002
Current assets:		
Cash and cash equivalents	$ 267,642	$ 108,218
Receivables, net	66,948	51,366
Barnes & Noble.com receivable	55,174	47,204
Merchandise inventories	1,395,872	1,285,005
Prepaid expenses and other current assets	101,232	99,201
Total current assets	$1,886,868	$1,590,994

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Thousands of dollars)

2. Receivables, Net

Receivables represent customer, credit card, landlord and other receivables due within one year as follows:

	2003	2002
Trade accounts	$20,534	$ 5,594
Credit card receivables[a]	27,382	26,632
Receivables from landlords for leasehold improvements	9,800	10,407
Other receivables	9,232	8,733
Total receivables, net	$66,948	$51,366

[a] Credit card receivables consist of receivables from credit card companies. The Company assumes no customer credit risk for these receivables.

RECEIVABLES SOLD OR COLLATERALIZED

2.46 Table 2-6 shows that 2002 annual reports ot 160 survey companies disclosed either the sale of receivables or the pledging of receivables as collateral. Of those 160 survey companies, 9 disclosed a factoring agreement and 77 disclosed that the receivables were transferred to a special-purpose entity.

2.47 SFAS No. 125, *Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities,* as amended by *SFAS No. 133* and as replaced by SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities,* establishes criteria for determining whether a transfer of financial assets in exchange for cash or other consideration should be accounted for as a sale or as a pledge of collateral in a secured borrowing, *SFAS No. 140* revises the criteria for accounting for securitizations and other transfers of financial assets and collateral, and requires certain disclosures. The Standard carries over most of the provisions of *SFAS No. 125* without reconsideration. Additionally, *SFAS No. 140* requires a debtor to:

(a) reclassify financial assets pledged as collateral and report those assets in its statement of financial position separately from other assets not so encumbered if the secured party has the right by contract or custom to sell or repledge the collateral, and

(b) disclose assets pledged as collateral that have not been reclassified and separately reported in the statement of financial position.

Also, *SFAS No. 140* requires a secured party to disclose information about collateral that it has accepted and is permitted by contract or custom to sell or repledge. The required disclosure includes the fair value at the end of the period of that collateral and the portion of that collateral that it has sold or repledged, and information about the sources and uses of that collateral. As issued, *SFAS No. 140* is effective for transfers and servicing of financial assets and extinguishments of liabilities occurring after March 31, 2001. In addition, with regard to recognition and reclassification of collateral

and for disclosures relating to securitization transactions and collateral, the effective date is for fiscal years ending after December 15, 2000.

2.48 Financial statement presentation and reporting of the sale of receivables is set forth in paragraphs 13d and 13e of *SOP 01-6*. In addition to requiring disclosure of the amount of gains or losses on the sale of trade receivables, receivables held for sale should be presented as a separate category either in the balance sheet or in the notes to the financial statements. *SOP 01-6* is effective for fiscal years beginning after December 15, 2001.

2.49 Examples of disclosures made in the reports of the survey companies having sold or collateralized receivables follow.

2.50

TABLE 2-6: RECEIVABLES SOLD OR COLLATERALIZED

	2002	**2001**	**2000**	**1999**
Receivables sold				
With recourse	24	21	23	20
With limited recourse	14	18	16	22
Without recourse	44	40	31	26
Recourse not discussed	61	54	51	42
	143	**133**	**121**	**110**
Receivables used as collateral	17	27	27	28
	160	**160**	**148**	**138**
No reference to receivable sold or collateralized	440	440	452	462
Total Companies	**600**	**600**	**600**	**600**

Receivables Sold With Recourse

2.51

OXFORD INDUSTRIES, INC. AND SUBSIDIARIES (MAY)

($ in thousands)	2002	2001
Current assets:		
Cash and cash equivalents	$ 17,591	$ 10,185
Receivables, less allowance for doubtful accounts of $3,390 in 2002 and $3,409 in 2001	103,198	50,699
Inventories	84,541	147,370
Prepaid expenses	9,754	11,416
Total current assets	$215,084	$219,670

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note B. Sale of Accounts Receivable

During fiscal year 2001, the Company entered into a $90 million asset backed securitization facility (the "Facility") under which the Company continues to sell a defined pool of its accounts receivable to a wholly-owned special purpose subsidiary (the "SPE"). The agreement is renewable annually and bears interest at a margin over asset backed commercial paper rates. The Company initially accounted for the Facility as off-balance sheet treatment under the provisions of SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities.* In January 2002, the Company amended the Facility and as a result is accounted for as a secured borrowing whereby all receivables outstanding under the program and the corresponding debt will be recognized in the Company's consolidated balance sheet. The program is now a $65 million asset backed securitization facility and the Company had approximately $44 million available under the Facility at May 31, 2002, none of which was outstanding at year-end.

Under the Facility, the Company services the receivables sold to the SPE and maintains a retained interest in the receivables. The Company has not recorded a servicing asset or liability since the cost to service the receivables approximates the servicing income received from the Facility. Due to the short-term nature of the receivables, the fair value of the Company's retained interest in the receivables is equal to the carrying amount.

During fiscal year 2001, the Company received approximately $80.5 million from the SPE. The amount consisted of $56 million from the initial sale, $24.7 million from collections of receivables related to the Company's retained interest (net of proceeds from subsequent sales of receivables), $139,000 in servicing fees, $101,000 in interest on the retained interest in the receivables sold, offset by a loss of $442,000 related to the difference between the current and future value of the receivables sold. The loss was determined by calculating the estimated present value of the receivables sold compared to their carrying amount. The present value is based on historical collection experience and a discount rate as prescribed under the terms of the Facility. For 2001, the loss was based on a discount rate, net of estimated interest income of 4.9%. The Company had a retained interest in receivables sold under the Facility of approximately $50.7 million at June 1, 2001, which was included in the caption "receivables" in the accompanying consolidated balance sheet. Credit losses on the receivables sold in 2001 were not material.

During 2002, prior to the amendment of the facility, the Company received approximately $463.4 million from the SPE. The amount consisted of $464.4 million from collections of receivables related to the Company's retained interest (net of proceeds from subsequent sales of receivables), $641,089 in servicing fees, $964,444 in interest on the retained interest in the receivables sold, offset by a loss of $2,636,000 related to the difference between the current and future value of the receivables sold. The discount rate used in calculating the loss recognized in 2002 was approximately 0.6%.

The off-balance sheet treatment of the securitization agreement at June 1, 2001 had the effect of reducing accounts receivable by $56,000 and reducing current debt by $56,000. If the securitization agreement had not been treated as off-balance sheet at June 1, 2001, the accounts receivable balance at June 1, 2001 would have increased $56,000 to $106,699 and the balance of short-term debt would have been $56,000. Net cash provided by operations for the fiscal year ending June 1, 2001 would have decreased by $56,000 to $18,393 and net cash used in financing activities would have declined by $56,000 to $13,325. For the fiscal year ending May 31, 2002, the net cash provided by operations would have increased by $56,000 to $68,387 and the net cash provided by financing activities would have increased by $56,000 to $51,450.

Receivables Sold With Limited Recourse

2.52

JLG INDUSTRIES, INC. (JUL)

(In thousands)	2002	2001
Current assets		
Cash and cash equivalents	$ 6,205	$ 9,254
Accounts receivable, less allowance for doubtful accounts of $7,072 in 2002 and $5,586 in 2001	227,809	189,913
Finance receivables, less provision for losses of $2,381 in 2002 and $958 in 2001	27,529	16,760
Pledged finance receivables	34,985	—
Inventories	165,536	189,841
Other current assets	31,042	18,787
Total current assets	$493,106	$424,555

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (In thousands)

Accounts Receivable Securitization

In June 2000, we entered into a three-year receivables purchase agreement with an independent issuer of receivables-backed commercial paper. Under the terms of the agreement, we agreed to sell to our special purpose, wholly owned subsidiary, on an ongoing basis and without recourse, a designated pool of accounts receivable. This entity sells an undivided percentage ownership interest in all the receivables to a third-party. To maintain the balance in the pool of accounts receivable sold, we were obligated to sell new receivables as existing receivables are collected. The agreement permitted the sale of the undivided interest in accounts receivable through June 2003 of up to $65 million. During February 2002, we terminated our receivables purchase agreement by repurchasing for $18.1 million the undivided interest in pool receivables owned by our securitization subsidiary.

At July 31, 2001, the undivided interest in our pool of accounts receivable that had been sold to the purchasers aggregated $50.6 million, which was used to retire debt outstanding under our revolving credit facilities. Sales of accounts receivable are reflected as a reduction of accounts receivable in the consolidated balance sheets and the proceeds are included in cash flows from operating activities in the Consolidated Statements of Cash Flows. The ongoing costs of this program were charged to interest expense in the Consolidated Statements of Income.

Finance Receivables

Finance receivables represent sales-type leases resulting from the sale of our products. Our net investment in finance receivables was as follows at July 31:

	2002	2001
Gross finance receivables	$155,786	$123,124
Estimated residual value	44,608	45,067
	200,394	168,191
Unearned income	(36,384)	(35,402)
Net finance receivables	164,010	132,789
Provision for losses	(2,381)	(958)
	$161,629	$131,831

Of the finance receivables balance at July 31, 2002, $88.7 million are pledged receivables resulting from the sale of finance receivables through limited recourse and non-recourse monetization transactions during fiscal 2002. In compliance with SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities," these transactions are accounted for as debt on our Consolidated Balance Sheets. Under terms of the limited recourse agreements, the purchaser may seek recourse from us if a finance receivable contract remains unpaid for 60 days or more. We are obligated to either make payments in the customer's place, substitute the contracts, or buy back the contracts.

The following table displays the contractual maturity of our finance receivables. It does not necessarily reflect future cash collections because of various factors including the possible refinancing or sale of lease receivables and repayments prior to maturity.

For the Twelve-Month Periods Ended July 31	
2003	$ 33,092
2004	35,147
2005	31,108
2006	29,174
2007	18,717
Thereafter	8,548
Residual value in equipment at lease end	44,608
Less: unearned finance income	(36,384)
Net investment in leases	$164,010

Provisions for losses on finance receivables are charged to income in amounts sufficient to maintain the allowance at a level considered adequate to cover losses in the existing receivable portfolio.

Receivables Sold Without Recourse

2.53

AMERICAN STANDARD COMPANIES INC. (DEC)

(Dollars in millions)	2002	2001
Current assets:		
Cash and cash equivalents	$ 96.6	$ 82.1
Accounts receivable, less allowance for doubtful accounts—$38.1 in 2002; $35.4 in 2001	881.4	998.3
Inventories	770.7	657.1
Future income tax benefits	48.7	62.1
Other current assets	217.0	96.8
Total current assets	$2,014.4	$1,896.4

NOTES TO FINANCIAL STATEMENTS

Note 8. Accounts Receivable Securitization Agreements

To reduce its borrowing cost, in May and September 2002 the Company established accounts receivable financing facilities in Europe and the U.S. with major international banks. As part of these facilities, the Company formed wholly owned, special-purpose entities (in Europe, the "ESPE;" in the U.S., the "USSPE;" collectively, the "SPEs") for the sole purpose of buying and selling receivables generated by the Company. Under these facilities the Company irrevocably and without recourse, transfers all eligible accounts receivable to the SPEs which in turn, sell them, or undivided ownership interests in them, to conduits administered by the banks. The assets of the SPEs are not available to pay the claims of the Company, American Standard Inc., or any other entity. The Company retains a subordinated interest in the receivables sold of approximately 10% to 15% for ESPE and 40% for USSPE. The conduits obtain the funds to purchase the interests in the receivables, other than the retained interest, by selling commercial paper to third-party investors. Advances from the conduits to the SPEs are limited to approximately $435 million (€250 million, or approximately $260 million at current exchange rates under the European facility, and $175 million under the U.S. facility). The Company retains responsibilities for the collection and administration of receivables subject to these facilities. These facilities are for three years, subject to annual renewals and for the European facility, the maintenance of specified debt-rating levels, and for the U.S. facility, the maintenance of certain financial covenants. The Company is currently in compliance with these covenants.

The receivables sold are removed from the balance sheet since they meet the applicable criteria of Statement of Financial Accounting Standards No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities.* The Company's retained interest is recorded at fair value in other current assets in the Company's Consolidated Balance Sheet. Losses are recognized when the receivables are sold to the extent that the cash and value of the retained interest is less than the net book value of the receivables sold. Those losses amounted to $21.5 million for the year ended December 31, 2002, and were recorded in cost of sales in the Consolidated Statement of Income.

In addition, on August 31, 2002, the Company terminated its activities in American Standard Financial Services, a financial services partnership with Transamerica Commercial Finance Corporation that had previously provided receivables financing in the U.S., and bought back $256 million of trade receivables. The majority of these receivables were sold to the USSPE.

Following is a summary of receivables subject to the financing facilities as of December 31, 2002:

(Dollars in millions)	ESPE	USSPE	Total
Outstanding balances of receivables sold to SPEs	$230.7	$206.7	$437.4
Net retained interest	$ 38.2	$ 81.3	$119.5
Advances from conduits	$250.8	$125.5	$376.3

The advances from conduits above includes amounts due to the conduits under the European and U.S. accounts receivable facilities for collections of receivables under the servicing agreement.

Following is a summary of cash flows received or paid on the initial receivables transactions when the ESPE and USSPE arrangements were established in 2002:

(Dollars in millions)	ESPE	USSPE	Total
Cash flows from initial sale of receivables	$224.6	$ 154.9	$ 379.5
Less the effect of termination of previous arrangements	(42.5)	(255.6)	(298.1)
Proceeds from initial sale of receivables, net	$182.1	$(100.7)	$ 81.4

As of December 31, 2002, the interest rate on amounts outstanding under the European facility was 3.30% and under the U.S. facility was 1.39%.

2.54

THE DOW CHEMICAL COMPANY (DEC)

(In millions)	2002	2001
Current assets		
Cash and cash equivalents	$ 1,484	$ 220
Marketable securities and interest-bearing deposits	89	44
Accounts and notes receivable:		
Trade (net of allowance for doubtful receivables—2002: $127; 2001: $123)	3,116	2,868
Other	2,369	2,230
Inventories	4,208	4,440
Deferred income tax assets—current	415	506
Total current assets	$11,681	$10,308

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in millions)

I (In Part): Supplementary Information

Sales of Accounts Receivables

Since 1997, the Company has routinely sold, without recourse, a participation in a pool of qualifying trade accounts receivables. According to the agreements of the program, Dow maintains the servicing of these receivables. In 2000, a maximum of $450 in receivables was available for sale in the pool, and as receivables in the pool were collected, new receivables were added. In June 2001, a new agreement for sales of qualifying trade accounts receivables of Union Carbide increased the pool maximum to $750. In June 2002, the pool maximum was revised to $700. The average monthly participation in the pool was $471 in 2002, $432 in 2001 and $155 in 2000. The net cash flow in any given period represents the discount on sales, which is recorded as interest expense. The average monthly discount was approximately $0.7 in 2002, $1.1 in 2001 and $0.7 in 2000.

Receivables Used as Collateral

2.55

RYERSON TULL, INC. AND SUBSIDIARY COMPANIES (DEC)

(Dollars in millions)	2002	2001
Current assets:		
Cash and cash equivalents	$ 12.6	$ 20.5
Restricted cash	1.2	—
Receivables less provision for allowances, claims and doubtful accounts of $9.9 and $10.7, respectively	228.5	119.6
Inventories	453.6	399.5
Deferred income taxes	—	0.7
Total current assets	$695.9	$540.3

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3 (In Part): Accounts Receivable Securitization

On December 20, 2002, the Company elected to terminate its trade receivables securitization facility and repurchase all interests in sold receivables at the face amount (See Note 4).

On March 29, 2001, the Company and certain of its subsidiaries completed arrangements for a $250 million 364-day trade receivables securitization facility with a group of financial institutions. The Company formed a special-purpose, wholly-owned, bankruptcy-remote subsidiary ("Ryerson Tull Receivables LLC") for the sole purpose of buying receivables of certain subsidiaries of the Company and selling an undivided interest in substantially all trade accounts receivable to certain commercial paper conduits. On March 15, 2002, the facility was renewed for a 364-day period ending March 14, 2003, reduced from $250 million to $200 million, and modified certain termination events and covenants including, among other things, eliminating the provision requiring termination of the facility if the Company failed to maintain specified debt ratings on its long-term unsecured debt. This securitization facility included substantially all of the Company's accounts receivable. Fundings under the facility were limited to the lesser of a funding base, comprised of eligible receivables, or $200 million.

Sales of accounts receivable were reflected as a reduction of "receivables less provisions for allowances, claims and doubtful accounts" in the Consolidated Balance Sheet and the proceeds received were included in cash flows from operating activities in the Consolidated Statement of Cash Flows. The repurchase of the interests in sold receivables is included in cash flows from operating activities in the Consolidated Statement of Cash Flows. Proceeds from the sales of receivables were less than the face amount of accounts receivable sold by an amount equal to a discount on sale that approximated the conduits' financing cost of issuing their own commercial paper, which was backed by their ownership interests in the accounts receivable sold by the special purpose subsidiary, plus an agreed-upon margin. These costs, totaling $2.1 million in 2002 and $8.5 million in 2001, were charged to "other income and expense, net" in the Consolidated Statement of Operations.

Generally, the facility provided that as payments were collected from the sold accounts receivable, the special-purpose subsidiary could elect to have the commercial paper conduits reinvest the proceeds in new accounts receivable. The commercial paper conduits, in addition to their rights to collect payments from that portion of the interests in the accounts receivable that was owned by them, also had rights to collect payments from that portion of the ownership interest in the accounts receivable that was owned by the special-purpose subsidiary. In calculating the fair market value of the Company's retained interest in the receivables, the book value of the receivables represented the best estimate of the fair market value due to the current nature of these receivables. The facility required the Company to comply with various affirmative or negative covenants and required early amortization if the special-purpose subsidiary did not maintain a minimum equity requirement. The facility also would terminate on the occurrence and failure to cure certain events, including, among other things, any failure of the special-purpose subsidiary to maintain certain ratios related to the collectability of the receivables, or the Company's failure to maintain long-term unsecured debt ratings of at least B by Standard and Poor's and B2 by Moody's.

The table below summarizes certain cash flows from and paid to securitization trusts ($ in millions):

	2002	2001
Repurchase of sold securitizations	$(120)	$ —
Proceeds from new securitizations	—	200
Proceeds from collections reinvested	769	1,084

Note 4 (In Part): Long-Term Debt

Credit Facility (In Part)

On December 20, 2002, the Company and its two main operating subsidiaries elected to establish a new four-year up to $450 million revolving credit facility that extends to December 19, 2006. The new facility is secured by inventory and trade receivables and guaranteed by the Company's domestic subsidiaries. Contemporaneously, both the Company's

$200 million trade receivables securitization and its $175 million credit facility secured by inventory were cancelled, all outstanding borrowings under those facilities repaid and all interests in sold receivables repurchased, and letters of credit issued under the credit facility transferred to the new revolving credit facility. The Company also recorded a pretax charge of $1.9 million to write-off the remaining unamortized issuance costs associated with the cancelled credit facility.

At December 31, 2002, the Company had $120 million of borrowings, $68 million of letters of credit outstanding, and $163 million available under the $450 million revolving credit agreement. Total credit availability is limited by the amount of eligible account receivables and inventory pledged as collateral under the agreement, which aggregated $396 million at December 31, 2002. Additionally, as of that date, $45 million of this credit facility was not available for borrowing; $15 million will become available if the Company meets certain financial ratios and the remaining $30 million will become available only upon the consent of lenders holding 85 percent of facility commitments. Letters of credit issued under the facility reduce the amount available for borrowing. At year-end 2002, the weighted average interest rate on borrowings under the credit facility was 4.0 percent.

ALLOWANCE FOR DOUBTFUL ACCOUNTS

2.56 Table 2-7 summarizes the captions used by the survey companies to describe an allowance for doubtful accounts. Accounting Principles Board (APB) Opinion No. 12, *Omnibus Opinion—1967,* states that such allowances should be deducted from the related receivables and appropriately disclosed.

2.57

TABLE 2-7: DOUBTFUL ACCOUNT CAPTIONS

	2002	2001	2000	1999
Allowance for doubtful accounts	286	283	274	285
Allowance	173	169	164	159
Allowance for uncollectible accounts	15	13	14	17
Allowance for losses	13	14	16	20
Reserve	10	14	10	11
Reserve for doubtful accounts	3	5	8	5
Other caption titles	23	26	21	17
	523	**524**	**507**	**514**
Receivables shown net	28	25	34	24
No reference to doubtful accounts	49	51	59	62
Total Companies	**600**	**600**	**600**	**600**

INVENTORIES

2.58 Accounting Research Bulletin (ARB) No. 43, Chapter 4, *Inventory Pricing,* 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 costs..." Approximately 84% 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.

2.59 Table 2-8 shows the captions frequently used to identify the nature of inventory items owned by the survey companies. 123 survey companies either had no inventory items or did not disclose details as to the nature of inventory items.

2.60 Table 2-9 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 2-9, 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 2-9 include specific identification and accumulated costs for contracts in process.

2.61 A number of survey companies made supplemental disclosures concerning inventories, including information about items such as valuation accounts, obsolescence, and the effects of using LIFO. 29 survey companies disclosed that certain LIFO inventory layers were reduced which increased net income due to the matching of older, lower historical costs with current sales dollars. 11 survey companies disclosed the effect of income from using LIFO rather than FIFO or average cost to determine inventory cost.

2.62 Valuation accounts are used to adjust an inventory cost. 104 survey companies disclosed that they have inventory valuation accounts. 65 companies disclosed that a valuation account was used to reduce inventories to a LIFO basis. 37 survey companies disclosed that a valuation account was used for inventory obsolescence.

2.63 Table 2-10 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 in the current year.

2.64 Each year, companies are selected from the latest Fortune 1000 listing to replace those companies that were deleted from the survey (see the *Appendix of 600 Companies* for a comprehensive listing of the 600 companies as well as those that were added and removed in this edition). Companies are deleted from the survey when they have either been acquired, have become privately held (and are, therefore, no longer registered with the SEC), or have ceased operations.

2.65 The decrease in the number of survey companies using LIFO was caused in part by the fact that more companies deleted from the survey used LIFO than those companies selected as replacements. Two survey companies changed from the LIFO method to another method of determining inventory cost.

2.66 Examples of presentations and disclosures for inventories follow.

2.67

TABLE 2-8: INVENTORY CAPTIONS

	Number of Companies	
	2002	2001
Finished goods	339	341
Finished goods and work in process	30	36
Work in process	278	269
Work in process and raw materials	29	38
Raw materials	193	203
Raw materials and supplies/parts	117	111
Supplies and/or materials	89	84

2.68

TABLE 2-9: INVENTORY COST DETERMINATION

	Number of Companies			
	2002	2001	2000	1999
Methods				
First-in first-out (FIFO)	380	382	386	404
Last-in first-out (LIFO)	255	265	283	301
Average cost	165	180	180	176
Other	28	46	38	34
Use of LIFO				
All inventories	17	17	23	24
50% or more of inventories	121	130	148	159
Less than 50% of inventories	88	88	82	83
Not determinable	29	30	30	35
Companies Using LIFO	**255**	**265**	**283**	**301**

2.69

TABLE 2-10: INDUSTRY CLASSIFICATION OF COMPANIES USING LIFO

	2002		2001	
	No.	%[1]	No.	%[1]
Advertising, marketing	—	—	—	—
Aerospace	6	35	6	35
Apparel	7	50	7	44
Beverages	4	44	4	50
Building materials, glass	6	67	7	64
Chemicals	24	83	25	86
Computer and data services	—	—	—	—
Computer peripherals	—	—	—	—
Computer software	—	—	—	—
Computers, office equipment	1	9	1	9
Diversified outsourcing services	—	—	—	—
Electronics, electrical equipment	12	29	13	32
Engineering, construction	1	9	1	9
Entertainment	—	—	—	—
Food	13	48	14	52
Food and drug stores	11	85	11	92
Food services	—	—	—	—
Forest and paper products	15	79	16	80
Furniture	8	80	8	89
General merchandisers	9	90	9	90
Health care	—	—	—	—
Hotels, casinos, resorts	—	—	—	—
Industrial and farm equipment	25	74	25	71
Medical products and equipment	4	33	4	33
Metal products	16	76	17	77
Metals	13	76	13	76
Mining, crude-oil production	3	23	3	23
Miscellaneous	3	27	3	25
Motor vehicles and parts	10	59	9	56
Network communications	—	—	—	—
Petroleum refining	12	92	10	83
Pharmaceuticals	4	40	5	45
Publishing, printing	12	60	12	60
Rubber and plastic products	5	83	5	83
Scientific, photographic, and control equipment	5	25	7	37
Semiconductors	—	—	—	—
Soaps, cosmetics	3	38	3	38
Specialty retailers	6	33	6	32
Telecommunications	—	—	—	—
Temporary help	—	—	—	—
Textiles	4	67	6	86
Tobacco	3	50	3	50
Toys, sporting goods	—	—	—	—
Transportation equipment	2	50	2	40
Trucking, truck leasing	—	—	—	—
Waste management	—	—	—	—
Wholesalers	8	44	10	48
Total Companies	**255**	**43**	**265**	**44**

[1] This represents the percentage of survey companies that use LIFO in a particular industry classification. For example, 2002 data shows that 6 companies in the Aerospace industry use LIFO. Those 6 companies represent 35% of the total number of Aerospace companies surveyed.

First-In First-Out

2.70

ANALOGIC CORPORATION AND SUBSIDIARIES (JUL)

(In thousands)	2002	2001
Current assets:		
Cash and cash equivalents	$123,168	$ 46,013
Marketable securities, at market	58,621	76,899
Accounts and notes receivable, net of allowance for doubtful accounts of $1,308 in 2002, and $1,268 in 2001	57,027	65,937
Accounts receivable from affiliates, net	4,092	2,350
Inventories (Note 5)	65,128	60,696
Refundable and deferred income taxes	9,023	9,045
Other current assets	7,969	7,410
Total current assets	$325,028	$268,350

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

c) Inventories

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

5 (In Part): Balance Sheet Information

Additional information for certain balance sheet accounts is as follows for the years ended:

(In thousands)	2002	2001
Inventories:		
Raw materials	$34,753	$35,660
Work-in-process	19,882	15,642
Finished goods	10,493	9,394
	$65,128	$60,696

2.71

ENESCO GROUP, INC. (DEC)

(In thousands)	2002	2001
Current assets:		
Cash and cash equivalents	$ 17,418	$ 7,932
Accounts receivable, net	54,347	58,582
Inventories	48,334	56,437
Prepaid expenses	2,491	2,622
Deferred income taxes and taxes receivable	7,586	13,052
Total current assets	$130,176	$138,625

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Accounting Policies

Inventories are valued at the lower of cost or market. Cost components include labor, manufacturing overhead and amounts paid to suppliers of materials and products as well as freight and duty costs to import the products. Enesco values all inventories utilizing the first-in, first-out method. Enesco records inventory at the date of taking title, which at certain times during the year results in significant in-transit quantities, as inventory is sourced primarily from China, Taiwan and other Pacific Rim countries.

The major classes of inventories were as follows (in thousands):

	2002	2001
Raw materials	$ 369	$ 504
Work in process	58	68
Finished goods in transit	2,154	6,906
Finished goods	45,753	48,959
	$48,334	$56,437

Last-In First-Out

2.72

ALBERTSON'S, INC. (JAN)

(In millions)	2003	2002
Current assets:		
Cash and cash equivalents	$ 162	$ 61
Accounts and notes receivable, net	647	696
Inventories	2,973	3,196
Assets held for sale	120	326
Prepaid and other	366	344
Total current assets	$4,268	$4,623

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

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

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.

Note K—Inventories

Approximately 97 percent of the Company's inventories are valued using the last-in, first-out (LIFO) method. If the first-in, first-out (FIFO) method had been used, inventories would have been $589 and $597 higher at the end of 2002 and 2001, respectively. Net earnings (basic and diluted earnings per share) would have been lower by $2 ($0.01) in 2002, higher by $3 ($0.01) in 2001, and lower by $14 ($0.03) in 2000. The replacement cost of inventories valued at LIFO approximates FIFO cost.

During 2002 and 2001, inventory quantities were reduced. These reductions resulted in a liquidation of LIFO inventory

quantities carried at lower costs prevailing in prior years as compared with the cost of 2002 and 2001 purchases. As a result, cost of sales was decreased by $4 in 2002, $10 in 2001, and $26 in 2000. This increased net earnings (basic and diluted earnings per share) by $2 ($0.01) in 2002, by $6 ($0.01) in 2001 and by $15 ($0.04) in 2000.

2.73

EASTMAN CHEMICAL COMPANY AND SUBSIDIARIES (DEC)

(Dollars in millions)	2002	2001
Current assets		
Cash and cash equivalents	$ 77	$ 66
Trade receivables, net of allowance of $32 and $35	532	570
Miscellaneous receivables	127	92
Inventories	713	659
Other current assets	80	77
Total current assets	$1,529	$1,464

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (In Part): Significant Accounting Policies

Inventories

Inventories are valued at the lower of cost or market. The Company determines the cost of most raw materials, work in process, and finished goods inventories in the United States by the last-in, first-out ("LIFO") method. The cost of all other inventories, including inventories outside the United States, is determined by average cost method, which approximates the first-in, first-out ("FIFO") method. The Company writes down its inventories for estimated obsolescence or unmarketable inventory equal to the difference between the cost of inventory and the estimated market value based upon assumptions about future demand and market conditions.

Note 2. Inventories

(Dollars in millions)	2002	2001
At FIFO or average cost (approximates current cost)		
Finished goods	$ 582	$ 569
Work in process	175	168
Raw materials and supplies	229	210
Total inventories	986	947
Reduction to LIFO value	(273)	(288)
Total inventories at LIFO value	$ 713	$ 659

Inventories valued on the LIFO method were approximately 70% of total inventories in each of the periods.

2.74

PRAB, INC. (OCT)

	2002	2001
Current assets		
Cash	$1,240,017	$ 621,795
Accounts receivable, net of allowance for doubtful accounts of $52,707 in 2002 and $58,257 in 2001	2,030,476	1,846,566
Inventories (Note 2)	1,173,904	1,504,818
Note receivable	145,700	—
Deferred income taxes	316,259	288,910
Other current assets	216,456	245,321
Total current assets	$5,122,812	$4,507,410

NOTES TO FINANCIAL STATEMENTS

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

Inventories

Inventories are stated at the lower of cost or market. Cost is determined by the last-in, first-out (LIFO) method.

The Company's policy is to review its inventory for specific usage and future utility. Estimates for impairment of individual items of inventory are recorded to reduce the item to the lower of cost or market.

Note 2—Inventories

Inventories consist of the following:

	2002	2001
Raw materials	$ 739,712	$1,036,253
Work in process	114,171	76,661
Finished goods and display units	320,021	391,904
Total inventories	$1,173,904	$1,504,818

Inventories are stated at the lower of cost, determined by the LIFO method, or market. If the FIFO method had been used for the entire consolidated group, inventories, after an adjustment to the lower of cost or market, would have been approximately $1,525,000 and $1,850,000 at October 31, 2002 and 2001, respectively.

The reserve for inventory obsolescence was approximately $226,000 and $236,000 as of October 31, 2002 and 2001, respectively.

2.75

THE TIMKEN COMPANY (DEC)

(Thousands of dollars)	2002	2001
Current assets		
Cash and cash equivalents	$ 82,050	$ 33,392
Accounts receivable, less allowances: 2002—$14,386; 2001—$14,976	361,316	307,759
Deferred income taxes	36,003	42,895
Refundable income taxes	—	15,103
Inventories:		
Manufacturing supplies	34,493	36,658
Work in process and raw materials	243,485	212,040
Finished products	210,945	180,533
Total Inventories	488,923	429,231
Total current assets	$968,292	$828,380

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Significant Accounting Policies

Inventories

Inventories are valued at the lower of cost or market, with 78% valued by the last-in, first-out (LIFO) method. If all inventories had been valued at current costs, inventories would have been $136,063,000 and $151,976,000 greater at December 31, 2002 and 2001, respectively. During 2002, inventory quantities were reduced as a result of ceasing manufacturing operations in Duston, England (see Note 5). This reduction resulted in a liquidation of LIFO inventory quantities carried at lower costs prevailing in prior years, compared to the cost of current purchases, the effect of which increased income (loss) before cumulative effect of change in accounting principle by approximately $5,700,000 or $0.09 per diluted share.

Average Cost

2.76

BMC INDUSTRIES, INC. (DEC)

(In thousands)	2002	2001
Current assets		
Cash and cash equivalents	$ 1,635	$ 1,941
Trade accounts receivable, less allowances of $2,137 and $2,368	27,660	35,024
Inventories	59,736	71,634
Deferred income taxes	9,492	10,250
Other current assets	6,350	4,197
Total current assets	$104,873	$123,046

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars in thousands)

1 (In Part): Summary of Significant Accounting Policies

Inventories

Stated at the lower of cost or market. Cost is determined principally on the average cost method.

Provisions for Inventory Reserves, Uncollectible Trade Receivables and Product Returns (In Part)

The Company determines its provision for obsolete and slow-moving inventory based on management's analysis of inventory levels and future sales forecasts. However, the factors impacting such provisions vary significantly between the Buckbee-Mears and Optical Products segments. Within the Buckbee-Mears segment, products are manufactured to customer specifications and changes in product demand from the loss of a customer, a new product offering or modifications to customer specifications can significantly impair the value of raw material and finished goods on hand. As a result, inventory valuation reserve requirements within this segment must be established based on specific facts and circumstances that can fluctuate significantly and are difficult to predict. We do not anticipate these conditions will change due to the customized nature of the products manufactured by the Buckbee-Mears segment. The Optical Products segment inventory reserve requirements historically have been more predictable and more readily estimated by analyzing historic build and sales patterns.

4. Inventories

The following is a summary of inventories at December 31:

	2002	2001
Raw materials	$13,030	$16,857
Work in process	6,156	7,445
Finished goods	40,550	47,332
Total inventories	$59,736	$71,634

Production Cost

2.77

ALLIANT TECHSYSTEMS INC. (MAR)

(Amounts in thousands)	2002	2001
Current assets:		
Cash and cash equivalents	$ 8,513	$ 27,163
Net receivables	432,823	214,724
Net inventory	125,308	54,136
Deferred income tax asset	62,299	16,478
Other current assets	42,467	20,322
Total current assets	$671,410	$332,823

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands)

1 (In Part): Summary of Significant Accounting Policies

Inventories

Inventoried costs relating to long-term contracts and programs are stated at actual production costs, including factory overhead, initial tooling, and other related costs incurred to date, reduced by amounts identified with sales recognized on units delivered or progress completed. Inventoried costs relating to long-term contracts and programs are reduced by charging any amounts in excess of estimated realizable value to cost of sales. Progress payments received from customers relating to the uncompleted portions of contracts are offset first against unbilled receivable balances, then against applicable inventories. Any remaining progress payment balances are classified as contract advances.

Inventory balances are shown net of reductions of $6,299 and $12,999 as of March 31, 2002 and 2001, respectively, for customer progress payments received on uncompleted portions of contracts.

PREPAID EXPENSES

2.78 Table 2-11 summarizes the number of survey companies disclosing, either on the balance sheet or in the notes to financial statements, an amount for prepaid expenses. Rarely is the nature of prepaid expenses disclosed. Examples of items identified as prepaid expenses follow.

2.79

TABLE 2-11: PREPAID EXPENSES

	Number of Companies			
	2002	**2001**	**2000**	**1999**
Prepaid expenses	98	100	98	107
Prepaid expenses and other current assets	199	182	182	187
Prepaid expenses and deferred taxes	6	7	9	9
Prepaid expenses and other receivables	4	2	2	3
Prepaid expenses and advances	3	9	14	3
Employee benefits	9	14	3	3
Advertising costs	12	10	5	8
Other captions indicating prepaid expenses	15	20	29	18

2.80

ENGELHARD CORPORATION (DEC)

(In thousands)	2002	2001
Cash	$ 48,246	$ 33,034
Receivables, net of allowances of $9,739 and $5,219, respectively	380,270	347,656
Committed metal positions	615,441	569,109
Inventories	427,162	401,647
Other current assets	94,922	142,301
Total current assets	$1,566,041	$1,493,747

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

23 (In Part): Supplemental Information

The following tables present certain supplementary information to the Company's "Consolidated Balance Sheets":

Supplementary Balance Sheet Information (In Part)

Other Current Assets

(In millions)	2002	2001
Prepaid insurance	$10.3	$ 8.1
Current deferred taxes	60.2	99.9
Other	24.4	34.3
Other current assets	$94.9	$142.3

2.81

NIKE, INC. (MAY)

(In millions)	2002	2001
Current assets:		
Cash and equivalents	$ 575.5	$ 304.0
Accounts receivable, less allowance for doubtful accounts of $77.4 and $72.1	1,807.1	1,621.4
Inventories	1,373.8	1,424.1
Deferred income taxes	140.8	113.3
Prepaid expenses and other current assets (Note 1)	260.5	162.5
Total current assets	$4,157.7	$3,625.3

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Advertising and Promotion

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. A significant amount of the Company's promotional expenses result from payments under endorsement contracts. Accounting for endorsement payments 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. Prepayments made under contracts are included in Prepaid expenses and other current assets or Other assets depending on the length of the contract. Through cooperative advertising programs, we reimburse our retail customers for certain of their costs of advertising our products. We record these costs in selling and administrative expense at the point in time when we are obligated to our customers for the costs. This obligation may arise prior to the related advertisement being run. Total advertising and promotion expenses were $1,027.9 million, $998.2 million and $974.1 million for the years ended May 31, 2002, 2001 and 2000, respectively. Included in Prepaid expenses and other current assets and Other assets was $113.2 million and $122.3 million at May 31, 2002 and 2001, respectively, relating to prepaid advertising and promotion expenses.

OTHER CURRENT ASSETS

2.82 Table 2-12 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.

2.83

TABLE 2-12: OTHER CURRENT ASSET CAPTIONS

	Number of Companies			
	2002	**2001**	**2000**	**1999**
Nature of Asset				
Deferred income taxes	399	403	359	364
Property held for sale	62	47	38	31
Derivatives	23	33	3	N/C*
Advances or deposits	15	9	4	9
Unbilled costs	10	7	8	13
Other—identified	49	60	59	42

* N/C = Not compiled. Line item was not included in table for year shown.

Deferred Taxes

2.84

INTEL CORPORATION (DEC)

(In millions)	2002	2001
Current assets:		
Cash and cash equivalents	$ 7,404	$ 7,970
Short-term investments	3,382	2,356
Trading assets	1,801	1,224
Accounts receivable, net of allowance for doubtful accounts of $57 ($68 in 2001)	2,574	2,607
Inventories	2,276	2,253
Deferred tax assets	1,136	958
Other current assets	352	265
Total current assets	$18,925	$17,633
Total current liabilities	$ 6,595	$ 6,570
Long-term debt	929	1,050
Deferred tax liabilities	1,232	945

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 10 (In Part): Provision for Taxes

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amount 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 at fiscal year-ends were as follows:

(In millions)	2002	2001
Deferred tax assets		
Accrued compensation and benefits	$ 185	$ 120
Accrued advertising	96	102
Deferred income	183	207
Inventory valuation and related reserves	184	209
Interest and taxes	29	89
Impairment losses on investments	256	179
Other, net	203	52
	1,136	958
Deferred tax liabilities		
Depreciation	(949)	(461)
Acquired intangibles	(110)	(280)
Unremitted earnings of certain subsidiaries	(122)	(164)
Unrealized gains on investments	(35)	(30)
Other, net	(16)	(10)
	(1,232)	(945)
Net deferred tax asset (liability)	$ (96)	$ 13

U.S. income taxes were not provided for on a cumulative total of approximately $6.3 billion of undistributed earnings for certain non-U.S. subsidiaries. The company intends to reinvest these earnings indefinitely in operations outside the U.S.

2.85

INTERFACE, INC. (DEC)

(In thousands)	2002	2001
Current		
Cash	$ 34,134	$ 788
Accounts receivable, net	137,486	154,944
Inventories	134,656	159,497
Prepaid expenses and other current assets	33,042	30,360
Deferred income taxes	9,911	17,640
Assets of business held for sale	17,492	37,018
Total current assets	$366,721	$400,247

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (In Part)

Taxes on Income

The Company accounts for income taxes under an asset and liability approach that requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in the Company's financial statements or tax returns. In estimating future tax consequences, the Company generally considers all expected future events other than enactments of changes in tax laws or rates. The effect on deferred tax assets and liabilities of a change in tax rates will be recognized as income or expense in the period that includes the enactment date.

Taxes on Income (In Part)

Deferred income taxes for the years ended December 29, 2002 and December 30, 2001 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.

At December 29, 2002, the Company's foreign subsidiaries had approximately $14.6 million in net operating losses available for an unlimited carryforward period. Additionally, the Company had approximately $140 million in state net operating losses expiring at various times through 2022.

The sources of the temporary differences and their effect on the net deferred tax asset are as follows:

	2002		2001	
(In thousands)	Assets	Liabilities	Assets	Liabilities
Basis differences of property and equipment	$ —	$17,072	$ —	$26,569
Net operating loss carryforwards	11,553	—	7,946	—
Deferred compensation	6,206	—	7,025	—
Nondeductible reserves and accruals	5,868	—	14,868	—
Other differences in basis of assets and liabilities	10,338	—	5,828	—
	$33,965	$17,072	$35,667	$26,569

Deferred tax assets and liabilities are included in the accompanying balance sheet as follows:

(In thousands)	2002	2001
Deferred income taxes (current asset)	$ 9,911	$ 17,640
Other (non-current asset)	27,502	16,505
Deferred income taxes (non-current liabilities)	(20,520)	(25,047)
	$ 16,893	$ 9,098

• • • • • •

Undistributed earnings of the Company's foreign subsidiaries amounted to approximately $39 million at December 29, 2002. Those earnings are considered to be indefinitely reinvested and, accordingly, no provision for U.S. federal and state income taxes has been provided thereon. Upon distribution of those earnings in the form of dividends or otherwise, the Company would be subject to both U.S. income taxes (subject to an adjustment for foreign tax credits) and withholding taxes payable to the various foreign countries. Determination of the amount of unrecognized deferred U.S. income tax liability is not practicable because of the complexities associated with its hypothetical calculation. Withholding taxes of approximately $0.9 million would be payable upon remittance of all previously unremitted earnings at December 29, 2002.

2.86

SAUCONY, INC. AND SUBSIDIARIES (DEC)

(In thousands)	2002	2001
Current assets:		
Cash and cash equivalents	$34,483	$22,227
Accounts receivable, net of allowance for doubtful accounts and discounts (2002, $2,406; 2001, $2,457)	15,496	14,742
Inventories	27,201	28,404
Deferred income taxes	1,916	2,098
Prepaid expenses and other current assets	1,217	2,067
Assets held for sale	357	—
Total current assets	$80,670	$69,538

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Income Taxes

Income taxes are provided for the amount of taxes payable or refundable in the current year and for the expected future tax consequences of events that have been recognized in the financial statements or tax returns. As a result of recognition and measurement differences between tax laws and financial accounting standards, temporary differences arise between the amount of taxable income and pretax financial income for a year and the tax bases of assets or liabilities and their reported amount in the financial statements. The deferred tax assets and liabilities reported as of January 3, 2003 and January 4, 2002 reflect the estimated future tax effects attributable to temporary differences and carryforwards based on the provisions of enacted tax law.

13 (In Part): Income Taxes

The net deferred tax asset or liability reported on the consolidated balance sheet consists of the following items as of January 3, 2003 and January 4, 2002:

	2002	2001
Net current deferred tax assets:		
Allowance for doubtful accounts and discounts	$ 753	$ 785
Deferred compensation	568	549
Inventory allowances and tax costing adjustments	392	287
Other accrued expenses	203	514
Unrealized gain on marketable securities	—	(37)
Total	$1,916	$2,098
Net long-term deferred tax assets:		
Foreign loss carryforwards	$ 612	$ 570
State loss carryforward	52	0
Valuation allowance	(664)	(570)
Total	$ 0	$ 0
Net long-term deferred tax liabilities:		
Investment in limited partnership	$1,195	$1,210
Property, plant and equipment	664	739
Total	$1,859	$1,949
Net deferred tax asset	$ 57	$ 149

The foreign loss carryforwards relate to operating losses of approximately $1,935, which may be carried forward indefinitely. At January 3, 2003, the Company has determined that it is more likely than not that all of the deferred tax assets resulting from foreign and state operating losses will not be realized.

The Company has not recorded deferred income taxes on the undistributed earnings of foreign subsidiaries that are indefinitely reinvested in foreign operations. These earnings amounted to approximately $4,055 at January 3, 2003.

Property Held for Sale

2.87

CITIZENS COMMUNICATIONS COMPANY AND SUBSIDIARIES (DEC)

($ in thousands)	2002	2001
Current assets:		
Cash and cash equivalents	$ 393,177	$ 215,869
Accounts receivable, net	310,929	311,878
Other current assets	49,114	150,573
Assets held for sale	447,764	1,107,937
Assets of discontinued operations	—	746,791
Total current assets	$1,200,984	$2,533,048

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

a (In Part): Description of Business

In 1999 we announced plans to divest our public utilities services segments. During 2001 we sold two of our four natural gas transmission and distribution businesses and during 2002 we sold our entire water distribution and wastewater treatment business and one of our three electric businesses. We have contracts to sell three of our four remaining properties. We are seeking a buyer for our one remaining utility property, which provides electricity to approximately 21,000 customers in Vermont. Pending these divestitures, we continue to provide gas and electric utility services (see Note 7).

g. Impairment of Long-Lived Assets and Long-Lived Assets to Be Disposed Of

We adopted Statement of Financial Accounting Standard (SFAS) No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" as of January 1, 2002. In accordance with SFAS No. 144, we review long-lived assets to be held and used and long-lived assets to be disposed of, including intangible assets with estimated useful lives, for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Recoverability of assets to be held and used is measured by comparing the carrying amount of the asset to the future undiscounted net cash flows expected to be generated by the asset. Recoverability of assets held for sale is measured by comparing the carrying amount of the assets to their estimated fair market value. If any assets are considered to be impaired, the impairment is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value (see Note 4).

4 (In Part): Losses on Impairment

In the third quarter 2002, we recognized non-cash pre-tax impairment losses of $656,658,000 related to property, plant and equipment in the ELI sector and $417,400,000 related to the gas and electric sector assets held for sale, in each case in accordance with the provisions of SFAS 144.

• • • • • •

Gas and Electric Assets Held for Sale

On October 29, 2002, our board approved the sale of our Arizona gas and electric utility properties for $230,000,000 in cash ($220,000,000 if we close by July 28, 2003), subject to adjustments under the terms of the agreements. On December 19, 2002, our board approved the sale of our Hawaii gas property for $115,000,000 in cash, subject to adjustments under the terms of the agreement. The board also approved, in principle, the sale of Vermont Electric, our only remaining utility property at currently offered prices, which were below their then book carrying value. This property is the only utility property that does not have a definitive sales contract. Previously, we believed that the net realizable value of these properties was equal to or above their carrying values. However, as a result of market conditions, and the desire to complete the divestiture process quickly in order to focus on our core telecommunications operations and raise money to further reduce debt, we made a strategic decision to accept proceeds less than carrying values. Our estimate of net realizable value with respect to Vermont is based on current negotiations and may be revised in future periods. As a result, for the four properties noted above we recorded a non-cash pre-tax charge of $417,400,000 in the third quarter of 2002 to reduce the carrying value of our assets held for sale to our best estimate of net realizable value upon sale (see Note 7).

7 (In Part): Discontinued Operations and Net Assets Held for Sale

On August 24, 1999, our Board of Directors approved a plan of divestiture for our public utilities services businesses, which included gas, electric and water and wastewater businesses.

• • • • • •

Electric and Gas

- On October 29, 2002, we entered into definite agreements to sell our Arizona gas and electric divisions to UniSource Energy Corporation for $230,000,000 in cash ($220,000,000 if we close by July 28, 2003), subject to adjustments specified in the agreements (see Note 4). The transactions, which are subject to regulatory and other customary approvals, are expected to close during the second half of 2003.
- On November 1, 2002, we completed the sale of our Kauai electric division to Kauai Island Utility Cooperative (KIUC) for $215,000,000 in cash. The pre-tax gain on the sale recognized in 2002 was $8,273,000.
- On December 19, 2002, we entered into a definitive agreement to sell The Gas Company in Hawaii to K-1 USA Ventures, Inc for $115,000,000 in cash, subject to adjustments under the terms of the agreement. The transaction, which is subject to regulatory and other customary approvals, is expected to close during the fourth quarter of 2003.
- On July 2, 2001, we completed the sale of our Louisiana Gas operations to Atmos Energy Corporation for $363,436,000 in cash. The pre-tax gain on the sale recognized in 2001 was $139,304,000.
- On November 30, 2001, we sold our Colorado Gas division to Kinder Morgan for approximately $8,900,000 in cash after purchase price adjustments.

Currently, we do not have an agreement to sell our remaining electric property, Vermont Electric. We continue to actively pursue a buyer for our remaining electric business. All of our gas and electric assets (including Arizona gas and electric and Hawaii gas) and their related liabilities are classified as "assets held for sale" and "liabilities related to assets held for sale," respectively. These assets have been written down to our best estimate of the net realizable value upon sale (see Note 4).

• • • • • •

We initially accounted for the planned divestiture of all the public utilities services properties as discontinued operations. Subsequently, we reclassified all of our gas (on September 30, 2000) and electric (on December 31, 2000) assets and their related liabilities to "assets held for sale" and "liabilities related to assets held for sale," respectively. We also reclassified the results of these operations from

discontinued operations to their original income statement captions as part of continuing operations. Additionally, we ceased to record depreciation expense on the gas assets effective October 1, 2000 and on the electric assets effective January 1, 2001. Such depreciation expense would have been an additional $41,340,000 and $50,830,000 for the years ended December 31, 2002 and 2001, respectively.

• • • • • •

Summarized balance sheet information for the gas and electric operations (assets held for sale) is set forth below:

($ in thousands)	2002	2001
Current assets	$ 49,549	$ 66,511
Net property, plant and equipment	358,135	805,653
Other assets	40,080	235,773
Total assets held for sale	$447,764	$1,107,937
Current liabilities	$ 83,278	$ 71,259
Long-term debt	—	43,400
Other liabilities	66,775	104,116
Total liabilities related to assets held for sale	$150,053	$ 218,775

2.88

POTLATCH CORPORATION AND CONSOLIDATED SUBSIDIARIES (DEC)

(Dollars in thousands)	2002	2001
Current assets:		
Cash	$ 8,973	$ 7,475
Restricted cash	15,069	98,200
Short-term investments	2,000	30,509
Receivables, net of allowance for doubtful accounts of $1,624 ($1,589 in 2001)	117,919	118,632
Inventories	159,798	107,713
Prepaid expenses	39,005	31,274
Assets held for sale (Note 17)	5,000	772,033
Total current assets	$347,764	$1,165,836

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Summary of Principal Accounting Policies (In Part)

Long-Lived Assets

We account for long-lived assets in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." The Statement requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Assets to be disposed of are reported at the lower of carrying amount or fair value less cost to sell.

17. Discontinued Operations

On March 18, 2002, we announced that we had signed a definitive agreement with a domestic subsidiary of Sappi Limited for the sale of our Cloquet, Minnesota, pulp and printing papers facilities and certain associated assets for $485.5 million in cash, after closing adjustments. The sale was completed in May 2002. As a result of the transaction, we recorded an after-tax charge of $149.8 million in the first quarter of 2002. The charge represented estimated costs associated with the write-down of the carrying value of the assets involved in the sale and closure of the Brainerd facility, as well as other costs associated with exiting the coated paper business. In December 2002, we recorded an additional after-tax charge of $14.6 million to adjust employee severance costs, the carrying value of the remaining Brainerd assets and other exit costs. The charges and year-to-date operating losses of $13.9 million, after tax, are presented as discontinued operations in the Statements of Operations, as required by SFAS No. 144.

In conjunction with the sale, we closed our Brainerd printing papers mill. In late October 2002 we entered into a memorandum of understanding with a buyer for the sale of the Brainerd facility. The facility was sold on February 28, 2003 for $4.44 million in cash.

On June 3, 2002, we announced that we would close our Bradley hardwood mill in Warren, Arkansas, and exit the hardwood lumber business. We sold the facility in August 2002. An initial after-tax charge of $5.7 million was recorded for estimated asset write-down and closure costs. In December 2002, we reversed $1.6 million of the initial charge, after tax, to reflect actual costs incurred for the closure and sale. The net charge and year-to-date operating losses of $1.0 million, after tax, are also presented as discontinued operations in the Statements of Operations, as required by SFAS No. 144.

The assets and liabilities of the Printing Papers segment and the Bradley lumber mill are presented in the Balance Sheets under the captions "Assets held for sale" and "Liabilities related to assets held for sale." The carrying amounts of the major classes of these assets and liabilities at December 31 were as follows:

(Dollars in thousands)	2002	2001
Assets:		
Cash	$ —	$ 292
Receivables, net	—	40,715
Inventories	—	76,858
Land, other than timberlands	108	374
Plant and equipment, net	4,892	653,785
Other assets	—	9
Total assets held for sale	$5,000	$772,033
Liabilities:		
Accounts payable and accrued liabilities	$ 12	$ 33,933

Derivatives

2.89

BURLINGTON RESOURCES INC. (DEC)

(In millions)	2002	2001
Current assets		
Cash and cash equivalents	$ 443	$116
Accounts receivable	515	398
Commodity hedging contracts and other derivatives	4	118
Inventories	48	50
Other current assets	51	33
	$1,061	$715

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Accounting Policies

Commodity Hedging Contracts and Other Derivatives (In Part)

The Company enters into derivative contracts, primarily options and swaps, to hedge future crude oil and natural gas production in order to mitigate the risk of market price fluctuations. The Company also enters into derivative contracts to mitigate the risk of foreign currency exchange rate fluctuations. On January 1, 2001, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 133, *Accounting for Derivative Instruments and Hedging Activities,* as amended. Effective with the adoption of SFAS No. 133, all derivatives were recognized on the balance sheet and measured at fair value. If the derivative does not qualify as a hedge or is not designated as a hedge, the gain or loss on the derivative is recognized currently in earnings. If the derivative qualifies for hedge accounting, the gain or loss on the derivative is either recognized in income along with an offsetting adjustment to the basis of the item being hedged for fair-value hedges or deferred in other comprehensive income to the extent the hedge is effective for cash-flow hedges. To qualify for hedge accounting, the derivative must qualify as either a fair-value, cash-flow or foreign-currency hedge.

6 (In Part): Commodity Hedging Contracts and Other Derivatives

A summary of the Company's derivative instruments as of December 31, 2002 follows.

			Notional Amount					
Settlement Period	Derivative Instrument	Hedge Strategy	Gas (MMBTU)	Oil (Barrels)	Electricity (Megawatts)	US $ (In Millions)	Average Underlying Price	Fair Value Asset (Liability)
2003	Swap	Cash flow	18,315,630				$ 2.81	$(17)
	Purchased put	Cash flow	184,325,000				3.16	21
	Written call	Cash flow	184,325,000				4.94	(32)
	Written put	Cash flow	178,850,000				2.36	(3)
	Purchased put	Cash flow		450,000			25.00	—
	Written put	Cash flow		450,000			20.00	—
	Written call	Cash flow		450,000			30.36	(1)
	Swap	Foreign currency				$ 17	1.42	(2)
	Swap	Fair value	2,699,500				3.06	3
	N/A	Fair value (obligation)	2,699,500				3.13	(3)
	Purchased call	Cash flow			175,200		40.30	1
	Written put	Cash flow			175,200		26.45	(1)
2004	Swap	Cash flow	15,613,289				2.95	(13)
	Swap	Foreign currency				7	1.43	(1)
	Swap	Fair value	2,166,800				2.83	3
	N/A	Fair value (obligation)	2,166,800				2.85	(3)
2005	Swap	Cash flow	10,513,930				2.89	(6)
	Swap	Fair value	1,459,200				2.65	1
	N/A	Fair value (obligation)	1,459,200				2.65	(1)
	Swap	Not designated				$116	1.50	(8)
2006 to 2007	Swap	Cash flow	1,672,500				$ 3.06	(1)
								$(63)

The derivative assets and liabilities represent the difference between hedged values and market values on hedged volumes of the commodities as of December 31, 2002. During 2002, hedging activities related to cash settlements increased revenues by $114 million. In addition, during 2002, losses of $22 million were recorded in revenues associated with ineffectiveness of cash-flow and fair-value hedges and losses of $10 million were recorded in revenues related to changes in fair value derivative instruments which do not qualify for hedge accounting.

In accordance with the transition provisions of SFAS No. 133, on January 1, 2001, the Company recorded a net-of-tax cumulative-effect-type loss adjustment of $366 million in accumulated other comprehensive income to recognize at fair value all derivatives that were designated as cash-flow hedging instruments. The Company recorded cash-flow hedge derivatives liabilities of $582 million ($361 million after tax), fair value hedge derivative assets of $16 million ($10 million after tax), related liability adjustments to book value of fair-value hedged items of $16 million ($10 million after tax) and an after tax non-cash gain of $3 million was recorded in current earnings as a cumulative effect of accounting change.

Based on commodity prices and foreign exchange rates as of December 31, 2002, the Company expects to reclassify losses of $34 million ($21 million after tax) to earnings from the balance in accumulated other comprehensive loss during the next twelve months. At December 31, 2002, the Company had derivative assets of $8 million and derivative liabilities of $71 million of which $4 million and $38 million is included in Other Assets and Other Current Liabilities, respectively, on the Consolidated Balance Sheet.

Advances/Deposits

2.90

APPLE COMPUTER, INC. (SEP)

(In millions)	2002	2001
Current assets:		
Cash and cash equivalents	$2,252	$2,310
Short-term investments	2,085	2,026
Accounts receivable, less allowances of $51 and $51, respectively	565	466
Inventories	45	11
Deferred tax assets	166	169
Other current assets	275	161
Total current assets	$5,388	$5,143

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2 (In Part): Financial Instruments

Inventory Prepayment

In April 2002, the Company made a $100 million prepayment to an Asian supplier for the purchase of components over the following nine months. In return for this deposit, the supplier agreed to supply the Company with a specified level of components in the three consecutive fiscal quarters ending December 28, 2002. If the supplier fails to supply the agreed upon level of components in any of those three fiscal quarters, the Company may cancel the arrangement and receive the amount of the prepayment not utilized plus a penalty. Approximately $53 million of this deposit remained unused as of September 28, 2002, and is reflected in the condensed consolidated balance sheets in other current assets. The amount of the prepayment not utilized by the Company on or before December 31, 2002, is refundable to the Company by January 31, 2003.

Although the supplier's existing debt is unrated, its public debt pricing is consistent with other BBB rated companies. The deposit is unsecured and has no stated interest component. The Company is imputing an amount to cost of sales and interest income during each period the deposit is outstanding at an appropriate market interest rate to reflect the economics of this transaction. In light of the supplier's implied debt rating and because the Company's prepayment is unsecured, non-performance by and/or economic deterioration of the supplier could place all or some of the Company's deposit at risk.

Unbilled Costs

2.91

STEWART & STEVENSON SERVICES, INC. AND SUBSIDIARIES (JAN)

(In thousands)	2002	2001
Current assets		
Cash and cash equivalents	$107,994	$ 81,438
Accounts and notes receivable, net	151,839	166,123
Recoverable costs and accrued profits not yet billed	11,668	—
Inventories	244,416	230,300
Excess of current cost over LIFO values	(42,785)	(42,132)
Income tax receivable	755	13,262
Deferred income tax asset	16,126	16,488
Other current assets	3,212	3,753
Total assets of discontinued operations	14,404	40,693
Total current assets	$507,629	$509,925

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Revenue Recognition

Generally, revenue is recognized when contract terms are met, collectibility is reasonably assured and a product is shipped or risk of ownership has been transferred to and accepted by the customer. With respect to long-term construction contracts, revenue is recognized using the percentage-of-completion method in accordance with the American Institute of Certified Public Accountants Statement of Position 81-1, "Accounting for Performance of Construction-Type and Certain Production-Type Contracts." Measurement of progress toward completion is based on units-of-production for the FMTV contracts in the Tactical Vehicle Systems segment, and typically based on direct labor hours for other percentage-of-completion contracts.

Changes in estimates for revenues, costs to complete and profit margins are recognized in the period in which they are reasonably determinable. Any anticipated losses on uncompleted contracts are recognized whenever evidence indicates that the estimated total cost of a contract exceeds its estimated total revenue.

Note 5: Contracts in Process

Amounts included in the financial statements which relate to recoverable costs and accrued profits not yet billed on contracts in process are classified as current assets. Billings on uncompleted contracts in excess of incurred costs and accrued profits are classified as current liabilities. Progress billings on contracts are made in accordance with the terms and conditions of the contracts, which often differ from the revenue recognition process. A summary of the status of uncompleted contracts is as follows:

(In thousands)	2002	2001
Costs incurred on uncompleted contracts	$ 51,882	$ 52,285
Accrued profits recognized, net of losses	11,356	—
	63,238	52,285
Less billings to date	(25,760)	—
Less customer performance-based payments	(88,378)	(92,159)
	$(50,900)	$(39,874)
Recoverable costs and accrued profits not yet billed	$ 11,668	$ —
Billings in excess of incurred costs and accrued profits	(62,568)	(39,874)
	$(50,900)	$(39,874)

Billings in excess of incurred costs and accrued profits primarily relate to the Tactical Vehicles Systems segment. Billings in excess of costs related to the Tactical Vehicle Systems segment include direct costs of manufacturing and engineering and allocable overhead costs, but not accrued profit. Generally, overhead costs include selling and administrative expenses in accordance with generally accepted accounting principles and are charged to cost of sales at the time that revenue is recognized. The U.S. government has a security interest in unbilled amounts associated with contracts that provide for performance-based payments.

PROPERTY, PLANT, AND EQUIPMENT

2.92 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.

2.93 Tables 2-13 and 2-14 show the assets classified as Property, Plant, and Equipment by the survey companies. Table 2-15 summarizes the descriptive captions used to describe the accumulated allowance for depreciation.

2.94 Examples of Property, Plant, and Equipment disclosures follow.

2.95

TABLE 2-13: LAND CAPTIONS

	2002	2001	2000	1999
Land	335	343	347	359
Land and improvements	124	127	133	132
Land and buildings	54	55	46	47
Land combined with other identified assets	12	10	9	15
No caption with term land	52	49	42	26
	577	**584**	**577**	**579**
Lines of business classification	23	16	23	21
Total Companies	**600**	**600**	**600**	**600**

2.96

TABLE 2-14: DEPRECIABLE ASSET CAPTIONS

	2002	2001	2000	1999
Buildings				
Buildings	191	201	211	234
Buildings and improvement	254	248	239	225
Building and land or equipment	72	75	77	85
Buildings combined with other identified assets	16	15	20	15
No caption with term buildings	54	49	37	21
	587	**588**	**584**	**580**
Line of business classification	13	12	16	20
Total Companies	**600**	**600**	**600**	**600**
Other Depreciable Asset Captions	**Number of Companies**			
Machinery and/or equipment	385	396	412	437
Machinery and/or equipment combined with other assets	129	131	109	107
Construction in progress	272	282	271	275
Leasehold improvements	131	116	111	115
Lease assets	56	62	50	72
Automobiles, marine equipment etc.	92	72	96	95
Furniture and fixtures	100	87	85	77
Computer equipment	43	43	N/C*	N/C*
Assets leased to others	19	13	14	17

* N/C = Not compiled. Line item was not included in table for year shown.

2.97

TABLE 2-15: ACCUMULATED DEPRECIATION

	2002	2001	2000	1999
Accumulated depreciation	326	322	328	329
Accumulated depreciation and amortization	200	195	196	195
Accumulated depreciation, amortization and depletion	20	20	20	23
Accumulated depreciation and depletion	7	9	7	10
Allowance for depreciation	23	25	27	25
Allowance for depreciation and amortization	6	6	8	9
Other captions	18	23	14	9
Total Companies	**600**	**600**	**600**	**600**

2.98

DELUXE CORPORATION (DEC)

(Dollars in thousands)	2002	2001
Total current assets	$199,646	$ 83,972
Long-term investments	40,205	37,661
Property, plant, and equipment—net	140,042	149,552
Property, plant and equipment held for sale—net	—	1,517
Intangibles—net	105,976	114,856
Goodwill	82,237	82,237
Other non-current assets	100,867	67,926
Total assets	$668,973	$537,721

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note One (In Part): Significant Accounting Policies

Property, Plant and Equipment

Property, plant and equipment, including leasehold and other improvements that extend an asset's useful life or productive capabilities, are stated at historical cost. Buildings have been assigned 40-year lives and machinery and equipment have been assigned lives ranging from three to 11 years, with a weighted-average life of nine years as of December 31, 2002. These assets are generally depreciated using accelerated methods. Leasehold and building improvements are depreciated on the straight-line basis over the estimated useful life of the property or the life of the lease, whichever is shorter. Maintenance and repairs are expensed as incurred.

Note Two (In Part): Supplementary Balance Sheet Information

Property, Plant and Equipment

Property, plant and equipment was comprised of the following at December 31:

(Dollars in thousands)	2002	2001
Land and land improvements	$ 32,288	$ 32,021
Buildings and building improvements	113,328	109,130
Machinery and equipment	289,947	301,814
Total	435,563	442,965
Accumulated depreciation	(295,521)	(293,413)
Property, plant and equipment—net	$ 140,042	$ 149,552

2.99

DOVER CORPORATION AND SUBSIDIARIES (DEC)

(In thousands)	2002	2001
Total current assets	$1,658,001	$1,573,345
Property, plant and equipment, at cost:		
Land	49,204	42,689
Buildings	426,747	403,914
Machinery and equipment	1,299,374	1,248,647
	1,775,325	1,695,250
Less accumulated depreciation	1,070,403	957,037
Net property, plant and equipment	704,922	738,213
Goodwill, net of amortization	1,654,883	1,908,040
Intangible assets, net of amortization	202,836	171,226
Other assets and deferred charges	167,529	116,510
Assets of discontinued operations	49,214	116,598
Total assets	$4,437,385	$4,623,932

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Property, Plant and Equipment and Depreciation

Property, plant and equipment includes the cost of land, buildings, equipment and significant improvements to existing plant and equipment. Expenditures for maintenance, repairs and minor renewals are expensed as incurred. When property or equipment is sold or otherwise disposed of, the related cost and accumulated depreciation is removed from the respective accounts and the gain or loss realized on disposition is reflected in earnings. Plant and equipment is generally depreciated based upon accelerated methods, utilizing estimated useful property lives. Building lives range from 5 to 50 years; machinery and equipment lives range from 2 to 20 years. Continuing depreciation expense was $143.1 million in 2002, $142.2 million in 2001, and $122.4 million in 2000.

2.100

THE DOW CHEMICAL COMPANY (DEC)

(In millions)	2002	2001
Total current assets	$11,681	$10,308
Investments		
Investments in nonconsolidated affiliates	1,565	1,581
Other investments	1,689	1,663
Noncurrent receivables	577	578
Total investments	3,831	3,822
Property		
Property	37,934	35,890
Less accumulated depreciation	24,137	22,311
Net property	13,797	13,579
Other assets		
Goodwill	3,189	3,130
Other intangible assets (net of accumulated amortization—2002: $349; 2001: $346)	613	607
Deferred income tax assets—noncurrent	3,470	2,248
Asbestos-related insurance receivables—noncurrent	1,489	224
Deferred charges and other assets	1,492	1,597
Total other assets	10,253	7,806
Total assets	$39,562	$35,515

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in millions)

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

Property

Land, buildings and equipment, including property under capital lease agreements, are carried at cost less accumulated depreciation. Depreciation is based on the estimated service lives of depreciable assets and is provided using the straight-line method. For most assets capitalized through 1996, the declining balance method was used. Fully depreciated assets are retained in property and depreciation accounts until they are removed from service. In the case of disposals, assets and related depreciation are removed from the accounts, and the net amounts, less proceeds from disposal, are included in income.

Long-Lived Assets

The Company evaluates long-lived assets and certain identifiable intangibles for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. When undiscounted future cash flows will not be sufficient to recover an asset's carrying amount, the asset is written down to its fair value. Long-lived assets to be disposed of other than by sale are classified as held and used until they are disposed of. Long-lived assets to be disposed of by sale are classified as held for sale and are reported at the lower of carrying amount or fair value less cost to sell, and depreciation is ceased.

E. Property

Property at December 31:

	Estimated Useful Lives (Years)	2002	2001
Land	—	$ 506	$ 445
Land and waterway improvements	15–25	1,060	994
Buildings	5–55	3,169	3,009
Machinery and equipment	3–20	28,135	26,221
Utility and supply lines	5–20	1,732	1,584
Other	3–30	1,968	2,351
Construction in progress	—	1,364	1,286
Total		$37,934	$35,890

	2002	2001	2000
Depreciation expense	$1,680	$1,595	$1,554
Manufacturing maintenance and repair costs	1,090	1,015	1,027
Capitalized interest	51	54	98

2.101

R.R. DONNELLEY & SONS COMPANY AND SUBSIDIARIES (DEC)

(Thousands of dollars)	2002	2001
Total current assets	$ 866,439	$ 940,194
Net property, plant and equipment, at cost, less accumulated depreciation of $3,206,942 in 2002 and $3,148,018 in 2001	1,411,016	1,490,118
Goodwill, net of accumulated amortization of $58,020 in 2002 and $70,017 in 2001	308,174	312,613
Other intangible assets, net of accumulated amortization of $259,477 in 2002 and $243,405 in 2001	96,662	127,936
Other noncurrent assets	469,481	514,756
Total assets	$3,151,772	$3,385,617

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Property, Plant and Equipment

Property, plant and equipment are recorded at cost and depreciated primarily on a straight-line basis over their estimated useful lives. Useful lives range from 15 to 33 years for buildings and from three to 15 years for machinery and equipment. Maintenance and repair costs are charged to expense as incurred. Major overhauls that extend the useful lives of existing assets are capitalized. When properties are retired or disposed, the costs and accumulated depreciation are eliminated and the resulting profit or loss is recognized in income.

Note 7. Property, Plant and Equipment

The following table summarizes the components of property, plant and equipment (at cost):

(In thousands)	2002	2001
Land	$ 35,190	$ 37,833
Buildings	666,317	664,829
Machinery and equipment	3,916,451	3,935,474
Total	$4,617,958	$4,638,136

2.102

TARGET CORPORATION (JAN)

(Millions)	2003	2002
Total current assets	$11,935	$ 9,648
Property and equipment		
Land	3,236	2,833
Buildings and improvements	11,527	10,103
Fixtures and equipment	4,983	4,290
Construction-in-progress	1,190	1,216
Accumulated depreciation	(5,629)	(4,909)
Property and equipment, net	15,307	13,533
Other	1,361	973
Total assets	$28,603	$24,154

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Summary of Accounting Policies (In Part)

Property and Equipment

Property and equipment are recorded at cost, less accumulated depreciation. Depreciation is computed using the straight-line method over estimated useful lives. Depreciation expense for the years 2002, 2001 and 2000 was $1,183 million, $1,049 million and $913 million, respectively. Accelerated depreciation methods are generally used for income tax purposes.

Estimated useful lives by major asset category are as follows:

Asset	Life (In Years)
Buildings and improvements	8–50
Fixtures and equipment	4–8
Computer hardware and software	4

In 2001, the Financial Accounting Standards Board (FASB) issued SFAS No. 144, "Accounting for the impairment or Disposal of Long-Lived Assets," superseding SFAS No. 121 in its entirety and the accounting and reporting provisions of Accounting Principles Board (APB) Opinion No. 30 for disposals of segments of a business. The statement retains the fundamental provisions of SFAS No. 121, clarifies guidance related to asset classification and impairment testing and incorporates guidance related to disposals of segments.

As required, we adopted SFAS No. 144 in the first quarter of 2002. All long-lived assets are reviewed when events or changes in circumstances indicate that the carrying value of the asset may not be recoverable. We review most assets at a store level basis, which is the lowest level of assets for which there are identifiable cash flows. The carrying amount of the store assets are compared to the related expected undiscounted future cash flows to be generated by those assets over the estimated remaining useful life of the primary asset. Cash flows are projected for each store based upon historical results and expectations. In cases where the expected future cash flows and fair value are less than the carrying amount of the assets, those stores are considered impaired and the assets are written down to fair value. Fair value is based on appraisals or other reasonable methods to estimate value. In 2002, impairment losses are included in depreciation expense and resulted in a financial statement impact of less than $.01per share.

INVESTMENTS

2.103 APB Opinion No. 18, *The Equity Method of Accounting for investments in Common Stock,* 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." *APB 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. Financial Accounting Standards Board (FASB) Interpretation No. 35, *Criteria for Applying the Equity Method of Accounting for Investments in Common Stock,* 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.

2.104 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 *SFAS No. 115.* This Statement is the authoritative pronouncement on accounting for and reporting investments in equity securities that have readily determinable fair value and all investments in debt securities. Paragraphs 19–22 of *SFAS No. 115,* as amended by *SFAS No. 133,* state the disclosure requirements for such investments. *SFAS No. 115* does not apply to investments accounted for by the equity method.

2.105 For investments subject to *SFAS No. 115* requirements, *SFAS No. 107,* as amended by *SFAS No. 133,* requires disclosure of both the fair value and the bases for estimating the fair value of investments unless it is not practicable to estimate that value. 186 survey companies made 220 fair value disclosures. 106 of those disclosures used market or broker quotes of the investments to determine fair value. 28 of those disclosures stated that either discounted cash flows or market prices of similar instruments were used to estimate fair value. 15 of those disclosures estimated fair value using other valuation methods. 87 disclosures presented carrying amounts which approximated fair value of investments. In addition, there were 63 disclosures in which carrying value was compared to fair value in an exposition or a table. 8 disclosures stated it was not practicable to estimate fair value.

2.106 *SFAC No. 7* provides a framework for using future cash flows and present value as the basis for accounting measurements of fair value of an asset or a liability at initial recognition or fresh-start measurements and for future-cash-flow-based amortization techniques, such as interest method amortization. Fresh-start measurements are measurements in periods following initial recognition that establish a new carrying amount unrelated to previous amounts and accounting conventions. Reporting certain marketable securities at fair value under *SFAS No. 115* is an example of a fresh-start measurement.

2.107 When observable marketplace-determined values are not available, discounted cash flows are often used to estimate fair value. Accounting applications of present value typically use a single set of estimated cash flows and a risk-adjusted discount rate. This Statement introduces the expected cash flow approach, which differs from the traditional approach by focusing on explicit assumptions about the range of possible cash outcomes and their respective probabilities.

2.108 While *SFAC No. 7* does not require modification of any existing pronouncements, its concepts may be used to determine fair value. This Standard will be used in developing future accounting standards. No data on the use of expected cash flow approach in discounted cash flow applications were compiled.

2.109 Table 2-16 lists the balance sheet carrying bases for investments presented as noncurrent assets.

2.110 Table 2-17 lists descriptions of investments presented as non-current investments. Examples of presentations and disclosures for such investments follow.

2.111

TABLE 2-16: INVESTMENTS—CARRYING BASES

	Number of Companies			
	2002	**2001**	**2000**	**1999**
Equity	304	308	261	236
Fair value	142	133	101	98
Cost	101	109	89	75
Lower of cost or market	4	4	2	—

2.112

TABLE 2-17: INVESTMENTS—DESCRIPTION

	Number of Companies			
	2002	**2001**	**2000**	**1999**
Common stock	235	237	219	N/C*
Marketable equity securities	121	114	90	N/C*
Joint ventures	59	81	N/C*	N/C*
Debt	49	47	46	N/C*
Preferred stock	11	14	11	N/C*
Real estate	11	10	14	N/C*
Leases	10	7	5	N/C*
Other	30	24	37	N/C*
No details	16	22	35	N/C*

* N/C = Not compiled. Line item was not included in table for year shown.

Equity Method

2.113

DANA CORPORATION (DEC)

Consolidated Balance Sheet

(In millions)	2001	2002
Total current assets	$ 3,797	$4,118
Goodwill, net	841	568
Investments and other assets	1,368	1,484
Investments in leases	1,068	827
Property, plant and equipment, net	3,133	2,556
Total assets	$10,207	$9,553

Consolidated Statement of Income

(In millions)	2000	2001	2002
Net sales	$11,463	$ 9,490	$9,504
Revenue from lease financing	143	115	85
Other income, net	229	76	105
	11,835	9,681	9,694
Costs and expenses			
Cost of sales	9,885	8,538	8,426
Selling, general and administrative expenses	988	872	823
Restructuring and integration charges	133	317	194
Interest expense	319	303	260
	11,325	10,030	9,703
Income (loss) before income taxes	510	(349)	(9)
Income tax benefit (expense)	(195)	109	27
Minority interest	(13)	(8)	(15)
Equity in earnings of affiliates	54	32	55
Income (loss) from continuing operations	$ 356	$ (216)	$ 58

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (In millions)

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

Principles of Consolidation

The consolidated financial statements include all subsidiaries in which we have the ability to control operating and financial policies. Affiliated companies (20% to 50% ownership) are generally recorded in the statements using the equity method of accounting. Operations of affiliates accounted for under the equity method of accounting are generally included for periods ended within one month of our year end. Less-than-20%-owned companies are included in the financial statements at the cost of our investment. Dividends, royalties and fees from these cost basis affiliates are recorded in income when received.

Note 15 (In Part): Composition of Certain Balance Sheet Amounts

The following items comprise the amounts indicated in the respective balance sheet captions:

	2001	2002
Investments and other assets		
Investments at equity	$ 877	$ 865
Marketable securities, cost of $32	33	
Loans receivable	80	40
Amounts recoverable from insurers	72	124
Deferred tax benefits		145
Other	306	310
	$1,368	$1,484

2.114

DOW JONES & COMPANY (DEC)

Consolidated Balance Sheets

(Dollars in thousands)	2002	2001
Total current assets	$ 250,604	$ 245,959
Investments in associated companies, at equity	83,619	78,985
Other investments	5,587	6,700
Plant and property, at cost:		
Land	21,652	21,638
Buildings and improvements	426,540	395,270
Equipment	1,222,946	993,677
Construction in progress	20,399	262,608
	1,691,537	1,673,193
Less, accumulated depreciation	970,836	911,844
	720,701	761,349
Goodwill	56,251	75,522
Other intangible assets, less accumulated amortization of $1,297 in 2002 and $251 in 2001	6,779	6,061
Deferred income taxes	71,643	99,919
Other assets	12,475	23,845
Total assets	$1,207,659	$1,298,340

Consolidated Statements of Income (Loss)

(In thousands)	2002	2001	2000
Revenues:			
Advertising	$ 877,681	$1,052,322	$1,467,244
Information services	281,220	289,321	281,366
Circulation and other	400,272	431,440	454,008
Total revenues	1,559,173	1,773,083	2,202,618
Expenses:			
News, operations and development	495,480	531,584	542,959
Selling, administrative and general	559,947	607,145	674,687
Newsprint	103,534	150,791	182,359
Print delivery costs	191,581	194,432	196,502
Depreciation and amortization	109,738	105,713	107,885
Restructuring charges and September 11 related items, net	23,810	73,219	
Operating expenses	1,484,090	1,662,884	1,704,392
Operating income	75,083	110,199	498,226
Other income (deductions):			
Investment income	400	1,441	8,116
Interest expense	(3,083)	(500)	(2,037)
Equity in losses of associated companies	(488)	(17,181)	(17,182)
Gain on sale of businesses and investments	197,925		24,053
Contract guarantee, net	(11,878)	17,136	(255,308)
Write-down of investments		(8,827)	(178,499)
Other, net	(429)	(2,580)	(991)
Income before income taxes and minority interests	$ 257,530	$ 99,688	$ 76,378

NOTES TO FINANCIAL STATEMENTS

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

The consolidated financial statements include the accounts of the company and its majority-owned subsidiaries. All significant intercompany transactions are eliminated in consolidation. The equity method of accounting is used for investments in other companies 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 6).

Note 6. Investments in Associated Companies, at Equity

At December 31, 2002, 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 Pacific, in partnership with NBC
Business News (Europe) L.P.	50	Business and financial news television company broadcasting as CNBC Europe, in partnership with NBC
Dow Jones Reuters Business Interactive LLC (Factiva)	50	Provides electronic delivery of business news and online research, in partnership with Reuters Group Plc.
F.F. Soucy, Inc. & Partners, L.P.	40	Newsprint mill in Quebec, Canada
Handelsblattgruppe-Zeitung GmbH	22	Publisher of Handelsblatt, Germany's leading business newspaper
HB-Dow Jones S.A.	42	A part-owner of a publishing company in the Czech Republic
SmartMoney	50	Publisher of SmartMoney magazine and SmartMoney.com, serving the private-investor market throughout the U.S. and Canada, in partnership with Hearst Corp.

In 2002, equity in losses of associated companies of $.5 million included a net charge of $.3 million consisting of charges in the fourth quarter totaling $4.2 million, offset by second quarter 2002 gains at CNBC Asia of $3.9 million. The fourth quarter of 2002 included restructuring/workforce reduction charges of $2.7 million ($1.6 million after taxes) at Factiva and CNBC international, combined, and an office lease termination charge of $1.5 million ($.9 million after taxes) at SmartMoney. The second quarter 2002 gains at CNBC Asia included a $2.5 million gain from the favorable settlement of a contractual obligation and a $1.4 million gain from the sale of an investment by CNBC Asia.

In 2001, equity in losses of associated companies of $17.2 million included a net charge of $4.8 million ($3.1 million after taxes). The fourth quarter of 2001 included a charge of $3.6 million ($2.2 million after taxes) related to a loss on an office lease that was abandoned by SmartMoney. The third quarter of 2001 included a $1.2 million ($.7 million after taxes) gain relating to the early extinguishment of debt for CNBC Europe. In the first quarter 2001, the company recorded a charge of $2.4 million ($1.6 million after taxes) for costs related to the shut-down of Work.com, a joint venture with Excite@Home.

In 2000, equity in losses of associated companies of $17.2 million included a reversal of a 1998 restructuring charge of $3.2 million ($2.1 million after taxes) relating to CNBC Europe, resulting from the favorable disposition of a satellite lease in Europe.

Dow Jones & Company purchases a portion of its newsprint from F.F. Soucy, Inc. & Partners. L.P. Operating expenses of the company include the cost of newsprint supplied by F.F. Soucy of $18.4 million in 2002, $21.5 million in 2001 and $21.3 million in 2000.

Dow Jones performs several services on behalf of Factiva, including some billing and collections of receivables and payroll services, in addition to leasing Factiva office space. Dow Jones also provides content to Factiva for which it receives revenue. At December 31, 2002 and 2001, other receivables included net amounts due from Factiva and Factiva customers of $8.4 million and $11 million, respectively. Revenues of the company included content fees from Factiva of $7.5 million in 2002, $8.2 million in 2001 and $7.9 million in 2000.

Summarized financial information for the company's equity-basis investments in associated companies, combined, was as follows (these amounts are in aggregate at 100% levels and are unaudited). The majority of these investments are partnerships, which require the associated tax benefit or expense to be recorded by the partner.

(In thousands)	2002	2001	2000
Income statement information:			
Revenues	$606,948	$637,809	$669,887
Operating loss	(9,031)	(13,184)	(13,624)
Net loss	(2,976)	(22,464)	(15,487)
Financial position information:			
Current assets	$190,802	$212,631	$255,701
Noncurrent assets	202,562	193,207	182,236
Current liabilities	156,885	169,348	200,211
Noncurrent liabilities	22,039	72,840	62,481
Net worth	214,440	163,650	175,245

2.115

EASTMAN KODAK COMPANY AND SUBSIDIARY COMPANIES (DEC)

Consolidated Statement of Financial Position

(In millions)	2002	2001
Total current assets	$ 4,534	$ 4,617
Property, plant and equipment, net	5,420	5,659
Goodwill, net	981	948
Other long-term assets	2,434	2,138
Total assets	$13,369	$13,362

Consolidated Statement of Earnings

(In millions)	2002	2001	2000
Net sales	$12,835	$13,229	$13,994
Cost of goods sold	8,225	8,661	8,375
Gross profit	4,610	4,568	5,619
Selling, general and administrative expenses	2,530	2,625	2,514
Research and development costs	762	779	784
Goodwill amortization	—	153	151
Restructuring costs (credits) and other	98	659	(44)
Earnings from continuing operations before interest, other (charges) income, and income taxes	1,220	352	2,214
Interest expense	173	219	178
Other (charges) income	(101)	(18)	96
Earnings from continuing operations before income taxes	$ 946	$ 115	$ 2,132

NOTES TO FINANCIAL STATEMENTS

Note 1 (In Part): Significant Accounting Policies

Basis of Consolidation

The consolidated financial statements include the accounts of Kodak and its majority owned subsidiary companies. Intercompany transactions are eliminated and net earnings are reduced by the portion of the net earnings of subsidiaries applicable to minority interests. The equity method of accounting is used for joint ventures and investments in associated companies over which Kodak has significant influence, but does not have effective control. Significant influence is generally deemed to exist when the Company has an ownership interest in the voting stock of the investee of between 20% and 50%, although other factors, such as representation on the investee's Board of Directors, voting rights and the impact of commercial arrangements, are considered in determining whether the equity method of accounting is appropriate. The cost method of accounting is used for investments in which Kodak has less than a 20% ownership interest, and the company does not have the ability to exercise significant influence. These investments are carried at cost and are adjusted only for other-than-temporary declines in fair value. The carrying value of these investments is reported in other long-term assets. The Company's equity in the net income and losses of these investments is reported in other (charges) income. See Note 6, "Investments" and Note 12, "Other (Charges) Income."

Note 6 (In Part): Investments

Equity Method

At December 31, 2002, the Company's significant equity method investees and the Company's approximate ownership interest in each investee were as follows:

Kodak Polychrome Graphics (KPG)	50%
NexPress Solutions LLC	50%
Phogenix Imaging LLC	50%
Matsushita-Ultra Technologies Battery Corporation	30%
Express Stop Financing (ESF)	50%
SK Display Corporation	34%

At December 31, 2002 and 2001, the Company's equity investment in these unconsolidated affiliates was $382 million and $360 million, respectively, and is reported within other long-term assets. The Company records its equity in the income or losses of these investees and reports such amounts in other (charges) income in the accompanying Consolidated Statement of Earnings. See Note 12, "Other (Charges) Income." These investments do not meet the Regulation S-X significance test requiring the inclusion of the separate investee financial statements.

Kodak sells certain of its long-term lease receivables relating to the sale of photofinishing equipment to ESF without recourse to the Company. Sales of long-term lease receivables to ESF were approximately $9 million, $83 million and $397 million in 2002, 2001 and 2000, respectively. See Note 10, "Commitments and Contingencies."

The Company sells graphics film and other products to its equity affiliate, KPG. Sales to KPG for the years ended December 31, 2002, 2001 and 2000 amounted to $315 million, $350 million and $419 million, respectively. These sales are reported in the Consolidated Statement of Earnings. The Company eliminates profits on these sales, to the extent the inventory has not been sold through to third parties, on the basis of its 50% interest. At December 31, 2002 and 2001, amounts due from KPG relating to these sales were $31 million and $40 million, respectively, and are reported in receivables, net in the accompanying Statement of Financial Position. Additionally, the Company has guaranteed certain debt obligations of KPG up to $160 million, which is included in the total guarantees amount of $345 million at December 31, 2002, as discussed in Note 10, "Commitments and Contingencies."

The Company also sells chemical products to its 50% owned equity affiliate, NexPress. However, these sales transactions are not material to the Company's results of operations or financial position.

Kodak has no other material activities with its equity methods investees.

As a result of its continuing evaluation of the effect that the adoption of FIN 46 will have on the Company's results of operations and financial condition, the Company believes that it is reasonably possible that ESF, NexPress, Phogenix and SK Display will qualify as variable interest entities. ESF is an operating entity formed to provide a long-term financing solution to Qualex's photofinishing customers in connection with Qualex's leasing of photofinishing equipment to third parties, as opposed to Qualex extending long-term credit

(see Note 10 under "Other Commitments and Contingencies"). NexPress, Phogenix and SK Display are each operating entities that were formed to develop, manufacture and commercialize specific imaging products and equipment for sale to customers. Total assets for ESF, NexPress, Phogenix and SK Display as of December 31, 2002 were approximately $520 million, $171 million, $25 million and $6 million, respectively. The Company's estimated maximum exposures to loss as a result of its continuing involvement with ESF, NexPress, Phogenix and SK Display are $63 million, $148 million, $42 million and $110 million, respectively. The maximum exposures to loss represent the sum of the carrying value of the Company's investment balances as of December 31, 2002, the estimated amounts that Kodak intends to or is committed to fund in the future for each of these potential variable interest entities and the maximum amount of debt guarantees under which the Company could potentially be required to perform.

Note 12: Other (Charges) Income

(In millions)	2002	2001	2000
Investment income	$ 20	$ 15	$ 36
Loss on foreign exchange transactions	(19)	(9)	(13)
Equity in losses of unconsolidated affiliates	(106)	(79)	(110)
Gain on sales of investments	—	18	127
Gain on sales of capital assets	24	3	51
Loss on sales of subsidiaries	—	—	(9)
Interest on past-due receivables	6	10	14
Minority interest	(17)	11	(11)
Non-strategic venture investment impairments	(18)	(3)	—
Other	9	16	11
Total	$(101)	$(18)	$ 96

Fair Value

2.116

CITIZENS COMMUNICATIONS COMPANY AND SUBSIDIARIES (DEC)

($ in thousands)	2002	2001
Total current assets	$1,200,984	$ 2,533,048
Property, plant and equipment, net	3,690,056	4,512,038
Goodwill, net	1,869,348	1,957,600
Other intangibles, net	942,970	1,021,342
Investments	29,846	141,208
Other assets	413,538	388,364
Total assets	$8,146,742	$10,553,600

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

i) Investments

We classify our investments at purchase as available-for-sale. We do not maintain a trading portfolio or held to maturity securities.

Securities classified as available-for-sale are carried at estimated fair market value. These securities are held for an indefinite period of time, but might be sold in the future as changes in market conditions or economic factors occur. Net aggregate unrealized gains and losses related to such securities, net of taxes, are included as a separate component of shareholders' equity. Interest, dividends and gains and losses realized on sales of securities are reported in Investment income.

We evaluate our investments periodically to determine whether any decline in fair value, below the cost basis, is other than temporary. If we determine that a decline in fair value is other than temporary, the cost basis of the individual investment is written down to fair value which becomes the new cost basis. The amount of the write down is transferred from other comprehensive income (loss) and included in the statement of operations as a loss.

8) Investments

The components of investments at December 31, 2002 and 2001 are as follows:

($ in thousands)	2002	2001
Marketable equity securities	$ 29,844	$139,188
Other fixed income securities	2	2,020
	$ 29,846	$141,208

As of December 31, 2002, we owned 3,059,000 shares of Adelphia Communications Corp. (Adelphia) common stock. As a result of Adelphia's price declines and filing for bankruptcy, we recognized losses of $95,300,000 and $79,000,000 on our investment for the years ended December 31, 2002 and 2001, respectively, as the declines were determined to be other than temporary. As of June 30, 2002, we had written this investment down to zero, and therefore we have no additional exposure related to the market value of Adelphia stock.

As of December 31, 2002, we owned 1,333,500 shares of D&E Communications common stock. As the result of an other than temporary decline in D&E's stock price, we recognized a loss of $16,400,000 on our investment for the year ended December 31, 2002.

The following summarizes the adjusted cost, gross unrealized holding gains and losses and fair market value for investments.

($ in thousands)

Investment Classification	Adjusted Cost	Unrealized Holding Gains	Unrealized Holding (Losses)	Aggregate Fair Market Value
As of December 31, 2002				
Available-for-sale	$ 14,452	$15,394	$ —	$ 29,846
As of December 31, 2001				
Available-for-sale	$132,935	$11,896	$(3,623)	$141,208

Marketable equity securities for 2002 and 2001 include 2,305,908 common shares which represent an ownership of 19% of the equity in Hungarian Telephone and Cable Corp., a company of which our Chairman and Chief Executive Officer is a member of the Board of Directors. In addition, we hold 30,000 shares of non-voting convertible preferred stock, each share having a liquidation value of $70 per share and is convertible at our option into 10 shares of common stock.

9) Fair Value of Financial Instruments

The following table summarizes the carrying amounts and estimated fair values for certain of our financial instruments at December 31, 2002 and 2001. For the other financial instruments, representing cash, accounts receivables, long-term debt due within one year, accounts payable and other accrued liabilities, the carrying amounts approximate fair value due to the relatively short maturities of those instruments.

	2002		2001	
($ in thousands)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Investments	$ 29,846	$ 29,846	$ 141,208	$ 141,208
Long-term debt[1]	$4,957,361	$5,411,069	$5,534,906	$5,605,368
Equity Providing Preferred Income Convertible Securities (EPPICS)	$ 201,250	$ 191,188	$ 201,250	$ 179,113

[1] Excludes the $460,000,000 debt portion of the equity units.

The fair value of the above financial instruments is based on quoted prices at the reporting date for those financial instruments.

2.117

ELI LILLY AND COMPANY AND SUBSIDIARIES (DEC)

(Dollars in millions)	2002	2001
Total current assets	$ 7,804.1	$ 6,938.9
Other assets		
Prepaid pension	1,515.4	1,102.8
Investments (note 5)	3,150.4	2,710.9
Sundry	1,279.1	1,149.1
	5,944.9	4,962.8
Property and equipment	5,293.0	4,532.4
	$19,042.0	$16,434.1

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars in millions)

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

Investments

Substantially all debt and marketable equity securities are classified as available-for-sale. Available-for-sale securities are carried at fair value with the unrealized gains and losses, net of tax, reported in other comprehensive income. Unrealized losses considered to be other than temporary are recognized in earnings currently. Factors we consider in making this evaluation include company-specific drivers of the decrease in stock price, status of projects in development, near-term prospects of the issuer, the length of time the value has been depressed, and the financial condition of the industry. Realized gains and losses on sales of available-for-sale securities are computed based upon initial cost adjusted for any other-than-temporary declines in fair value. Investments in companies over which we have significant influence but not a controlling interest are accounted for using the equity method with our share of earnings or losses reported in other income. We own no investments that are considered to be trading securities.

Note 5: Financial Instruments and Investments

Financial instruments that potentially subject us to credit risk consist principally of trade receivables and interest-bearing investments. Wholesale distributors of life-sciences products and managed care organizations account for a substantial portion of trade receivables; collateral is generally not required. The risk associated with this concentration is mitigated by our ongoing credit review procedures. We place substantially all our interest-bearing investments with major financial institutions, in U.S. government securities, or with top-rated corporate issuers. In accordance with documented corporate policies, we limit the amount of credit exposure to any one financial institution. We are exposed to credit-related losses in the event of nonperformance by counterparties to financial instruments but do not expect any counterparties to fail to meet their obligations given their high credit ratings.

Fair Value of Financial Instruments

A summary of our outstanding financial instruments and other investments at December 31 follows:

	2002		2001	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Short-term investments				
Debt securities	$1,708.8	$1,708.8	$1,028.7	$1,028.7
Noncurrent investments				
Marketable equity	$ 85.9	$ 85.9	$ 179.6	$ 179.6
Debt securities	2,458.6	2,458.6	1,983.7	1,984.1
Equity method and other investments	605.9	N/A	547.6	N/A
	$3,150.4		$2,710.9	
Long-term debt, including current portion	$4,643.6	$4,886.7	$3,144.3	$3,258.1

We determine fair values based on quoted market values where available or discounted cash flow analyses (principally long-term debt). The fair value of equity method investments is not readily available and disclosure is not required. The fair value and carrying amount of risk-management instruments in the aggregate were not material at December 31, 2002 and 2001. Approximately $3.1 billion of our investments in debt securities mature within five years.

A summary of the unrealized gains and losses (pretax) of our available-for-sale securities in other comprehensive income at December 31 follows:

	2002	2001
Unrealized gross gains	$77.4	$65.6
Unrealized gross losses	87.7	8.5

The net adjustment to unrealized gains and losses (net of tax) on available-for-sale securities increased (decreased) other comprehensive income by ($45.0) million, $34.3 million, and ($12.3) million in 2002, 2001, and 2000, respectively. Activity related to our available-for-sale investment portfolio was as follows:

	2002	2001	2000
Proceeds from sales	$3,724.2	$1,826.3	$773.8
Realized gross gains on sales	57.0	14.1	71.6
Realized gross losses on sales	35.2	0.1	16.5

During the years ended December 31, 2002 and 2001, net losses related to ineffectiveness and net losses related to the portion of fair value and cash flow hedging instruments excluded from the assessment of effectiveness were not material.

We expect to reclassify approximately $44.7 million of pretax net losses on cash flow hedges of anticipated foreign currency transactions and the variability in expected future interest payments on floating rate debt, from accumulated other comprehensive loss to earnings during 2003. This assumes that short-term interest rates remain unchanged from the prevailing rates at December 31, 2002.

2.118

MOTOROLA, INC. AND SUBSIDIARIES (DEC)

(In millions)	2002	2001
Total current assets	$17,134	$17,149
Property, plant and equipment, net	6,104	8,913
Investments	2,053	2,954
Deferred income taxes	3,112	1,152
Other assets	2,749	3,230
Total assets	$31,152	$33,398

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars in millions)

1 (In Part): Summary of Significant Accounting Policies

Investments

Investments include, principally, available-for-sale securities at fair value, held-to-maturity debt securities at amortized cost, securities that are restricted for more than one year or not publicly traded at cost, and equity method investments. For the available-for-sale securities, any unrealized holding gains and losses, net of deferred taxes, are excluded from operating results and are recognized as a separate component of Stockholders' Equity until realized. The fair values of the securities are determined based on prevailing market prices. The Company assesses declines in the value of individual investments to determine whether such decline is other-than-temporary and thus the investment is impaired. This assessment is made by considering available evidence including changes in general market conditions, specific industry and individual company data, the length of time and the extent to which the market value has been less than cost, the financial condition and near-term prospects of the individual company, and the Company's intent and ability to hold the investment.

Fair Values of Financial Instruments

The fair values of financial instruments are determined based on quoted market prices and market interest rates as of the end of the reporting period.

2 (In Part): Other Financial Data

Investments

Investments consist of the following:

	2002	2001
Available-for-sale securities:		
Cost basis	$ 615	$1,416
Gross unrealized gains	974	686
Gross unrealized losses	(21)	(130)
Fair value	1,568	1,972
Held-to-maturity debt securities, at cost	29	154
Other securities, at cost	231	488
Equity method investments	225	340
	$2,053	$2,954

The Company recorded investment impairment charges of $1.3 billion and $1.2 billion for the years ended December 31, 2002 and 2001, respectively. These impairment charges represent other-than-temporary declines in the value of the Company's investment portfolio. The $1.3 billion in 2002, is primarily comprised of: (i) a $464 million writedown in the value of the Company's investment in Nextel Communications, Inc.; (ii) a $73 million writedown of the Company's investment in Telus Corporation; (iii) a $123 million and a $198 million writedown of the Company's debt security holdings and associated warrants in Callahan Associates International L.L.C., respectively, which were based on the results of an independent third-party valuation; and (iv) a $95 million charge to write the value of the Company's investment in an Argentine cellular operating company to zero. The $1.2 billion in 2001 is primarily comprised of: (i) $640 million of impairments of the Company's investments in United Pan-Europe Communications n. v., Open TV Corporation and other investments in cable operating companies and related cable software companies; (ii) a $111 million writedown of the Company's investment in Telus Corporation; and (iii) a $100 million writedown of the Company's investment in Teledesic Corporation. The Company did not record any impairment charges for the year ended December 31, 2000. Investment impairment charges are included in Other within Other Income (Expense) in the Company's consolidated statements of operations.

Gains on sales of investments and businesses, consists of the following:

	2002	2001	2000
Gains on sale of equity securities, net	$28	$ 103	$1,277
Gains on sale of businesses and equity method investments	68	1,828	293
	$96	$1,931	$1,570

For the year ended December 31, 2001, the $1.8 billion gain on the sale of businesses and equity method investments is primarily comprised of: (i) a $526 million gain on the sale of the Company's Integrated Information Systems Group; (ii) $725 million in gains from the sale of the Company's investments in certain cellular operating companies in Israel, Hong Kong, Egypt, Korea, Pakistan, Jordan and Brazil; and (iii) a $556 million gain on the sale of the Company's investments in certain cellular operating companies in Mexico to Telefonica Moviles of Madrid (Telefonica) in exchange for approximately 123 million shares of Telefonica stock valued at approximately Euros 1.9 billion (US $1.6 billion). The Company entered into transactions designed to hedge all currency and stock price risk associated with its holdings in Telefonica as it disposed of these shares. These transactions represented economic hedges, which did not qualify as hedges for accounting purposes under SFAS 133 and, accordingly, market fluctuations were reflected in the Company's consolidated statements of operations. For the year ended December 31, 2001, the Company recorded a total cost of the monetization of the Telefonica shares of $131 million which is reflected in the gain on sale.

For the year ended December 31, 2000, the gains resulted primarily from the Company's sale of shares in Broadcom Corporation, the sale and exchange of its shares in Clearnet Communications Inc. for shares in Telus Corporation, and the sales of its investments in cellular telephone operating companies in Egypt and Chile.

2.119

NATIONAL SEMICONDUCTOR CORPORATION (MAY)

(In millions)	2002	2001
Total current assets	$1,073.1	$1,275.0
Property, plant and equipment, net	737.1	832.8
Long-term marketable debt securities	145.0	46.6
Long-term marketable equity securities	46.4	18.5
Goodwill	173.3	132.1
Other assets	113.9	57.3
Total assets	$2,288.8	$2,362.3

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 01 (In Part): Summary of Significant Accounting Policies

Financial Instruments (In Part)

Marketable Investments

Debt and marketable equity securities are classified into held-to-maturity or available-for-sale categories. Debt securities are classified as held-to-maturity when we have the positive intent and ability to hold the securities to maturity. We record held-to-maturity securities, which are stated at amortized cost, as either short-term or long-term on the balance sheet based upon contractual maturity date. Debt and marketable equity securities not classified as held-to-maturity are classified as available-for-sale and are carried at fair market value, with the unrealized gains and losses, net of tax, reported in shareholders' equity as a component of accumulated other comprehensive loss. Gains or losses on securities sold are based on the specific identification method.

Fair Values of Financial Instruments

The carrying amounts for cash and cash equivalents, short-term investments, accounts receivable, accounts payable and accrued expenses approximate their fair values due to the short period of time until their maturity. Fair values of long-term investments, long-term debt, interest rate derivatives, currency forward contracts and currency options are based on quoted market prices or pricing models using prevailing financial market information as of May 26, 2002. The estimated fair value of debt was $26.8 million at May 26, 2002. See Note 2 to the Consolidated Financial Statements for fair values of marketable securities and derivative financial instruments.

Note 02 (In Part): Financial Instruments

Marketable Investments

Our policy is to diversify our investment portfolio to reduce risk to principal that could arise from credit, geographic and investment sector risk. At May 26, 2002, investments were placed with a variety of different financial institutions and other issuers. Investments with a maturity of less than one year have a rating of A1/P1 or better. Investments with a maturity of more than one year have a minimum rating of AA/Aa2.

At May 26, 2002, we held $17.7 million of available-for-sale securities and $605.5 million of held-to-maturity securities, which are classified as cash equivalents on the consolidated balance sheet. These cash equivalents consist of the following (in millions): bank time deposits ($178.0), institutional money market funds ($167.0) and commercial paper ($278.2).

At May 27, 2001, we held $48.7 million of available-for-sale securities and $723.2 million of held-to-maturity securities, which are classified as cash equivalents on the consolidated balance sheet. These cash equivalents consist of the following (in millions): bank time deposits ($193.3), institutional money market funds ($105.1) and commercial paper ($473.5).

Marketable investments at fiscal year-end comprised:

(In millions)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
2002				
Short-term marketable investments				
Available-for-sale securities:				
Corporate notes	$ 18.0	$ 0.1	$ —	$ 18.1
Total short-term marketable investments	$ 18.0	$ 0.1	$ —	$ 18.1
Long-term marketable investments				
Available-for-sale securities:				
Debt securities:				
Government debt securities	$144.5	$ 0.5	$ —	$145.0
Equity securities	8.8	38.9	(1.3)	46.4
Total long-term marketable investments	$153.3	$39.4	$(1.3)	$191.4
2001				
Short-term marketable investments				
Available-for-sale securities:				
Certificates of deposit	$ 5.0	$ —	$ —	$ 5.0
Total short-term marketable investments	$ 5.0	$ —	$ —	$ 5.0
Long-term marketable investments				
Available-for-sale securities:				
Debt securities:				
Government debt securities	$ 14.0	$ 0.1	$ —	$ 14.1
Corporate notes	32.0	0.5	—	32.5
	46.0	0.6	—	46.6
Equity securities	4.1	15.4	(1.0)	18.5
Total long-term marketable investments	$ 50.1	$16.0	$(1.0)	$ 65.1

Net unrealized gains on available-for-sale securities of $38.2 million at May 27, 2002 and $15.0 million at May 27, 2001 are included in accumulated other comprehensive loss. The related tax effects are not significant.

Scheduled maturities of investments in debt securities were:

(In millions)	
2003	$ 18.1
2004	15.0
2005	130.0
Total	$163.1

Gross realized gains on available-for-sale securities were $8.1 million, $25.5 million and $224.6 million for fiscal 2002, 2001 and 2000, respectively. We realized impairment losses for other than temporary declines in fair value of available-for-sale securities in fiscal 2002 of $0.2 million and in fiscal 2001 of $4.2 million. Gross realized losses on available-for-sale securities were not material for fiscal 2000. We recognized gross realized gains from nonmarketable investments of $1.5 million, $22.4 million and $48.4 million in fiscal 2002, 2001 and 2000, respectively. These gains come primarily from the sale of shares in connection with initial public offerings and acquisitions by third parties. Although we recognized $12.7 million of gross impairment losses on nonmarketable investments in fiscal 2001, no such losses were recognized in either fiscal 2002 or 2000.

Cost

2.120

OMNICOM GROUP INC. AND SUBSIDIARIES (DEC)

(Dollars in thousands)	2002	2001
Total current assets	$ 5,637,066	$ 5,233,824
Furniture, equipment and leasehold improvements, at cost, less accumulated depreciation and amortization of $717,294 and $611,756	557,735	537,955
Investments in affiliates	137,303	186,156
Goodwill	4,850,829	3,859,162
Intangibles, net of accumulated amortization of $88,132 and $57,804	97,730	93,682
Deferred tax benefits	42,539	100,418
Other assets	496,600	606,217
Total assets	$11,819,802	$10,617,414

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Investments Available for Sale

Investments available for sale are comprised of the following two categories of investments:

Short-term investments and time deposits with financial institutions, which consist principally of investments with original maturity dates between three months and one year and are therefore classified as current assets.

Long-term investments are included in other assets in our balance sheet and are comprised of minority ownership interests in certain marketing and corporate communications services companies where we do not exercise significant influence over the operating and financial policies of the investee. We account for these investments under the cost method. During 2001 and 2000, we held minority investments in several publicly traded marketing and corporate communication companies and the book value of these investments was adjusted to market value with any unrealized gains or losses recorded to comprehensive income. We periodically evaluate our cost based investments to determine if there have been any non-temporary declines in value. A variety of factors are considered when determining if a decline in market value below book value is other than temporary, including, among others, the financial condition and prospects of the investee, as well as our investment intent.

Cost-Based Investments

Cost-based long-term investments are primarily comprised of preferred equity interests in non-public marketing and corporate communications services companies where we do not exercise significant influence over the operating and financial policies of the investee. These minority interests are accounted for under the cost method and are included in our other assets account. These investments are periodically evaluated to determine if there have been any other than temporary declines below book value. A variety of factors are considered when determining if a decline in fair value below book value is other than temporary, including, among others, the financial condition and prospects of the investee, as well as our investment intent.

6 (In Part): Equity and Cost Based Investments

Cost Based Investments

Our cost based investments at December 31, 2002 were primarily comprised of preferred stock interests representing equity interests of less than 20% in various service companies. This method is used when we own less than a 20% equity interest and do not exercise significant influence over the operating and financial policies of the investee.

The total cost basis of these investments, which are included in other assets on our balance sheet, as of December 31, 2002 and 2001 was $224.5 million and $318.8 million, respectively.

In May 2001, we received a non-voting non-participating preferred stock interest in a newly formed company, Seneca Investments LLC ("Seneca"), in exchange for our contribution of Communicade, our subsidiary that conducted its e-services industry investment activities. All of Communicade's investments at that time were comprised of minority interests in e-services industry businesses. The common shareholder of Seneca, who owns all of the common stock is an established private equity investment firm. We do not have a commitment obligating us to advance funds or provide other capital to Seneca. The preferred stock is nonvoting, except on certain extraordinary events, including Seneca's issuance of senior securities or dividends on junior securities in violation of the preference; related party transactions involving Seneca's management or common stockholders other than management compensation, fees and other payments in the ordinary course of business; changes in control or conversion of Seneca into a partnership for tax purposes; and changes in Seneca's governing documents adversely affecting preferred shareholders' rights. The preferred stock is entitled to preferential cumulative dividends at a rate of 8.5% compounded semiannually and is redeemable on the 10th anniversary of issuance or earlier upon the occurrence of certain extraordinary events. Unpaid dividends accrue on a cumulative basis. No dividends were paid by Seneca in 2002 and 2001. The transaction was accounted for in accordance with SFAS 140, Accounting for Transfers and Servicing Financial Assets and Extinguishments of Liabilities, and resulted in no gain or loss being recognized by us on Seneca's formation.

In December 2002, we acquired all of the common stock of Organic, Inc. from Seneca. The transaction was effected by the redemption of $99.0 million of the preferred stock and the assumption of $7.2 million of liabilities. At December 31, 2002, substantially all of the purchase price was allocated to goodwill. We are currently performing a valuation of the intangible assets of Organic and upon completion, some portion of the purchase price may be assigned to intangible assets other than goodwill in the 2003 financial statements. The transaction closed in December 2002 and we do not believe that any amounts that may be allocated to other intangibles in 2003 would have had a material impact on our 2002 consolidated results of operations and financial position had the allocation been completed at December 31, 2002.

Management believes that the fair value of our Seneca investment exceeded our carrying value of $181.0 million at December 31, 2002 and that an other than temporary impairment has not occurred. In arriving at this conclusion, a

discounted cash flow analysis of Seneca was utilized, supported by an independent third-party valuation.

11. Fair Value of Financial Instruments

The following table presents the carrying amounts and fair values of our financial instruments at December 31, 2002 and 2001. Amounts in parentheses represent liabilities.

	2002		2001	
(Dollars in thousands)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash, cash equivalents and short-term investments	$ 695,881	$ 695,881	$ 516,999	$ 516,999
Other investments	224,478	224,478	318,807	318,807
Long-term debt and convertible notes	(1,944,898)	(1,953,251)	(1,340,105)	(1,399,022)
Financial commitments				
Cross-currency interest rate swaps	(27,556)	(27,556)	(11,626)	(11,626)
Forward foreign exchange contracts	(3,747)	(3,747)	(749)	(749)
Guarantees	—	(8,449)	—	(19,435)
Letters of credit	—	(2,854)	—	(8,080)

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.

Short-Term Investments

Short-term investments which consist primarily of short-term investments and investments in short-term interest bearing instruments with original maturity dates between three months and one year are carried at cost which approximates fair value.

Other Investments

Other investments are carried at cost, which approximates fair value. Our investment in Seneca represents $181.0 million of the balance at December 31, 2002. Refer to note 6 for additional information about this investment.

Long-Term Debt and Convertible Notes

A portion of our long-term debt includes floating rate debt, the carrying value of which approximates fair value. Our long-term debt also includes convertible notes and fixed rate debt. The fair value of these instruments was determined by reference to quotations available in markets where these issues were traded.

Financial Commitments

The estimated fair values of derivative positions are based upon quotations received from independent, third party banks and represent the net amount required to terminate the positions, taking into consideration market rates and counterparty credit risk. The fair values of guarantees and letters of credit are based upon the stated value of the underlying instruments. The guarantees, which relate to real estate leases, were issued by us for affiliated companies. The letters of credit represent guarantees issued by us on behalf of our operating companies for activities in the normal course of business.

NONCURRENT RECEIVABLES

2.121 ARB No. 43, Chapter 3A, *Current Assets and Current Liabilities,* 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, offices, or employees) which are not expected to be collected within twelve months."

2.122 *SFAS No. 107* defines noncurrent receivables as financial instruments. *SFAS No. 107,* as amended by *SFAS No. 133,* requires disclosure of both the fair value and the bases for estimating the fair value of noncurrent receivables unless it is not practicable to estimate that value. 79 survey companies made 98 fair value disclosures. 18 of those disclosures used market or broker quotes of the noncurrent receivables to determine fair value. 43 of those disclosures stated that either discounted cash flows or market prices of similar instruments were used to estimate fair value. 5 of those disclosures estimated fair value using other valuation methods. 49 disclosures presented carrying amounts which approximated fair value of noncurrent receivables. In addition, there were 30 disclosures in which carrying value was compared to fair value in an exposition or a table. 2 disclosures stated it was not practicable to estimate fair value.

2.123 *SFAC No. 7* provides a framework for using future cash flows and present value as the basis for accounting measurements of fair value of an asset or a liability at initial recognition or fresh-start measurements and for future-cash-flow-based amortization techniques, such as interest method amortization. Fresh-start measurements are measurements in periods following initial recognition that establish a new carrying amount unrelated to previous amounts and accounting conventions.

2.124 When observable marketplace-determined values are not available, discounted cash flows are often used to estimate fair value. Accounting applications of present value typically use a single set of estimated cash flows and a risk-adjusted discount rate. This Statement introduces the expected cash flow approach, which differs from the traditional approach by focusing on explicit assumptions about the range of possible cash outcomes and their respective probabilities.

2.125 While *SFAC No. 7* does not require modification of any existing pronouncements, its concepts may be used to determine fair value. This Standard will be used in developing future accounting standards. No data on the use of expected cash flow approach in discounted cash flow applications were compiled.

2.126 *SFAS No. 125,* as amended by *SFAS No. 133* and as replaced by *SFAS No. 140,* establishes criteria for determining whether a transfer of financial assets in exchange for cash or other consideration should be accounted for as a sale or as a pledge of collateral in a secured borrowing. This topic and the related examples are covered under the "Receivables Sold or Collateralized" part of this section.

2.127 Table 2-18 summarizes the balance sheet captions used to describe noncurrent receivables. Examples of noncurrent receivable presentations and disclosures follow.

2.128

TABLE 2-18: NONCURRENT RECEIVABLES

	2002	2001	2000	1999
Caption Title				
Long-term receivables	44	32	28	20
Notes receivable	25	30	24	23
Finance receivable	17	16	12	N/C*
Receivables from related party	14	N/C*	N/C*	N/C*
Insurance receivable	11	11	10	4
Other	35	33	36	23
Receivables combined with other investments, deposits, etc.	5	12	23	50
Total Presentations	**151**	**134**	**133**	**120**
Number of Companies				
Presenting noncurrent receivables	135	116	114	111
Not presenting noncurrent receivables	465	484	486	489
Total Companies	**600**	**600**	**600**	**600**

* N/C = Not compiled. Line item was not included in the table for the year shown.

2.129

GOLDEN ENTERPRISES, INC. AND SUBSIDIARY (MAY)

	2002	2001
Total current assets	$19,340,216	$19,370,225
Property, plant and equipment:		
Land	3,086,571	3,528,054
Buildings	17,040,006	17,151,522
Machinery and equipment	40,819,601	36,023,701
Transportation equipment	15,286,803	15,727,913
	76,232,981	72,431,190
Less accumulated depreciation	59,136,721	57,433,048
	17,096,260	14,998,142
Other assets		
Notes receivable, long-term	1,981,718	2,027,636
Cash surrender value of life insurance	2,785,336	2,835,950
Other	15,337	15,339
Total other assets	4,782,391	4,878,925
Total	$41,218,867	$39,247,292

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4—Notes Receivable

Notes receivable as of May 31, 2002 and 2001 consist of the following:

	2002	2001
8% note, due in 120 monthly installments of $1,092 through November 1, 2010, collateralized by equipment and personal guarantee	$ 80,625	$ 86,999
8% note, due in 120 monthly installments of $3,640 through November 1, 2010, collateralized by property	268,749	289,995
8% note, due in 360 monthly installments of $12,474 through November 1, 2030, collateriazed by property	1,678,262	1,693,041
	2,027,636	2,070,035
Less current portion	45,918	42,399
	$1,981,718	$2,027,636

Maturities at May 31	
2004	$ 49,729
2005	53,856
2006	58,327
2007	63,168
2008	68,410
Thereafter	1,688,228

Note 14—Disclosures About Fair Value of Financial Instruments

The Statement of Financial Accounting Standards No. 107, Disclosures About Fair Value of Financial Instruments requires disclosure of fair value information about financial instruments, whether or not recognized on the face of the balance sheet, for which it is practical to estimate that value. SFAS 107 defines fair value as the quoted market prices for those instruments that are actively traded in financial markets. In cases where quoted market prices are not available, fair values are estimated using present value or other valuation techniques. The fair value estimates are made at a specific point in time, based on available market information and judgments about the financial instrument, such as estimates of timing and amount of expected future cash flows. Such estimates do not reflect any premium or discount that could result from offering for sale at one time the Company's entire holdings of a particular financial instrument, nor do they consider the tax impact of the realization of unrealized gains or losses. In many cases, the fair value estimates cannot be substantiated by comparison to independent markets, nor can the disclosed value be realized in immediate settlement of the instrument.

The carrying amounts for cash and cash equivalents approximate fair value because of the short maturity, generally less than three months, of these 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. The fair value of notes receivable is estimated by using a discount rate that approximates the current rate for comparable notes. At May 31, 2002 and 2001 the aggregate fair value was approximately $2,208,839 and $2,160,906 compared to a carrying amount of $2,027,636 and $2,070,035, respectively.

The interest rate on the Company's bank debt is reset monthly to reflect the 30 day LIBOR rate. Consequently, the carrying value of the bank debt approximates fair value.

The carrying value of the Company's salary continuation plan and accrued liability approximates fair value because present value is used in accruing this liability.

The Company does not hold or issue financial instruments for trading purposes and has no involvement with forward currency exchange contracts.

2.130

HONEYWELL INTERNATIONAL INC. (DEC)

(Dollars in millions)	2002	2001
Total current assets	$10,195	$ 9,894
Investments and long-term receivables	624	466
Property, plant and equipment—net	4,055	4,933
Goodwill—net	5,698	5,441
Other intangible assets—net	1,074	915
Insurance recoveries for asbestos related liabilities	1,636	—
Deferred income taxes	533	145
Prepaid pension benefit cost	2,675	1,643
Other assets	1,069	789
Total assets	$27,559	$24,226

NOTES TO FINANCIAL STATEMENTS
(Dollars in millions)

Note 11 (In Part): Investments and Long-Term Receivables

	2002	2001
Investments	$160	$312
Long-term receivables	464	154
	$624	$466

Note 17 (In Part): Financial Instruments

Fair Value of Financial Instruments

The carrying value of cash and cash equivalents, trade accounts and notes receivables, payables, commercial paper and short-term borrowings contained in the Consolidated Balance Sheet approximates fair value. Summarized below are the carrying values and fair values of our other financial instruments at December 31,2002 and 2001. The fair values are based on the quoted market prices for the issues (if traded), current rates offered to us for debt of the same remaining maturity and characteristics, or other valuation techniques, as appropriate.

	2002		2001	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets				
Available-for-sale equity securities	$ —	$ —	$ 92	$ 92
Long-term receivables	464	443	154	145
Interest rate swap agreements	76	76	5	5
Foreign currency exchange contracts	8	8	5	5
Forward commodity contracts	5	5	1	1
Liabilities				
Long-term debt and related current maturities (excluding capitalized leases)	$(4,812)	$(5,261)	$(5,121)	$(5,407)
Interest rate swap agreements	—	—	(10)	(10)
Foreign currency exchange contracts	(16)	(16)	(11)	(11)
Forward commodity contracts	—	—	(7)	(7)

2.131

SBC COMMUNICATIONS INC. (DEC)

(Dollars in millions)	2002	2001
Total current assets	$14,089	$12,580
Property, plant and equipment—net	48,490	49,827
Goodwill	1,643	3,577
Investments in equity affiliates	10,470	11,967
Notes receivable from Cingular Wireless	5,922	5,924
Other assets	14,443	12,447
Total assets	$95,057	$96,322

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars in millions)

Note 6 (In Part): Equity Investments

We account for investments in equity affiliates under the equity method of accounting. Our equity investments include our nationwide wireless joint venture, Cingular, and various international investments.

• • • • • •

Wireless

We account for our 60% economic interest in Cingular under the equity method of accounting in our consolidated financial statements since we share control equally (i.e., 50/50) with our 40% economic partner in the joint venture. We have equal voting rights and representation on the board of directors that controls Cingular. Cingular serves approximately 22 million wireless customers, is the second-largest wireless operator in the United States and has approximately 231 million potential customers in 45 states, the District of Columbia, Puerto Rico and the U.S. Virgin Islands.

The following table presents summarized financial information for Cingular at December 31, or for the period then ended:

	2002	2001	2000 (3 Months)
Income statements			
Operating revenues	$14,727	$14,108	$3,060
Operating income	2,280	2,518	381
Net income	1,207	1,692	127
Balance sheets			
Current assets	$ 2,731	$ 2,557	
Noncurrent assets	21,391	19,973	
Current liabilities	2,787	3,224	
Noncurrent liabilities	13,794	13,456	

Our initial contributions to Cingular in October 2000 included current assets of $2,100, noncurrent assets of $10,100, current liabilities of $1,400 and noncurrent liabilities of $8,100.

In 2002, we entered into a related-party agreement with Cingular to provide wholesale long-distance services to Cingular. Revenue from these long-distance services was approximately $123 in 2002.

At December 31, 2002, we had notes receivable from Cingular of $5,922 bearing interest at the annual rate of 7.5%. In November 2002, we extended the maturity of the advances from March 31, 2004, to March 31, 2005. We may continue to extend the maturity of the advances to the extent required in connection with Cingular's external credit facility. This interest income does not have a material impact on our net income as it is mostly offset when we record our share of equity income in Cingular. The interest income from Cingular was approximately $441 in 2002 and $555 in 2001.

In October 2001, Cingular announced it plans to begin upgrading its network to EDGE (Enhanced Data Rates for Global Evolution) third-generation wireless data technology. Cingular targets completion of the upgrade for the end of 2004 and approximates capital expenditures of $2,600 to $2,800 for the entire upgrade project. We expect funding for this upgrade to be provided by Cingular.

Note 8 (In Part): Financial Instruments

The carrying amounts and estimated fair values of our long-term debt, including current maturities and other financial instruments, are summarized as follows at December 31:

	2002		2001	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Notes and debentures	$19,747	$20,992	$19,876	$20,315
Preferred stock of subsidiaries	393	393	350	350

The fair values of our notes and debentures were estimated based on quoted market prices, where available, or on the net present value method of expected future cash flows using current interest rates. The carrying amount of commercial paper debt approximates fair value. Our short-term investments and customer deposits are recorded at amortized cost, and the carrying amounts approximate fair values. Our notes receivable from Cingular are recorded at face value, and the carrying amounts approximate fair values.

Note 16. Related Party Transactions

We made advances to Cingular that totaled $5,922 at December 31, 2002, and $5,924 at December 31, 2001. The advances bear interest at an annual rate of 7.5%. In November 2002, we extended the maturity of the advances from March 31, 2004, to March 31, 2005. We may continue to extend the maturity of the advances to the extent required in connection with Cingular's external credit facility. During 2002, 2001 and 2000, we earned $441, $555 and $154 of interest income on these advances. In addition, for access and long-distance services sold to Cingular on a wholesale basis, we generated revenue of $365, $120 and $37 in 2002, 2001 and 2000.

INTANGIBLE ASSETS

2.132 APB Opinion No. 17, *Intangible Assets,* sets forth requirements as to accounting for intangible assets. *APB 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."

2.133 Effective for fiscal years beginning after December 15, 2001, SFAS No. 142, *Goodwill and Other Intangible Assets,* supersedes *APB Opinion No. 17* as to intangible assets acquired on or before June 30, 2001. For intangible assets acquired after June 30, 2001, *SFAS No. 142* is effective immediately. *APB Opinion No. 17* presumes that goodwill acquired as a result of a purchase method business combination and all other intangible assets are wasting assets subject to amortization. The Opinion also mandated an arbitrary ceiling of 40 years for that amortization. *SFAS No. 142* does not presume that all intangible assets are wasting assets. Instead, goodwill and intangible assets that have indefinite useful lives will not be subject to amortization, but rather will be tested at least annually for impairment. In addition, the Standard provides specific guidance on how to determine and measure goodwill impairment. Intangible assets that have finite useful lives will continue to be amortized over their useful lives, but without the constraint of an arbitrary ceiling. *SFAS No. 142* requires additional disclosures including information about carrying amounts of goodwill and other intangible assets, and estimates as to future intangible asset amortization expense.

2.134 Table 2-19 lists those intangible assets, amortized or not, which are most frequently disclosed by the survey companies. Data for 2000 and 1999 are not presented because only data for intangible assets being amortized were complied for those years. Also, Table 2-19 does not include intangible pension assets recognized when an entity records a minimum pension liability in accordance with SFAS No. 87, *Employers' Accounting for Pensions.* In 2002, 144 survey companies disclosed an intangible pension asset.

2.135 Table 2-20 summarizes the amortization periods used by the survey companies to amortize intangible assets that have finite useful lives.

2.136 Examples of intangible asset presentations and disclosures follow.

2.137

TABLE 2-19: INTANGIBLE ASSETS

	Number of Companies			
	2002	**2001**	**2000**	**1999**
Goodwill recognized in a business combination	505	513	N/C*	N/C*
Trademarks, brand names, copyrights	165	132	N/C*	N/C*
Patents, patent rights	130	73	N/C*	N/C*
Customer lists/relationships	121	52	N/C*	N/C*
Technology	95	52	N/C*	N/C*
Noncompete covenants	76	29	N/C*	N/C*
Licenses, franchises, memberships	60	48	N/C*	N/C*
Other—described	127	73	N/C*	N/C*

* Not compiled. Line was not included in the table for the year shown.

2.138

TABLE 2-20: AMORTIZATION PERIOD—2002

			Number of Companies			
Period	**Trademarks**	**Patents**	**Lists**	**Technology**	**Licenses**	**Noncompete**
Exceeding 40	1	0	1	1	1	0
31–40	16	3	6	3	3	6
21–30	12	4	2	3	3	2
11–20	22	34	25	17	13	25
Not exceeding 10	23	29	43	37	10	43
Legal/estimated life	25	40	26	20	22	26
Other	16	17	15	14	8	15

Goodwill

2.139

AMCAST INDUSTRIAL CORPORATION (AUG)

($ in thousands)	2002	2001
Total current assets	$146,916	$149,680
Property, plant, and equipment		
Land	9,449	8,816
Buildings	71,947	67,902
Machinery and equipment	380,979	346,593
Construction in progress	10,949	25,804
	473,324	449,115
Less accumulated depreciation	235,368	205,075
Net property, plant, and equipment	237,956	244,040
Goodwill	47,000	48,353
Other assets	18,338	16,617
Total assets	$450,210	$458,690

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

Accounting Policies (In Part)

Goodwill represents the excess of the cost of businesses acquired over the fair market value of identifiable net assets at the dates of acquisition. Goodwill is amortized on a straight-line basis over 40 years. Accumulated amortization of goodwill was $7,755 and $6,401 at August 31, 2002 and 2001, respectively. The carrying value of goodwill is evaluated periodically in relation to the operating performance and future undiscounted cash flows of the underlying businesses. See "New Accounting Standards" in the Accounting Policies section of the Notes to the Consolidated Financial Statements.

New accounting standards issued include SFAS No. 141, "Business Combinations"; SFAS No. 142, "Goodwill and Other Intangible Assets"; SFAS No. 143, "Accounting for Asset Retirement Obligations"; SFAS No. 144, "Accounting for Impairment or Disposal of Long-Lived Assets"; and SFAS No. 146, "Accounting for Costs Associated with Exit or disposal Activities."

SFAS No. 141 discontinues the use of the pooling of interest method and requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. This statement also changes the criteria to recognize intangible assets separate from goodwill.

Under the adoption of SFAS No. 142, goodwill and certain other intangible assets will no longer be amortized but will be reviewed annually for impairment. If, based on these reviews, the related assets are found to be impaired, their carrying value will be adjusted through a charge to earnings. Intangible assets that are not deemed to have an indefinite life will continue to be amortized over their expected useful lives and be reviewed for impairment in accordance with SFAS No. 121.

The Company will adopt SFAS No. 142 beginning in the first quarter of fiscal 2003. Application of the non-amortization provisions of the standard is expected to result in an increase in annual pretax earnings of approximately $1.4 million, which would increase diluted earnings per share by $0.16. During fiscal 2003, the Company will also perform the first of the required impairment reviews of goodwill and indefinite-lived intangible assets as of September 1, 2002. The Company has not fully determined the possible effect of these reviews on its financial position and results of operations, but anticipates impairment will exist for all of the Company's goodwill, which was $47,000, net of accumulated amortization at August 31, 2002. Actual impairment of goodwill will be calculated at the beginning of fiscal 2003. Any required adjustments that are identified through these transitional impairment reviews will be recorded as a cumulative effect of a change in accounting principle.

2.140

BOWNE & CO., INC. AND SUBSIDIARIES (DEC)

(In thousands)	2002	2001
Total current assets	$261,833	$264,698
Property, plant and equipment at cost, less accumulated depreciation of $265,583 (2002) and $255,670 (2001)	15,557	163,838
Other noncurrent assets:		
Goodwill, less accumulated amortization of $31,466 (2002) and $30,337 (2001)	226,386	172,321
Intangible assets, less accumulated amortization of $5,034 (2002) and $3,050 (2001)	41,573	25,254
Deferred income taxes	3,759	3,052
Other	19,294	8,171
Total assets	$704,402	$637,334

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (In thousands, except per share information and where noted)

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

Intangible Assets

Prior to July 1, 2001, intangible assets acquired in business combinations accounted for by the purchase method of accounting were capitalized and amortized over their expected useful life as a non-cash charge. Acquisitions after June 30, 2001 were accounted for under SFAS No. 141, "Business Combinations" and SFAS No. 142, "Goodwill and Other Intangible Assets". Those standards require that certain identifiable intangible assets be amortized over their expected useful lives. Under the new standards, the portion of the purchase price allocated to goodwill and indefinite-lived intangible assets is not amortized but is subject to impairment testing at least annually.

Amounts allocated to identifiable intangible assets are amortized on a straight-line basis over their estimated useful lives as follows:

Customer relationships	5–15 years
Software license agreement	5 years
Covenants not-to-compete	5 years
Proprietary technology	3 years

The Company also has a non-amortizable intangible asset of $7.2 million as of December 31, 2002 related to a minimum pension liability on its defined benefit pension plan and SERP plan.

Note 7—Goodwill and Intangible Assets

In June 2001, the FASB issued Statement No. 141, "Business Combinations" ("SFAS 141"), and Statement No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"). SFAS 141 required the purchase method of accounting be used for all business combinations initiated after June 30, 2001. SFAS 141 also provided new criteria to determine whether an acquired intangible asset should be recognized separately from goodwill.

Under the provisions of SFAS 142, upon adoption, amortization of existing goodwill ceases and the remaining book value is to be tested for impairment at least annually at the reporting unit level using a new two-step impairment test. The general provisions of SFAS 142 were effective for the Company as of January 1, 2002. However, certain provisions were effective for all business combinations consummated after June 30, 2001. The Company applied the accounting and disclosure provisions of SFAS 141 and the applicable provisions of SFAS 142 to its acquisition of Mendez S.A. ("Mendez") during the third quarter of 2001, and to both BGS's acquisition of GlobalNet and BBS's acquisition of DecisionQuest in 2002.

In connection with SFAS 142's transitional goodwill impairment evaluation, the Statement required the Company to perform an assessment of whether there is an indication that goodwill is impaired as of the date of adoption, January 1, 2002. To accomplish this, the Company determined the fair value of each reporting unit and compared it to the carrying amount of the reporting unit at that date. No impairment charges resulted from this evaluation since the fair value of each reporting unit exceeded the carrying amount.

As of the date of adoption, the Company had unamortized goodwill in the amount of $172,321 and unamortized identifiable intangible assets in the amount of $18,150. Goodwill not subject to amortization (net of accumulated amortization through December 31, 2001) is $226,386 at December 31, 2002. Goodwill increased $54,065 in 2002, primarily as a result of the acquisition of GlobalNet in September 2002 ($31,217) and DecisionQuest in December 2002 ($10,508), and also as a result of the change in foreign currency rates used to translate balances into U.S. dollars at year end.

The changes in the carrying amount of goodwill for the year ended December 31, 2002, are as follows:

	Financial Printing	Outsourcing	Globalization	Total
Balance at January 1, 2002	$13,113	$ 92,275	$ 66,933	$172,321
Goodwill acquired during the year	2,615	10,508	32,074	45,197
Adjustments to previously recorded purchase price	—	2	1,325	1,327
Foreign currency translation adjustment	107	—	7,434	7,541
Balance at December 31, 2002	$15,835	$102,785	$107,766	$226,386

The gross amounts and accumulated amortization of identifiable intangible assets is as follows:

	2002		2001	
	Gross Amount	Accumulated Amortization	Gross Amount	Accumulated Amortization
Amortizable intangible assets:				
Customer lists	$34,068	$4,792	$20,100	$3,022
Software licenses and proprietary technology	1,617	242	1,100	28
Covenants not-to-compete	1,800	—	—	—
Unamortizable intangible assets:				
Trade name	1,900	—	—	—
	$39,385	$5,034	$21,200	$3,050

In addition, the Company has an intangible asset with a balance of $7.2 million and $7.1 million at December 31, 2002 and 2001, respectively, related to its additional minimum pension liability. This intangible asset is not subject to amortization.

Amortization expense related to identifiable intangible assets was $2,017, $1,146 and $750 for the years ended December 31, 2002, 2001, and 2000, respectively. Estimated annual amortization expense for the years ended December 31, 2003 through December 31, 2007, including the effect of the GlobalNet and DecisionQuest acquisitions, is shown below:

2003	$3,580
2004	$3,580
2005	$3,548
2006	$3,398
2007	$3,178

The following adjusted financial information reflects the impact that SFAS 142 would have had on net income (loss) and diluted earnings (loss) per share for the years ended December 31, 2001 and 2000, respectively if adopted in 2000:

	2001		2000	
	Net Income (Loss)	Earnings (Loss) Per Share	Net Income	Earnings Per Share
Amounts as reported	$(24,078)	$(.73)	$ 7,008	$.20
Goodwill amortization, net of income taxes	6,119	.18	5,735	.17
Adjusted amounts	$(17,959)	$(.55)	$12,743	$.37

2.141

CORNING INCORPORATED AND SUBSIDIARY COMPANIES (DEC)

(In millions)	2002	2001
Total current assets	$ 3,825	$ 4,107
Restricted cash and investments	82	
Investments	769	778
Property, net	3,705	5,097
Goodwill (Note 12)	1,715	1,937
Other intangible assets, net	261	352
Deferred income taxes	887	313
Other assets	304	209
Total assets	$11,548	$12,793

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Goodwill and Other Intangible Assets

In accordance with SFAS No. 142, "Goodwill and Other Intangible Assets," Corning has selected the fourth quarter to perform an annual impairment test for goodwill. Goodwill is allocated to Corning's various reporting units which are the same as Corning's reportable operating segments. SFAS No. 142 requires Corning to compare the fair value of the reporting unit to its carrying amount on an annual basis to determine if there is potential impairment. If the fair value of the reporting unit is less than its carrying value, an impairment loss is recorded to the extent that the fair value of the goodwill within the reporting unit is less than the carrying value. The fair value for goodwill is determined based on discounted cash flows, market multiples or appraised values as appropriate.

Other intangible assets are recorded at cost and amortized over periods generally ranging from 5 to 20 years.

Accounting Changes (In Part)

Goodwill and Other Intangible Assets

In June 2001, the FASB issued SFAS No. 141, "Business Combinations," and SFAS No. 142, "Goodwill and Other Intangible Assets." Among other provisions, goodwill is no longer amortized but is subject to impairment tests at least annually. Corning selected the fourth quarter to perform an annual impairment test for goodwill. Corning adopted SFAS No. 142 on January 1, 2002. Corning completed its initial impairment review during the first quarter of 2002 and concluded a transitional impairment charge from the adoption of the standard was not required. As described in Note 4, during the fourth quarter of 2002, Corning recorded a goodwill impairment charge in accordance with SFAS No. 142.

The following table presents a reconciliation of reported net (loss) income and (loss) earnings per share to adjusted net (loss) income and (loss) earnings per share, as if SFAS No. 142 had been in effect as follows:

(In millions)	2002	2001	2000
Reported net (loss) income	$(1,302)	$(5,498)	$ 422
Goodwill amortization, net of income taxes		345	203
Adjusted net (loss) income	$(1,302)	$(5,153)	$ 625
Reported net (loss) income per share—basic	$ (1.39)	$ (5.89)	$0.49
Goodwill amortization, net of income taxes		0.37	0.24
Adjusted net (loss) income per share—basic	$ (1.39)	$ (5.52)	$0.73
Reported net (loss) income per share—diluted	$ (1.39)	$ (5.89)	$0.48
Goodwill amortization, net of income taxes		0.37	0.23
Adjusted net (loss) income per share—diluted	$ (1.39)	$ (5.52)	$0.71

4 (In Part): Impairment of Goodwill

2002 Charge

As discussed in New Accounting Standards and Note 1 to the Consolidated Financial Statements, in January 2002, Corning adopted SFAS No. 142, which requires companies to stop amortizing goodwill and certain intangible assets with an indefinite useful life. Instead, SFAS No. 142 requires that goodwill be reviewed for impairment upon adoption of SFAS No. 142 (January 1, 2002) and annually thereafter. Corning performed an initial benchmark assessment upon adoption at January 1, 2002, and determined that a transition charge was not required. Corning chose the fourth quarter to conduct its annual impairment test.

Under SFAS No. 142, goodwill impairment occurs if the net book value of a reporting unit exceeds its estimated fair value. The majority of Corning's goodwill is included in the telecommunications reporting unit, which is the same as the Telecommunications Segment. The test completed in the fourth quarter indicated that the recorded book value of this reporting unit exceeded its fair value, as determined by discounted cash flows.

Management believes the telecommunication industry is currently depressed but will ultimately recover. Management does not expect growth in this segment in the short-term, but believes that growth will return to this segment by 2005. Corning's view that the industry will recover is based on the fact that bandwidth demand continues to grow currently, and the belief that a combination of public policy changes, consolidation and recovery of industry players, and the advancement of profitable broadband business models will drive recovery in the future. The decrease in fair value from that measured in the benchmark assessment primarily reflects:

- a delay in the timing of the expected recovery from late 2002, or early 2003 to 2005,
- a reduction in the short-term cash flow expectations of the fiber and cable business and a lower base from which the expected recovery will occur, and

- a reduction in the short and long-term cash flow expectations of the photonic technologies business.

Management retained valuation specialists to assist in the valuation of its tangible and identifiable intangible assets for purposes of determining the implied fair value of goodwill at December 31, 2002. Upon completion of the annual assessment, Corning recorded a non-cash impairment charge of $400 million ($294 million after-tax) to reduce the carrying value of goodwill in the telecommunications reporting unit to its estimated fair value of $1.6 billion.

Management cannot provide assurance that future impairment charges will not be required if the telecommunications industry does not recover as projected by management in its expected future cash flow estimates. Management must exercise judgment in assessing the recoverability of goodwill. See Critical Accounting Estimates for related discussion.

12. Goodwill and Other Intangible Assets

The changes in the carrying amount of goodwill for the year ended December 31, 2002, by segment follow (in millions):

	Telecommunications	Technologies	Total
Balance at January 1, 2002	$1,772	$165	$1,937
Foreign currency translation	90		90
Impairment	(400)		(400)
Divestitures	(16)	(6)	(22)
Acquisitions	110		110
Balance at December 31, 2002	$1,556	$159	$1,715

Other intangible assets consisted of the following (in millions):

	2002			2001		
	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
Amortized intangible assets:						
Patents and trademarks	$138	$ 40	$ 98	$262	$46	$216
Non-competition agreements	106	62	44	101	40	61
Other	5	2	3	17	4	13
Total amortized intangible assets	249	104	145	380	90	290
Other intangible assets:						
Intangible pension assets	68		68			
Deferred financing costs	48		48	62		62
Total other intangible assets	116		116	62		62
Total	$365	$104	$261	$442	$90	$352

Amortized intangible assets are primarily related to the Telecommunications Segment.

Amortization expense related to these intangible assets is expected to be in the range of approximately $20 million to $30 million annually from 2003 to 2007.

2.142

DOVER CORPORATION AND SUBSIDIARIES (DEC)

(In thousands)	2002	2001
Total current assets	$1,658,001	$1,573,345
Property, plant and equipment, at cost:		
Land	49,204	42,689
Buildings	426,747	403,914
Machinery and equipment	1,299,374	1,248,647
	1,775,325	1,695,250
Less accumulated depreciation	1,070,403	957,037
Net property, plant and equipment	704,922	738,213
Goodwill, net of amortization	1,654,883	1,908,040
Intangible assets, net of amortization	202,836	171,226
Other assets and deferred charges	167,529	116,510
Assets of discontinued operations	49,214	116,598
Total assets	$4,437,385	$4,623,932

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Goodwill and Other Intangible Assets

As of January 1, 2002, the Company adopted SFAS No. 142, "Goodwill and Other Intangible Assets". In accordance with the guidelines of this accounting principle, goodwill and indefinite-lived intangible assets are no longer amortized and are assessed for impairment on at least an annual basis. Refer to Footnote 5 for disclosure on the impact of the adoption. The Company has elected to test annually for goodwill impairment in the fourth quarter of the fiscal year. Goodwill of a reporting unit will also be tested for impairment between annual tests if a triggering event occurs, as defined by SFAS No. 142, that could potentially reduce the fair value of the reporting unit below its carrying value. During 2001 and 2000 the Company amortized goodwill over a period of principally 40 years.

5. Goodwill and Other Intangible Assets

As of January 1, 2002, the Company adopted SFAS No. 142, "Goodwill and Other Intangible Assets". In accordance with the guidelines of this accounting principle, goodwill and indefinite-lived intangible assets are no longer amortized but will be assessed for impairment on at least an annual basis. During 2001 and 2000 the Company amortized goodwill over a period of principally 40 years.

As an initial step in the implementation process, the Company identified 41 Reporting Units that would be tested for impairment. In the Industries, Diversified, and Resources market segments the "stand-alone" operating companies were identified as "Reporting Units". These entities qualify as Reporting Units in that they are one level below an operating segment, discrete financial information exists for each entity and the segment executive management group directly reviews these units. Due to the lack of similarities in either products, production processes or markets served, management could not identify any situations where the components in these three operating segments could currently be aggregated into a single Reporting Unit. In the Technologies segment, three Reporting Units were identified, Marking (consisting of one stand-alone operating company), Circuit Board Assembly and Test or "CBAT" and Specialty Electronic Components or "SEC."

As required under the transitional accounting provisions of SFAS No. 142, the Company completed both steps required to identify and measure goodwill impairment at each of the 41 Reporting Units as of January 1, 2002. The first step involved identifying all Reporting Units with carrying values (including goodwill) in excess of fair value, which was estimated using the present value of future cash flows. The identified Reporting Units from the first step were then measured for impairment by comparing the implied fair value of the Reporting Unit goodwill, determined in the same manner as in a business combination, with the carrying amount of the goodwill. As a result of these procedures, goodwill was reduced by $345.1 million and a net after tax charge of $293.0 million was recognized as a cumulative effect of a change in accounting principle in the first quarter of 2002. Five stand-alone operating companies or Reporting Units accounted for over 90% of the total impairment—Triton and Somero from the Industries segment, Crenlo and Mark Andy from the Diversified segment, and Wilden from the Resources segment. Various factors impacted the identification and amounts of impairment recognized at the reporting units. These included the current market conditions in terms of size and new product opportunities, current and/or future operating margins and future growth potential relative to expectations when acquired. Of the total goodwill reduction, $148.0 million was from the Diversified segment, $127.5 million was from the Industries Segment and $69.6 million was from the Resources segment. The implementation of SFAS No. 142 required the use of judgments, estimates and assumptions in the identification of Reporting Units and the determination of fair market value and impairment amounts related to the required testing. The Company believes that its use of estimates and assumptions in this matter was reasonable, and complied with generally accepted accounting principles. Additionally, pursuant to SFAS No. 142, the Company completed its reassessment of previously recognized intangible assets, including trademarks, and adjusted the remaining amortization lives of certain intangibles based on relevant factors.

The Company has elected to annually test for goodwill impairment in the fourth quarter of its fiscal year. The Company has completed its 2002 testing of the identified reporting units and has determined that there has been no additional goodwill impairment.

The Company also adopted SFAS No. 141, "Business Combinations", for all business combinations completed after June 30, 2001. SFAS No. 141 prohibits the pooling-of-interests method of accounting for business combinations, prescribes criteria for the initial recognition and measurement of goodwill and other intangible assets, and establishes disclosure requirements for material business combinations. The effect of the adoption of SFAS No. 141 did not have a material impact on the Company's consolidated results of operations and financial position.

Provided below is a reconciliation of previously reported financial statement information to pro forma amounts that reflect the elimination of goodwill and indefinite-lived intangible amortization for the comparable periods prior to adoption:

	2001			2000		
		Earnings Per Share			Earnings Per Share	
(In thousands)	Earnings	Basic	Diluted	Earnings	Basic	Diluted
Net earnings	$248,537	$1.22	$1.22	$519,612	$2.56	$2.54
Add back: goodwill amortization, net of tax	42,158	0.21	0.21	37,655	0.18	0.18
Add back: indefinite-lived intangible amortization, net of tax	1,585	0.01	0.01	1,585	0.01	0.01
Pro forma net earnings	$292,280	$1.44	$1.44	$558,852	$2.75	$2.73
Net earnings from discontinued operations	66,706	0.33	0.33	6,089	0.03	0.03
Pro forma net earnings from continuing operations	$225,574	$1.11	$1.11	$552,763	$2.72	$2.70

The changes in the carrying value of goodwill by market segment through the year ended December 31, 2002 are as follows:

(In thousands)	Diversified	Industries	Resources	Technologies	Total
Balance as of January 1, 2002	$ 539,169	$ 524,907	$371,262	$472,702	$1,908,040
Goodwill from acquisitions	—	—	1,359	41,758	43,117
Impairment losses	(147,950)	(127,530)	(69,642)	—	(345,122)
Other (primarily cumulative translation)	10,524	4,361	10,591	23,371	48,847
Balance as of December 31, 2002	$ 401,743	$ 401,738	$313,570	$537,831	$1,654,882

The following table provides the gross carrying value and accumulated amortization for each major class of intangible asset based on the Company's reassessment of previously recognized intangible assets and their remaining amortization lives in accordance with the adoption of SFAS No. 142:

	2002			2001	
(In thousands)	Gross Carrying Amount	Accumulated Amortization	Average Amortizable Life	Gross Carrying Amount	Accumulated Amortization
Trademarks	$ 21,736	$ 8,321	29	$ 81,869	$ 3,986
Patents	89,568	43,981	13	89,192	37,228
Customer intangibles	14,275	2,689	9	5,655	1,536
Unpatented technologies	58,092	11,248	9	2,624	971
Non-compete agreements	10,345	6,310	5	10,936	4,031
Other	9,021	4,580	14	29,153	451
Total amortizable intangible assets	$203,037	$77,129	13	$219,429	$48,203
Total indefinite-lived trademarks	76,928	—		—	—
Total	$279,965	$77,129		$219,429	$48,203

The total intangible amortization expense for the twelve months ended December 31, 2002, 2001 and 2000 was $17.8 million, $20.2 million, and $15.8 respectively. The estimated amortization expense, based on current intangible balances, for the next five fiscal years beginning January 1, 2003 is as follows:

(In thousands)	
2003	$16,200
2004	$14,972
2005	$12,748
2006	$11,400
2007	$10,419

adjustment was to be recorded in net income as a cumulative effect of a change in accounting principle (net of tax). Impairment losses after the initial adoption impairment are to be recorded as part of income from continuing operations.

During the second quarter of 2002, the company completed its initial review of goodwill and recorded a cumulative effect of a change in accounting principle charge of $2,944, effective January 1, 2002, to reduce the carrying value of its goodwill. Agriculture & Nutrition accounts for $2,866 of this noncash impairment loss, and Textiles & Interiors accounts for the remaining $78. As there is no tax benefit associated with this charge (goodwill arose in connection with the acquisition of stock versus a purchase of assets), both the pretax and after-tax amounts are the same.

2.143

E. I. DU PONT DE NEMOURS AND COMPANY (DEC)

(Dollars in millions)	2002	2001
Total current assets	$13,459	$14,801
Property, plant and equipment	33,732	33,778
Less: accumulated depreciation	20,446	20,491
Net property, plant and equipment	13,286	13,287
Goodwill (Note 14)	1,167	3,746
Other intangible assets	3,109	3,151
Investment in affiliates	2,047	2,045
Other assets	1,553	3,289
Total	$34,621	$40,319

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars in millions)

1 (In Part): Summary of Significant Accounting Policies

Goodwill and Other Intangible Assets

On January 1, 2002, the company adopted SFAS No. 142, "Goodwill and Other Intangible Assets." The new standard requires that goodwill and indefinite-lived intangible assets no longer be amortized. In addition, goodwill and indefinite-lived intangible assets are tested for impairment at least annually. These tests will be performed more frequently if there are triggering events. Impairment losses after initial adoption will be recorded as a part of income from continuing operations.

Definite-lived intangible assets, such as purchased technology, patents, and trademarks are amortized over their estimated useful lives, generally for periods ranging from 5 to 20 years. The company continually evaluates the reasonableness of the useful lives of these assets.

9 (In Part): Cumulative Effect of Changes in Accounting Principles

On January 1, 2002, the company adopted SFAS No. 142, "Goodwill and Other Intangible Assets," which requires that goodwill and indefinite-lived intangible assets no longer be amortized. In addition, an initial impairment test of goodwill and indefinite-lived intangible assets as of January 1, 2002, needed to be performed. Thereafter, impairment tests must be performed annually or more frequently if there are triggering events. If the initial test resulted in impairment, an

14 (In Part): Goodwill and Other Intangible Assets

Goodwill

Upon adoption of SFAS No. 142 on January 1, 2002, amortization of goodwill was discontinued. Changes in Goodwill for the period ended December 31, 2002 were as follows:

	Balance as of December 31, 2001	Assembled Workforce Reclassification	Goodwill Adjustments and Acquisitions	Cumulative Effect of Adoption	Balance as of December 31, 2002
Agriculture & Nutrition	$2,891	$55[1]	$153[2]	$(2,866)	$ 233
Coatings & Color Technologies	711	—	7	—	718
Electronic & Communication Technologies	40	—	77[3]	—	117
Performance Materials	2	—	—	—	2
Pharmaceuticals	—	—	—	—	—
Safety & Protection	12	—	73[3]	—	85
Textiles & Interiors	88	—	—	(78)	10
Other	2	—	—	—	2
	$3,746	$55	$310	$(2,944)[4]	$1,167

[1] Reclassification of assembled workforce required upon adoption of SFAS No. 142 and consists of a gross asset of $113, net of $24 in accumulated amortization and $34 in deferred taxes.

[2] Primarily attributable to the allocation of purchase price related to the acquisition of Liqui-Box Corporation.

[3] Primarily attributable to a preliminary allocation of purchase price related to the recent acquisition of ChemFirst, Inc.

[4] See Note 9 for additional information regarding the cumulative effect of a change in accounting principle related to the adoption of SFAS No. 142.

• • • • • •

Pro Forma Effects of Adoption of SFAS No. 142

The following data is provided to assist users of financial statements in making meaningful comparisons between 2002 data and the years preceding the adoption of SFAS No. 142.

Amortization expense of $183 (pretax) and $166 (after-tax) was recorded in 2001, and $185 (pretax) and $168 (after-tax) was recorded in 2000 related to goodwill and indefinite-lived intangible assets that are no longer being amortized due to adoption of SFAS No. 142. Segment detail related to these amounts (after-tax) is shown below:

Segment	2001	2000
Agriculture & Nutrition	$108	$109
Coatings & Color Technologies	40	40
Electronic & Communication Technologies	4	4
Performance Materials	1	1
Pharmaceuticals	4*	6
Safety & Protection	1	1
Textiles & Interiors	8	7
	$166	$168

* Represents amortization prior to divestiture of DuPont Pharmaceuticals, which occurred on October 1, 2001.

The following table provides a reconciliation of reported Net Income (Loss) to adjusted Net Income (Loss) and reported Earnings (Loss) per share to adjusted Earnings (Loss) per share amounts for the years 2000 through 2002 as if the non-amortization provisions of SFAS No. 142 had been applied as of January 1, 2000:

	2002	2001	2000
Reported net income (loss)	$ (1,103)	$4,339	$2,314
Add back: goodwill amortization	—	140	141
Add back: equity method goodwill amortization	—	7	8
Add back: indefinite-lived intangible asset amortization	—	19	19
Adjusted net income (loss)	$ (1,103)	$4,505	$2,482
Basic earnings (loss) per share			
Reported net income (loss)	$ (1.12)	$ 4.18	$ 2.21
Add back: goodwill amortization	—	0.13	0.13
Add back: equity method goodwill amortization	—	0.01	0.01
Add back: indefinite-lived intangible asset amortization	—	0.02	0.02
	$ (1.12)	$ 4.34	$ 2.37
Diluted earnings (loss) per share			
Reported net income (loss)	$ (1.11)	$ 4.16	$ 2.19
Add back: goodwill amortization	—	0.13	0.13
Add back: equity method goodwill amortization	—	0.01	0.01
Add back: indefinite-lived intangible asset amortization	—	0.02	0.02
	$ (1.11)	$ 4.32	$ 2.35

Trademarks

2.144

THE SHERWIN-WILLIAMS COMPANY (DEC)

(Thousands of dollars)	2002	2001	2000
Total current assets	$1,505,993	$1,506,945	$1,551,539
Goodwill	552,207	672,397	705,547
Intangible assets	186,039	304,506	310,392
Deferred pension assets	414,589	393,587	364,351
Other assets	108,884	77,802	96,462
Property, plant and equipment:			
Land	62,069	64,447	65,546
Buildings	436,214	441,418	431,524
Machinery and equipment	1,034,286	1,024,701	980,560
Construction in progress	44,936	34,070	52,779
	1,577,505	1,564,636	1,530,409
Less allowances for depreciation	912,905	891,948	808,030
	664,600	672,688	722,379
Total assets	$3,432,312	$3,627,925	$3,750,670

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Thousands of dollars)

Note 1 (In Part): Significant Accounting Policies

Impairment of Long-Lived Assets

The Company evaluates the recoverability of long-lived assets and the related estimated remaining lives at each balance sheet date. The Company records an impairment or change in useful life whenever events or changes in circumstances indicate that the carrying amount may not be recoverable or the useful life has changed in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." See Note 2.

Intangibles

Intangible assets include trademarks, non-compete covenants and certain intangible property rights. Prior to January 1, 2002, intangible assets were amortized on a straight-line basis over the expected period of benefit ranging from 2 to 40 years. Effective January 1, 2002, pursuant to the adoption of SFAS No. 142, trademarks have been classified as indefinite-lived assets and are no longer amortized. The cost of non-compete covenants and certain intangible property rights are amortized on a straight-line basis over the expected period of benefit as follows:

	Useful Life
Non-compete covenants	2–10 years
Certain intangible property rights	3–15 years

Accumulated amortization of intangible assets, which includes impairment charges recorded in 2002 and net write-offs of fully-amortized intangible assets in 2001, was $226,294, $99,797, and $135,815 at December 31, 2002, 2001, and 2000, respectively. See Note 2.

Note 2 (In Part): Cumulative Effect of Change in Accounting Principle and Other Impairments

Effective January 1, 2002, the Company adopted SFAS No. 142, "Goodwill and Other Intangible Assets." In accordance with SFAS No. 142, goodwill and intangible assets deemed to have indefinite lives are no longer amortized. Excluding after-tax amortization expense of $24,090 from 2001 and $32,564 from 2000 to be comparable with 2002, net income would have been $287,248 or $1.83 per diluted common share in 2001 and $48,590 or $.30 per diluted common share in 2000.

Goodwill and intangible assets that are no longer amortized are required by SFAS No. 142 to be periodically tested for impairment. During the first quarter of 2002, the Company completed the transitional impairment test required by SFAS No. 142 and recognized an impairment charge of $247,612 ($183,136 after taxes or $1.21 per diluted common share) to reduce the carrying values of goodwill and certain indefinite-lived intangible assets to their estimated fair values. The transitional impairment charge was accounted for as a cumulative effect of change in accounting principle. The transitional impairment of goodwill totaled $129,392 ($105,714 after taxes or $.70 per diluted common share) and related primarily to international operations in the International Coatings and Automotive Finishes Segments. Weakened foreign currency exchange rates and economic conditions, particularly in South America, negatively impacted profit and cash flow in U.S. dollars. The transitional impairment of indefinite-lived intangible assets aggregated $118,220 ($77,422 after taxes or $.51 per diluted common share). The impairment of indefinite-lived intangible assets related principally to trademarks in the Consumer Segment associated with the acquisition of Thompson Minwax Holding Corp. and was due primarily to a shortfall in sales from levels anticipated at the time of acquisition. In addition, certain trademarks in the International Coatings Segment were impaired. Fair values of goodwill and indefinite-lived intangible assets were estimated using a discounted cash flow valuation model, incorporating discount rates commensurate with the risks involved for each group of assets.

• • • • • •

As required by SFAS No. 142, October 1 has been established for the annual impairment review of goodwill and indefinite-lived intangible assets. The annual impairment review of all appropriate assets was performed as of October 1, 2002 resulting in reductions in the carrying values of goodwill of $2,401 ($2,401 after taxes) and indefinite-lived intangible assets of $1,206 ($826 after taxes). The total of $3,607 ($3,227 after taxes) was charged to cost of goods sold ($801) and selling, general and administrative expenses ($2,806) in the fourth quarter. The impairment of goodwill related to a cash flow shortfall in certain international operations acquired in the acquisition of Thompson Minwax Holding Corp. and the impairment of indefinite-lived intangible assets related to lower-than-anticipated sales of certain acquired domestic and international brands. Fair values of goodwill and indefinite-lived intangible assets were estimated using a discounted cash flow valuation model, incorporating discount rates similar to rates used in the transitional impairment analysis due to the short period of time between the two tests.

• • • • • •

Amortization of intangible assets subject to amortization is as follows for the next five years: $11,800 in 2003, $11,700 in 2004, $9,900 in 2005, $8,400 in 2006 and $8,400 in 2007.

SFAS No. 142 required a complete review of the useful life and classification of all intangible and other assets. As a result, certain assets have been reclassified from Other assets to Intangible assets in the 2001 and 2000 accompanying consolidated balance sheets to conform to the 2002 classifications.

• • • • • •

A summary of changes in the Company's carrying value of intangible assets is as follows:

	Intangible Assets Subject to Amortization			Trademarks With Indefinite Lives	Total Intangible Assets
	Software	All Other	Subtotal		
2002:					
Gross	$ 72,501	$ 70,200	$ 142,701	$ 269,632	$ 412,333
Accumulated amortization	(15,793)	(54,311)	(70,104)	(156,190)	(226,294)
Net value	$ 56,708	$ 15,889	$ 72,597	$ 113,442	$ 186,039
2001:					
Gross	$ 68,917	$ 66,854	$ 135,771	$ 268,532	$ 404,303
Accumulated amortization	(11,900)	(49,375)	(61,275)	(38,522)	(99,797)
Net value	$ 57,017	$ 17,479	$ 74,496	$ 230,010	$ 304,506
2000:					
Gross	$ 57,802	$117,941	$ 175,743	$ 270,464	$ 446,207
Accumulated amortization	(6,496)	(96,725)	(103,221)	(32,594)	(135,815)
Net value	$ 51,306	$ 21,216	$ 72,522	$ 237,870	$ 310,392

2.145

TEXTRON INC. (DEC)

(Dollars in millions)	2002	2001
Total current assets	$ 3,887	$ 4,017
Property, plant and equipment, net	1,981	2,044
Goodwill	1,368	1,821
Other intangibles assets, net	83	144
Other assets	1,532	1,562
Total Textron manufacturing assets	8,851	9,588
Textron finance		
Cash	21	19
Finance receivables, net	5,589	5,492
Goodwill	181	204
Other assets	863	749
Total Textron finance assets	6,654	6,464
Total assets	$15,505	$16,052

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Goodwill and Other Intangible Assets

Management evaluates the recoverability of goodwill and other intangible assets annually, or more frequently if events or changes in circumstances, such as decline in sales, earnings or cash flows or material adverse changes in the business climate, indicate that the carrying value of an asset might be impaired. Goodwill is considered to be impaired when the net book value of a reporting unit exceeds its estimated fair value. Fair values are primarily established using a discounted cash flow methodology. The determination of discounted cash flows is based on the businesses' strategic plans and long-range planning forecasts.

Note 7 (In Part): Goodwill and Other Intangible Assets

On December 30, 2001, Textron adopted SFAS No. 142, "Goodwill and Other Intangible Assets", which requires companies to stop amortizing goodwill and certain intangible assets with indefinite useful lives, and requires an annual review for impairment. Upon adoption, Textron discontinued the amortization of goodwill.

• • • • • •

All of Textron's acquired intangible assets are subject to amortization and are comprised of the following:

(Dollars in millions)	Weighted Average Amortization Period (In Years)	2002 Gross Carrying Amount	2002 Accumulated Amortization	2002 Net	2001 Gross Carrying Amount	2001 Accumulated Amortization	2001 Net
Trademarks	30	$ 61	$ 5	$56	$ 61	$ 3	$ 58
Customer base	12	—	—	—	47	8	39
Patents	8	17	6	11	17	4	13
Workforce	9	—	—	—	20	7	13
Non-compete	3	10	7	3	10	3	7
Other	5	16	3	13	14	—	14
		$104	$21	$83	$169	$25	$144

Amortization expense totaled $11 million and $17 million in 2002 and 2001, respectively. Amortization expense for fiscal years 2003, 2004, 2005, 2006, and 2007 is estimated to be approximately $10 million, $6 million, $6 million, $4 million and $4 million, respectively.

Patents

2.146

3M COMPANY AND SUBSIDIARIES (DEC)

(Dollars in millions)	2002	2001
Total current assets	$ 6,059	$ 6,296
Investments	238	275
Property, plant and equipment—net	5,621	5,615
Goodwill	1,898	1,012
Intangible assets	269	238
Other assets	1,244	1,170
Total assets	$15,329	$14,606

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (In Part): Significant Accounting Policies

Intangible Assets

Intangible assets include patents, tradenames and other intangible assets acquired from an independent party. Effective January 1, 2002, with the adoption of SFAS No. 142, intangible assets with an indefinite life, namely certain tradenames, are not amortized. Intangible assets with a definite life are amortized on a straight-line basis with estimated useful lives ranging from 2 to 17 years. Indefinite-lived intangible assets will be tested for impairment annually, and will be tested for impairment between annual tests if an event occurs or circumstances change that would indicate that the carrying amount may be impaired. Intangible assets with a definite life are tested for impairment whenever events or circumstances indicate that a carrying amount of an asset (asset group) may not be recoverable. An impairment loss would be recognized when the carrying amount of an asset exceeds the estimated undiscounted cash flows used in determining the fair value of the asset. The amount of the impairment loss to be recorded is calculated by the excess of the asset's carrying value over its fair value. Fair value is generally determined using a discounted cash flow analysis. Costs related to internally developed intangible assets are expensed as incurred.

Note 4. (In Part): Goodwill and Indefinite-Lived Intangible Assets

Acquired Intangible Assets

The carrying amount and accumulated amortization of acquired intangible assets follow.

(Millions)	2002	2002
Patents	$ 297	$ 241
Other amortizable intangible assets	93	85
Non-amortizable intangible assets (tradenames)	61	52
Total gross carrying amount	451	378
Accumulated amortization—patents	(123)	(91)
Accumulated amortization—other	(59)	(49)
Less total accumulated amortization	(182)	(140)
Total intangible assets, net	$ 269	$ 238

Amortization expense for acquired intangible assets (excluding amortization of goodwill and indefinite-lived intangible assets of $67 million and $44 million in 2001 and 2000, respectively) for the years ended December 31, 2002, 2001 and 2000 follows.

(Millions)	Year 2002	Year 2001	Year 2000
Amortization expense	$39	$32	$21

Expected amortization expense for acquired intangible assets recorded as of December 31, 2002 follows.

(Millions)	2003	2004	2005	2006	2007	After 2007
Amortization expense	$35	$32	$26	$22	$20	$73

The above amortization expense forecast is an estimate. Actual amounts of amortization expense may differ from estimated amounts due to additional intangible asset acquisitions, changes in foreign currency exchange rates, impairment of intangible assets, accelerated amortization of intangible assets, and other events.

Customer Lists/Relationships

2.147

ALLTEL CORPORATION (DEC)

(Dollars in millions)	2002	2001
Total current assets	$ 1,646.0	$ 1,767.8
Investments	327.4	251.6
Goodwill	4,795.5	2,676.5
Other intangibles	1,346.5	755.6
Property, plant and equipment:		
Land	289.1	239.8
Buildings and improvements	1,194.0	1,051.4
Wireline	6,188.5	5,501.3
Wireless	4,798.3	4,160.6
Information services	1,311.7	1,166.8
Other	620.5	578.0
Under construction	366.0	384.1
Total property, plant and equipment	14,768.1	13,082.0
Less accumulated depreciation	7,059.4	6,300.7
Net property, plant and equipment	7,708.7	6,781.3
Other assets	565.0	376.2
Total assets	$16,389.1	$12,609.0

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Goodwill and Other Intangible Assets

Goodwill represents the excess of cost over the fair value of net identifiable tangible and intangible assets acquired through various business combinations. The Company has acquired identifiable intangible assets through its acquisitions of interests in various wireless and wireline properties and information services companies. The cost of acquired entities at the date of the acquisition is allocated to identifiable assets and the excess of the total purchase price over the amounts assigned to identifiable assets is recorded as goodwill.

Effective January 1, 2002, the Company adopted SFAS No. 142 "Goodwill and Other Intangible Assets." This standard changed the accounting for goodwill and other indefinite-lived intangible assets from an amortization method to an impairment-only approach. As of January 1, 2002, ALLTEL ceased amortization of goodwill recorded in conjunction with past business combinations. In addition, the Company conducted a review of its other identifiable intangible assets and determined that its cellular and PCS licenses (the "wireless licenses") met the indefinite life criteria outlined in SFAS No. 142, because the Company expects both the renewal by the granting authorities and the cash flows generated from these intangible assets to continue indefinitely. Accordingly, ALLTEL also ceased amortization of the wireless licenses as of January 1, 2002. SFAS No. 142 requires intangible assets with indefinite lives to be tested for impairment on an annual basis, by comparing the fair value of the assets to their carrying amounts, with the initial impairment review completed during the first interim period following adoption of the standard. In the first quarter of 2002, ALLTEL completed the initial impairment review of its wireless licenses and determined that no write-down in the carrying value of these assets was required. The wireless licenses are operated as a single asset supporting the Company's wireless business, and accordingly were aggregated for purposes of testing impairment. The fair value of these intangible assets was determined based on the discounted cash flows of the wireless business segment. SFAS No. 142 also requires intangible assets with finite lives to be amortized over their estimated useful lives. ALLTEL determined that, with respect to its intangible assets with finite lives, primarily customer lists, no changes in the remaining useful lives of these assets were required.

• • • • • •

Other intangible assets primarily consist of the cost of PCS licenses, cellular licenses, franchise rights and customer lists. The carrying value (cost less accumulated amortization through December 31, 2001) of indefinite-lived intangible assets other than goodwill no longer subject to amortization after January 1, 2002 were as follows at December 31:

(Millions)	2002	2001
Cellular licenses	$ 720.2	$506.2
PCS licenses	76.9	76.0
Franchise rights—wireline	265.0	—
	$1,062.1	$582.2

Prior to December 31, 2001, both the cellular licenses and PCS licenses were amortized on a straight-line basis over their estimated useful lives, which was 40 years. Amortization of the PCS licenses began upon commencement of the related operations. Amortization expense for intangible assets no longer subject to amortization after January 1, 2002 amounted to $13.6 million in 2001 and $1.0 million in 2000.

Intangible assets subject to amortization were as follows at December 31:

	2002		
(Millions)	Gross Cost	Accumulated Amortization	Net Carrying Value
Customer lists	$374.6	$(101.0)	$273.6
Franchise rights	22.5	(11.9)	10.6
Non-compete agreements	2.9	(2.7)	0.2
	$400.0	$(115.6)	$284.4

	2001		
(Millions)	Gross Cost	Accumulated Amortization	Net Carrying Value
Customer lists	$219.1	$(58.7)	$160.4
Franchise rights	22.5	(10.3)	12.2
Non-compete agreements	4.8	(4.0)	0.8
	$246.4	$(73.0)	$173.4

Intangible assets subject to amortization are amortized on a straight-line basis over their estimated useful lives, which are 5 to 10 years for customer lists, 15 years for franchise rights and 6 years for non-compete agreements. Amortization expense for intangible assets subject to amortization was

$45.4 million in 2002, $38.3 million in 2001 and $2.7 million in 2000. Amortization expense for intangible assets subject to amortization is estimated to be $59.4 million in 2003, $59.1 million in 2004, $58.4 million in 2005, $39.8 million in 2006 and $23.1 million in 2007.

Technology

2.148

BRISTOL-MYERS SQUIBB COMPANY (DEC)

(Dollars in millions)	2002	2001
Total current assets	$ 9,975	$13,249
Property, plant and equipment, net	5,321	4,887
Goodwill	4,864	5,119
Intangible assets, net	1,904	2,084
Other assets	2,810	2,473
Total assets	$24,874	$27,812

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (In Part): Accounting Policies

Impairment of Long-Lived Assets

Effective January 1, 2002, the Company adopted the provisions of SFAS No. 144, *Accounting for the Impairment of Long-Lived Assets*. The adoption of SFAS No. 144 did not have a material effect on the consolidated financial statements of the Company. SFAS No. 144 establishes the accounting for impairment of long-lived tangible and intangible assets other than goodwill and for the disposal of a segment of a business. Pursuant to SFAS No. 144, the Company periodically evaluates whether current facts or circumstances indicate that the carrying value of its depreciable assets to be held and used may not be recoverable. If such circumstances are determined to exist, an estimate of undiscounted future cash flows produced by the long-lived asset, or the appropriate grouping of assets, is compared to the carrying value to determine whether an impairment exists. If an asset is determined to be impaired, the loss is measured based on quoted market prices in active markets, if available. If quoted market prices are not available, the estimate of fair value is based on various valuation techniques, including a discounted value of estimated future cash flows. The Company reports an asset to be disposed of at the lower of its carrying value or its estimated net realizable value.

Intangible Assets

Intangible assets, consisting of patents, technology and licenses, are amortized on a straight-line basis over periods ranging from 3 to 17 years, representing the remaining life of the assets. SFAS No. 142 requires that indefinite-lived intangible assets be tested for impairment using a one-step process which consists of a comparison of the fair value to the carrying value of the intangible asset. Intangible assets are deemed to be impaired if the net book value exceeds the estimated fair value. All other intangible assets are evaluated for impairment in accordance with SFAS No. 144 as described above.

Note 14. Intangible Assets

Intangible assets by major asset class are as follows:

(Dollars in millions)	2002	2001
Patents/Trademarks	$ 214	$ 213
Licenses	554	514
Technology	1,783	1,783
	2,551	2,510
Less accumulated amortization	647	426
Net carrying amount	$1,904	$2,084

Amortization expense for intangible assets (the majority of which is included in costs of products sold) for the years ended December 31, 2002, 2001 and 2000 was $269 million, $116 million and $80 million, respectively.

Expected amortization expense for the next five years related to the current balance of intangible assets is as follows:

Years Ending December 31	Dollars in Millions
2003	$223
2004	195
2005	195
2006	194
2007	192

2.149

STRYKER CORPORATION AND SUBSIDIARIES (DEC)

(In millions)	2002	2001
Total current assets	$1,151.3	$ 993.1
Property, plant and equipment		
Land, buildings and improvements	333.4	287.6
Machinery and equipment	591.3	469.3
	924.7	756.9
Less allowance for depreciation	405.5	312.9
	519.2	444.0
Other assets		
Goodwill, less accumulated amortization of $64.8 ($58.5 in 2001)	460.0	434.3
Other intangibles, less accumulated amortization of $99.3 ($74.5 in 2001)	475.1	368.0
Deferred charges, less accumulated amortization of $274.1 ($205.5 in 2001)	123.7	102.1
Deferred income taxes	61.8	60.4
Other	24.4	21.7
	1,145.0	986.5
	$2,815.5	$2,423.6

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

Note 1 (In Part): Significant Accounting Policies

Goodwill and Other Intangible Assets

Goodwill represents the excess of purchase price over fair value of tangible net assets of acquired businesses after amounts allocated to other intangible assets. Other intangible assets include developed technology, which is amortized on a straight-line basis over 20 years, and customer relationships (which reflect expected continued customer patronage), trademarks, trade names and patents, which are amortized on a straight-line basis over 5 to 35 years (weighted average life of 15 years for other intangible assets).

Note 5 (In Part): Goodwill and Other Intangible Assets

Other intangibles at December 31, 2002 consist of the following:

	Gross Carrying Amount	Less Accumulated Amortization	Net Carrying Amount
Amortized intangible assets:			
Developed technology	$220.3	$48.5	$171.8
Customer relationships	146.6	15.9	130.7
Patents	156.1	22.9	133.2
Trademarks	29.2	3.0	26.2
Other	22.2	9.0	13.2
Total	$574.4	$99.3	$475.1

Amortization expense for other intangibles totaled $28.9 for the year ended December 31, 2002. The estimated amortization expense for each of the five succeeding years is as follows:

2003	$34.6
2004	$34.6
2005	$32.7
2006	$30.1
2007	$30.1

Covenants Not to Compete

2.150

THOR INDUSTRIES, INC., AND SUBSIDIARIES (JUL)

	2002	2001
Total current assets	$291,238,354	$237,965,285
Property, plant and equipment:		
Land	9,848,968	8,182,431
Buildings and improvements	37,249,824	35,936,200
Machinery and equipment	25,625,071	20,049,176
Total cost	72,723,863	64,167,807
Less accumulated depreciation	(20,882,575)	(17,232,199)
Net property, plant and equipment	51,841,288	46,935,608
Investments:		
Joint ventures	2,137,946	2,192,453
Investments available-for-sale	3,920,746	5,406,286
Total investments	6,058,692	7,598,739
Other assets:		
Goodwill	130,554,872	10,378,420
Noncompete agreements (Note C)	4,454,408	524,584
Trademarks	8,669,642	1,669,642
Other	4,685,877	3,994,601
Total other assets	148,364,799	16,567,247
Total	$497,503,133	$309,066,879

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

A (In Part): Summary of Significant Accounting Policies

Other Assets

Other assets consist of goodwill, trademarks, and non-compete agreements. Non-compete agreements are amortized using the straight-line method over 5 to 10 years. Effective August 1, 2001, goodwill and trademarks are no longer amortized. Trademarks are not amortized because they have indefinite useful lives.

C (In Part): Goodwill and Other Intangible Assets

The components of other intangibles are as follows:

	2002		2001	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Amortized intangible assets:				
Non-compete agreements	$14,073,367	$9,618,959	$9,573,367	$9,048,783

Aggregate amortization expense for non-compete agreements for the years ended, July 31, 2002, 2001, and 2000 were $570,176, $658,030, and $1,102,395 respectively. Non-compete agreements are amortized on a straight-line basis.

Estimated Amortization Expense	
For the year ending July 2003	$714,818
For the year ending July 2004	$714,818
For the year ending July 2005	$671,485
For the year ending July 2006	$584,818
For the year ending July 2007	$584,818

Licenses and Franchises

2.151

JONES APPAREL GROUP, INC. (DEC)

(All amounts in millions)	2002	2001
Total current assets	$1,318.2	$1,141.0
Property, plant and equipment, at cost, less accumulated depreciation and amortization	249.3	242.5
Goodwill, less accumulated amortization	1,541.2	1,368.4
Other Intangibles, at cost, less accumulated amortization	677.3	533.3
Other assets	66.6	88.3
	$3,852.6	$3,373.5

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Summary of Accounting Policies (In Part)

Goodwill and Other Intangibles

Goodwill represents the excess of purchase price over the fair value of net assets acquired in business combinations accounted for under the purchase method of accounting. Goodwill recorded in connection with acquisitions had been amortized using the straight-line method over 30 years prior to December 31, 2001. Other intangibles with determinable lives, including license agreements, are amortized on a straight-line basis over the estimated useful lives of the assets. Other intangible assets without determinable lives, such as trademarks, had been amortized using the straight-line method over periods primarily ranging from 15 to 30 years prior to December 31, 2001. SFAS No. 142, "Goodwill and Other Intangible Assets," changed the accounting for goodwill and other intangible assets without determinable lives from an amortization method to an impairment-only approach and, accordingly, we annually test goodwill and other intangibles without determinable lives for impairment through the use of independent third-party appraisals.

Goodwill and Other Intangible Assets (In Part)

In June 2001, the FASB issued SFAS No. 142, "Goodwill and Other Intangible Assets," which changed the accounting for goodwill and other intangible assets from an amortization method to an impairment-only approach. Upon our adoption of SFAS No. 142 on January 1, 2002, we ceased amortizing our trademarks without determinable lives and our goodwill. As prescribed under SFAS No. 142, we had our goodwill and trademarks tested for impairment during the first fiscal quarter of 2002.

Due to market conditions resulting from a sluggish economy compounded by the aftereffects of the events of September 11, 2001, we revised our earnings forecasts for future years for several of our trademarks and licenses. As a result, the fair market value of these assets (as appraised by an independent third party) was lower than their carrying value as of December 31, 2001. We accordingly recorded an after-tax impairment charge of $13.8 million, which is reported as a cumulative effect of change in accounting principle resulting from the adoption of SFAS No. 142.

In the second fiscal quarter of 2002, we recorded an additional impairment charge of $5.8 million related to two trademarks due to a decrease in projected accessory revenues resulting from a further evaluation of our costume jewelry business. In the fourth quarter of 2002, we had our annual impairment test for goodwill and trademarks performed. As a result of the conversion of a portion of our *Enzo Angiolini* retail stores to the more moderately-priced *Bandolino* brand and continuing decreases in projected accessory revenues in our costume jewelry lines, we recorded an additional trademark impairment charge of $18.6 million. These charges are reported as selling, general and administrative expenses in the other and eliminations segment.

The components of other intangible assets are as follows:

	2002		2001	
(In millions)	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortized intangible assets				
License agreements	$ 61.5	$20.1	$ 44.3	$11.9
Covenant not to compete	2.9	1.6	2.9	1.1
	64.4	21.7	47.2	13.0
Unamortized trademarks	634.6	—	499.1	—
	$699.0	$21.7	$546.3	$13.0

During 2002, we acquired $19.1 million of third-party license agreements that have a weighted-average amortization period of approximately 26 months. Amortization expense for intangible assets subject to amortization was $9.8 million, $5.1 million and $4.2 million for the years ended December 31, 2002, 2001 and 2000, respectively. Amortization expense for intangible assets subject to amortization for each of the years in the five-year period ending December 31, 2007 is estimated to be $12.4 million in 2003, $8.9 million in 2004, $3.7 million in 2005, $3.4 million in 2006 and $3.4 million in 2007.

The changes in the carrying amount of goodwill for the year ended December 31, 2002, by segment and in total, are as follows:

(In millions)	Wholesale Better Apparel	Wholesale Moderate Apparel	Wholesale Footwear & Accessories	Retail	Total
Balance, January 1, 2002	$356.7	$298.0	$602.5	$111.2	$1,368.4
Net adjustments to purchase price of prior acquisitions	—	(0.1)	0.2	—	0.1
Acquisition of I.e.i.	—	172.7	—	—	172.7
Balance, December 31, 2002	$356.7	$470.6	$602.7	$111.2	$1,541.2

Contracts

2.152

CLEAR CHANNEL COMMUNICATIONS, INC. (DEC)

(In thousands)	2002	2001
Total current assets	$ 2,123,495	$ 1,941,299
Property, plant and equipment		
Land, buildings and improvements	1,519,845	1,388,332
Structures and site leases	2,581,414	2,210,309
Towers, transmitters and studio equipment	743,463	634,532
Furniture and other equipment	629,264	556,977
Construction in progress	227,853	191,048
	5,701,839	4,981,198
Less accumulated depreciation	1,459,027	1,024,449
	4,242,812	3,956,749
Intangible assets		
Definite-lived intangibles, net	761,728	814,306
Indefinite-lived intangibles—licenses	11,738,947	21,116,280
Indefinite-lived intangibles—other	389,801	155,593
Goodwill	7,241,231	18,267,306
Other assets		
Notes receivable	21,658	45,856
Investments in, and advances to, nonconsolidated affiliates	542,214	502,185
Other assets	520,423	449,227
Other investments	89,844	354,341
Total assets	$27,672,153	$47,603,142

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Intangible Assets

The Company classifies intangible assets as definite-lived or indefinite-lived intangible assets, as well as goodwill. Definite-lived intangibles include primarily transit and street furniture contracts, talent, and representation contracts, all of which are amortized over the respective lives of the agreements, typically four to fifteen years. The Company periodically reviews the appropriateness of the amortization periods related to its definite-lived assets. These assets are stated at cost. Indefinite-lived intangibles include broadcast FCC licenses and billboard permits. The excess cost over fair value of net assets acquired is classified as goodwill. The indefinite-lived intangibles and goodwill are not subject to amortization, but are tested for impairment at least annually.

The Company tests for possible impairment of definite-lived intangible assets whenever events or changes in circumstances, such as a reduction in operating cash flow or a dramatic change in the manner that the asset is intended to be used indicate that the carrying amount of the asset is not recoverable. If indicators exist, the Company compares the undiscounted cash flows related to the asset to the carrying value of the asset. If the carrying value is greater than the undiscounted cash flow amount, an impairment charge is recorded in amortization expense in the statement of operations for amounts necessary to reduce the carrying value of the asset to fair value.

At least annually, the Company performs its impairment test for indefinite-lived intangibles and goodwill using a discounted cash flow model to determine the assets' fair value. Certain assumptions are used in determining the fair value, including assumptions about the cash flow growth rates of the Company's businesses. Additionally, the fair values are significantly impacted by macro-economic factors including market multiples and long-term interest rates that exists at the time that the discounted cash flows models are prepared. Impairment charges, other than the charge taken under the transitional rules of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets,* are recorded in amortization expense in the statement of operations.

Note B (In Part): Intangible Assets and Goodwill

On January 1, 2002, the Company adopted Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets* ("Statement 142"). Statement 142 addresses financial accounting and reporting for acquired goodwill and other intangible assets and supersedes APB Opinion No. 17, *Intangible Assets*. Statement 142 establishes new accounting for goodwill and other intangible assets recorded in business combinations. Under the new rules, goodwill and intangible assets deemed to have indefinite lives are no longer amortized but are subject to annual impairment tests in accordance with the statement. Other intangible assets continue to be amortized over their useful lives.

Definite-Lived Intangibles

The Company has definite-lived intangible assets recorded that continue to be amortized in accordance with Statement 142. These assets consist primarily of transit and street furniture contracts and other contractual rights in the outdoor segment, talent and program right contracts in the radio segment, and in the Company's other segment, representation contracts for non-affiliated television and radio stations, all of which are amortized over the respective lives of the agreements. Other definite-lived intangible assets are amortized over the period of time the assets are expected to contribute directly or indirectly to the Company's future cash flows. In accordance with the transitional requirements of Statement 142, the Company reassessed the useful lives of these intangibles and made no material changes to their useful lives. The following table presents the gross carrying amount and accumulated amortization for each major class of definite-lived intangible asset at December 31, 2002 and 2001:

	2002		2001	
(In thousands)	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Transit, street furniture, and other outdoor contractual rights	$ 600,221	$228,037	$ 548,952	$156,548
Talent contracts	212,326	112,259	275,064	138,739
Representation contracts	197,636	37,846	184,883	18,742
Other	219,410	89,723	213,893	94,457
Total	$1,229,593	$467,865	$1,222,792	$408,486

Total amortization expense from definite-lived intangible assets for the years ended December 31, 2002, 2001 and 2000 was $137.1 million, $185.1 million and $108.6 million, respectively. The following table presents the Company's estimate of amortization expense for each of the five succeeding fiscal years for definite-lived intangible assets:

(In thousands)	
2003	$125,161
2004	112,732
2005	97,778
2006	83,138
2007	55,725

As acquisitions and dispositions occur in the future and as purchase price allocations are finalized, amortization expense may vary.

OTHER NONCURRENT ASSETS

2.153 Table 2-21 summarizes the nature of assets (other than property, investments, noncurrent receivables, and intangible assets) classified as noncurrent assets on the balance sheet 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 under "Lessor Leases" in the "Long-Term Leases" section.

2.154

TABLE 2-21: OTHER NONCURRENT ASSETS

	Number of Companies			
	2002	**2001**	**2000**	**1999**
Deferred income taxes	195	196	129	165
Prepaid pension costs	146	126	94	100
Software	128	105	84	85
Segregated cash or securities	69	49	34	32
Debt issue costs	64	53	49	48
Derivatives	61	34	4	N/C*
Property held for sale	43	24	29	37
Cash surrender value of life insurance	33	32	18	30
Assets leased to others	16	10	9	8
Contracts	13	9	8	N/C*
Estimated insurance recoveries	9	6	2	4
Assets of nonhomogeneous operations	6	12	7	5
Other identified noncurrent assets	59	61	44	45

* N/C = Not compiled. Line item was not included in the table for the year shown.

Deferred Income Taxes

2.155

RADIOSHACK CORPORATION AND SUBSIDIARIES (DEC)

(In millions)	2002	2001
Total current assets	$1,706.9	$1,714.3
Property, plant and equipment, net	421.6	417.7
Other assets, net	99.4	113.1
Total assets	$2,227.9	$2,245.1

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Income Taxes

Income taxes are accounted for using the asset and liability method. Deferred taxes are recognized for the tax consequences of "temporary differences" by applying enacted statutory tax rates applicable to future years to differences between the financial statement carrying amounts and the tax basis of existing assets and liabilities. The effect on deferred taxes of a change in tax rates is recognized in income in the period that includes the enactment date. In addition, we recognize future tax benefits to the extent that such benefits are more likely than not to be realized.

Note 5 (In Part): Other Assets, Net

(In millions)	2002	2001
Notes receivable	$ 4.0	$ 4.3
Goodwill	2.9	11.0
Deferred income taxes	52.2	68.0
Other	40.3	29.8
Total other assets, net	$99.4	$113.1

Note 13 (In Part): Income Taxes

Deferred tax assets and liabilities as of December 31, 2002 and 2001, were comprised of the following:

(In millions)	2002	2001
Deferred tax assets		
Insurance reserves	$ 22.8	$ 23.7
Depreciation and amortization	12.5	19.9
Deferred compensation	18.7	18.2
Unrealized loss on investment	—	10.8
Inventory adjustments, net	0.3	5.6
Restructuring reserves	6.2	4.5
Bad debt reserve	2.8	2.6
Other	44.9	39.2
Total deferred tax assets	108.2	124.5
Deferred tax liabilities		
Deferred taxes on foreign operations	11.0	9.0
Other	3.7	4.4
Total deferred tax liabilities	14.7	13.4
Net deferred tax assets	$ 93.5	$111.1

The net deferred tax asset is classified as follows:

Other current assets	$41.3	$ 43.1
Noncurrent assets	52.2	68.0
Net deferred tax assets	$93.5	$111.1

• • • • • •

We anticipate that we will generate enough pre-tax income in the future to realize the full benefit of U.S. deferred tax assets related to future deductible amounts. Accordingly, a valuation allowance was not required at December 31, 2002 or 2001. All of our federal income tax returns are closed through June 1989. The Internal Revenue Service is concluding its examination of federal income tax returns for 1990 through 1997, and is currently examining federal income tax returns for 1998 through 2001. In addition, we have various state income tax returns in the process of examination.

2.156

RAYTHEON COMPANY (DEC)

(In millions)	2002	2001
Total current assets	$ 7,190	$ 9,647
Property, plant, and equipment, net	2,396	2,196
Deferred federal and foreign income taxes	281	—
Prepaid pension	676	2,311
Goodwill	11,170	11,358
Other assets, net	2,233	1,261
Total assets	$23,946	$26,773

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note L (In Part): Federal and Foreign Income Taxes

Deferred federal and foreign income taxes consisted of the following at December 31:

(In millions)	2002	2001
Current deferred tax assets		
Other accrued expenses	$ 378	$ 404
Contracts in process and inventories	119	117
Accrued salaries and wages	104	99
Deferred federal and foreign income taxes—current	$ 601	$ 620
Noncurrent deferred tax assets (liabilities)		
Net operating loss and foreign tax credit carryforwards	$ 533	$ 478
Pension benefits	348	(805)
Retiree benefits	235	360
Depreciation and amortization	(711)	(465)
Revenue on leases and other	(124)	(131)
Deferred federal and foreign income taxes—noncurrent	$ 281	$(563)

There were $1 million and $17 million of taxes refundable included in prepaid expenses and other current assets at December 31, 2002 and 2001, respectively. Federal tax benefits related to discontinued operations were $126 million and $381 million in 2002 and 2001, respectively, and were included in deferred federal and foreign income taxes in the table above.

At December 31, 2002, the Company had net operating loss carryforwards of $1.2 billion that expire in 2020 through 2022 and foreign tax credit carryforwards of $87 million that expire in 2005 through 2007. The Company believes it will be able to utilize all of these carryforwards over the next 3 to 4 years.

Prepaid Pension Cost

2.157

MCDERMOTT INTERNATIONAL, INC. (DEC)

	2002	2001
Total current assets	$ 762,905	$ 813,403
Property, plant and equipment:		
Land	12,520	19,897
Buildings	132,538	138,443
Machinery and equipment	1,032,244	1,022,932
Property under construction	62,625	37,378
	1,239,927	1,218,650
Less accumulated depreciation	885,827	864,751
Net property, plant and equipment	354,100	353,899
Investments:		
Government obligations	48,681	171,702
Other investments	16,277	1,301
Total investments	64,958	173,003
Investment in The Babcock & Wilcox Company	—	186,966
Accounts receivable from The Babcock & Wilcox Company	—	17,489
Goodwill	12,926	330,705
Prepaid pension costs	19,311	152,510
Other assets	63,971	75,865
Total	$1,278,171	$2,103,840

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 6 (In Part): Pension Plans and Postretirement Benefits

At December 31, 2002, in accordance with SFAS No. 87, "Employers' Accounting for Pensions," we were required to recognize a minimum pension liability of approximately $452 million. This recognition resulted in a decrease in our prepaid pension asset of $122 million, an increase in our pension liability of $345 million and an increase in other intangible assets of $15 million. The increase in the minimum pension liability is a direct result of the combination of the downturn in financial markets in 2002 and the low interest rates in effect at December 31, 2002.

• • • • • •

(In thousands)	Pension Benefits 2002	Pension Benefits 2001	Other Benefits 2002	Other Benefits 2001
Change in benefit obligation:				
Benefit obligation at beginning of period	$1,833,428	$1,734,527	$ 35,395	$ 35,151
Service cost	28,137	25,579	—	—
Interest cost	119,360	115,195	2,406	2,499
Curtailments	—	10,219	—	—
Amendments	148	5,414	—	—
Transfers	—	1,321	—	—
Change in assumptions	139,280	37,019	1,237	1,392
Actuarial (gain) loss	28,224	14,823	499	280
Foreign currency exchange rate changes	—	(4,132)	—	—
Benefits paid	(105,569)	(106,537)	(3,709)	(3,927)
Benefit obligation at end of period	2,043,008	1,833,428	35,828	35,395
Change in plan assets:				
Fair value of plan assets at beginning of period	1,821,530	1,943,562	—	—
Actual return on plan assets	(159,730)	(23,520)	—	—
Company contributions	24,073	12,899	3,709	3,927
Foreign currency exchange rate changes	—	(4,908)	—	—
Benefits paid	(105,569)	(106,503)	(3,709)	(3,927)
Fair value of plan assets at the end of period	1,580,304	1,821,530	—	—
Funded status	(462,704)	(11,898)	(35,828)	(35,395)
Unrecognized net obligation	541,275	(242)	—	—
Unrecognized prior service cost	15,599	14,550	—	—
Unrecognized actuarial (gain) loss	(153)	93,920	8,929	7,930
Net amount recognized	$ 94,017	$ 96,330	$(26,899)	$(27,465)
Amounts recognized in the balance sheet:				
Prepaid benefit cost	$ 19,311	$ 152,510	$ —	$ —
Accrued benefit liability	(401,167)	(65,848)	(26,899)	(27,465)
Intangible asset	15,026	578	—	—
Accumulated other comprehensive income	460,847	9,090	—	—
Net amount recognized	$ 94,017	$ 96,330	$(26,899)	$(27,465)
Weighted average assumptions:				
Discount rate	6.50%	7.25%	6.50%	7.42%
Expected return on plan assets	8.28%	8.33%	—	—
Rate of compensation increase	4.00%	4.44%	—	—

2.158

THE MCGRAW-HILL COMPANIES, INC. (DEC)

(In thousands)	2002	2001
Total current assets	$1,674,307	$1,812,947
Prepublication costs: (net of accumulated amortization: 2002–$924,867; 2001–$910,720)	534,835	557,295
Investments and other assets:		
Investments in Rock-McGraw, Inc.—at equity	119,442	105,538
Prepaid pension expense (Note 10)	261,243	211,582
Other	205,243	200,443
Total investments and other assets	585,928	517,563
Property and equipment—at cost		
Land	13,252	13,235
Buildings and leasehold improvements	330,484	335,313
Equipment and furniture	728,217	730,182
Total property and equipment	1,071,953	1,078,730
Less—accumulated depreciation	640,493	623,790
Net property and equipment	431,460	454,940
Goodwill and other intangible assets—at cost		
Goodwill—net	1,294,831	1,231,028
Copyrights—net	272,243	353,252
Other intangible assets—net	238,578	234,166
Net goodwill and other intangible assets	1,805,652	1,818,446
Total assets	$5,032,182	$5,161,191

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

10 (In Part): Retirement Plans

The funded status of the domestic defined benefit plans as of December 31 follows:

(In millions)	2002	2001
Change in benefit obligation		
Net benefit obligation at beginning of year	$ 613.8	$ 585.8
Service cost	23.2	19.9
Plan amendments	1.1	—
Interest cost	43.8	42.5
Actuarial loss	26.5	2.7
Gross benefits paid	(37.2)	(37.1)
Net benefit obligation at end of year	$ 671.2	$ 613.8
Change in plan assets		
Fair value of plan assets at beginning of year	953.5	1,095.5
Actual return on plan assets	(142.0)	(104.9)
Gross benefits paid	(37.2)	(37.1)
Fair value of plan assets at end of year	$ 774.3	$ 953.5
Funded status at end of year	103.0	339.8
Unrecognized net actuarial loss/(gain)	156.2	(130.2)
Unrecognized prior service costs	2.0	2.0
Prepaid pension cost	$ 261.2	$ 211.6
Assumed rates—December 31:		
Discount rate	6¾%	7¼%
Compensation increase factor	5½	5½

Software and Development Costs

2.159

HUGHES SUPPLY, INC. (JAN)

(In thousands)	2003	2002
Total current assets	$ 931,534	$ 863,440
Property and equipment	157,772	145,702
Goodwill	320,133	263,808
Other assets	26,903	20,312
	$1,436,342	$1,293,262

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Other Assets (In Part)

The Company capitalizes certain software development costs, which are being amortized on a straight-line basis over the estimated useful lives of the software, ranging from 2 to 7 years. At January 31, 2003 and January 25, 2002, capitalized software development costs totaled $9.4 million and $9.8 million, respectively, net of accumulated amortization of

$11.7 million and $10.4 million, respectively. Amortization of capitalized software development costs totaled $3.9 million, $3.6 million and $3.6 million in fiscal 2003, 2002 and 2001, respectively.

2.160

PEOPLESOFT, INC. (DEC)

(In thousands)	2002	2001
Total current assets	$2,350,876	$2,132,868
Property and equipment:		
Computer equipment and software	368,204	320,866
Furniture and fixtures	87,471	76,712
Leasehold improvements	82,130	71,831
Land	46,066	46,066
Building	17,973	—
Total property and equipment, at cost	601,844	515,475
Less accumulated depreciation and amortization	(379,044)	(301,313)
	222,800	214,162
Investments	21,946	40,587
Deferred tax assets	149,187	136,048
Capitalized software, net of accumulated amortization of $40,140 in 2002 and $25,721 in 2001	44,101	16,213
Goodwill	54,294	32,203
Other assets	5,359	17,040
Total assets	$2,848,563	$2,589,121

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): The Company and Significant Accounting Policies

Capitalized Software Costs

The Company accounts for the development cost of software intended for sale in accordance with Statement of Financial Accounting Standards No. 86, "Accounting for Costs of Computer Software to be Sold, Leased, or Otherwise Marketed," ("SFAS 86"). SFAS 86 requires product development costs to be charged to expense as incurred until technological feasibility is attained. Technological feasibility is attained when the Company's software has completed system testing and has been determined viable for its intended use. The time between the attainment of technological feasibility and completion of software development has been short with immaterial amounts of development costs incurred during this period. Accordingly, the Company did not capitalize any development costs in 2002 or 2001, other than product development costs acquired through business combinations or purchased from third parties. The Company capitalizes software acquired through technology purchases and business combinations if the related software under development has reached technological feasibility or if there are alternative future uses for the software.

Capitalized software costs and accumulated amortization at December 31, 2002 and 2001 were as follows (in thousands):

	2002	2001
Capitalized software:		
Obtained through business combinations	$ 50,107	$ 7,800
Capitalized development costs	23,267	23,267
Purchased from third parties	10,867	10,867
	84,241	41,934
Accumulated amortization	(40,140)	(25,721)
Capitalized software, net	$ 44,101	$ 16,213

The Company recorded capitalized software amortization, included in "Cost of license fees" in the accompanying consolidated statements of operations, of $14.4 million in 2002, $6.5 million in 2001 and $7.0 million in 2000.

Expected future capitalized software amortization expense for the years ended December 31 is as follows (in thousands):

Year	Amount
2003	$16,437
2004	12,714
2005	7,576
2006	5,899
2007	1,475
Total	$44,101

Segregated Funds

2.161

THE WILLIAMS COMPANIES, INC. (DEC)

(Dollars in millions)	2002	2001
Total current assets	$12,886.1	$12,825.0
Restricted cash	188.3	—
Investments	1,475.6	1,555.9
Property, plant and equipment—net	14,717.7	14,388.9
Energy risk management and trading assets	3,578.7	4,030.4
Goodwill	1,082.5	1,141.4
Assets of discontinued operations	—	3,571.4
Receivables from Williams Communications Group, Inc. (less allowance of $103.2 in 2001)	120.3	137.2
Other assets and deferred charges	939.3	964.0
Total assets	$34,988.5	$38,614.2

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Restricted Cash

Restricted cash within current assets consists primarily of cash collateral as required under the $900 million short-term Credit Agreement and letters of credit. Restricted cash within noncurrent assets consists primarily of collateral in support

of surety bonds underwritten by an insurance company, debt service reserves and letters of credit. Williams does not expect this cash to be released within the next twelve months.

The current and noncurrent restricted cash is primarily invested in short-term money market accounts with financial institutions and an insurance company as well as treasury securities. The classification of restricted cash is determined based on the expected term of the collateral requirement and not necessarily the maturity date of the underlying securities.

Debt Issue Costs

2.162

DEL MONTE FOODS COMPANY AND SUBSIDIARIES (JUN)

(In millions)	2002	2001
Total current assets	$ 589.0	$ 622.5
Property, plant and equipment, net	336.6	326.4
Deferred tax assets	43.5	51.0
Intangible assets, net	56.5	56.7
Other assets, net	44.4	67.5
Total assets	$1,070.0	$1,124.1

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (In millions)

Note 1 (In Part): Business and Significant Accounting Policies

Deferred Charges

Del Monte capitalizes costs associated with the issuance of debt instruments. These costs are amortized on a straight-line basis over the term of the debt agreements. Amortization expenses for deferred charges were $3.1, $3.3 and $3.0 for the years ended June 30, 2002, 2001 and 2000, respectively.

Note 4 (In Part): Supplemental Balance Sheet Information

	2002	2001
Other assets:		
Deferred debt issuance costs, net of accumulated amortization of $3.5 for 2002 and $0.4 for 2001	$19.0	$24.2
Assets held for sale	11.0	20.3
Investments in joint ventures	6.4	6.2
Deferred pension asset	—	16.0
Note receivable for sale of assets	7.0	—
Other	1.0	0.8
Other assets, net	$44.4	$67.5

Derivatives

2.163

KERR-MCGEE CORPORATION (DEC)

(Millions of dollars)	2002	2001
Total current assets	$1,290	$ 1,367
Investments		
Equity affiliates	123	101
Other assets	584	422
Property, plant and equipment—net	7,036	7,378
Deferred charges	328	261
Goodwill	356	356
Long-term assets associated with properties held for disposal	192	1,191
Total assets	$9,909	$11,076

NOTES TO FINANCIAL STATEMENTS

1 (In Part): The Company and Significant Accounting Policies

Financial Instruments (In Part)

The company accounts for all its derivative financial instruments in accordance with FAS 133, "Accounting for Derivative Instruments and Hedging Activities." Derivative financial instruments are recorded as assets or liabilities in the Consolidated Balance Sheet, measured at fair value. When available, quoted market prices are used in determining fair value; however, if quoted market prices are not available, the company estimates fair value using either quoted market prices of financial instruments with similar characteristics or other valuation techniques.

The company uses futures, forwards, options, collars and swaps to reduce the effects of fluctuations in crude oil, natural gas, foreign currency exchange rates and interest rates. Changes in the fair value of instruments that are designated as cash flow hedges and that qualify for hedge accounting under the provisions of FAS 133 are recorded in accumulated other comprehensive income (loss). These hedging gains or losses will be recognized in earnings in the periods during which the hedged forecasted transactions affect earnings. The ineffective portion of the change in fair value of such hedges, if any, is included in current earnings. Instruments that do not meet the criteria for hedge accounting and those designated as fair-value hedges under FAS 133 are recorded at fair value with gains or losses reported currently in earnings.

4. Investments—Other Assets

Investments in other assets consist of the following at December 31, 2002 and 2001:

(Millions of dollars)	2002	2001
Devon Energy Corporation common stock[1]	$457	$385
Long-term receivables, net of allowance for doubtful notes of $9 in both 2002 and 2001	94	12
Derivatives (fixed-price and basis swap commodity contracts)[1]	22	16
U.S. government obligations	2	2
Other	9	7
Total	$584	$422

[1] See Note 18.

18 (In Part): Financial Instruments and Derivative Activities

Derivatives (In Part)

Effective August 1, 2001, the company purchased 100% of the outstanding shares of common stock of HS Resources. At the time of the purchase, HS Resources (now Kerr-McGee Rocky Mountain Corp.) and its marketing subsidiary (now Kerr-McGee Energy Services Corp.) had a number of derivative contracts for purchases and sales of gas, basis differences and energy-related contracts. Prior to 2002, the company had treated all of these derivatives as speculative and marked to market through income each month the change in derivative fair values. In 2002, the company designated the remaining portion of the HS Resources gas basis swaps that settled in 2002 and all that settle in 2003 as hedges. Additionally, in March 2002, the company began hedging a portion of its 2002 oil and natural gas production to increase the predictability of its cash flow and support additional capital expenditures. The hedges were in the form of fixed-price swaps and covered 30,000 barrels of U.S. oil production per day at an average price of $24.09 per barrel, 60,000 barrels of North Sea oil production per day at an average price of $23.17 per barrel and 250,000 MMBtu of U.S. natural gas production per day at an average price of $3.10 per MMBtu. In October 2002, the company expanded the hedging program to cover a portion of the estimated 2003 crude oil and natural gas production by adding fixed-price swaps, new basis swaps and costless collars. At December 31, 2002, the outstanding commodity-related derivatives accounted for as hedges had a net liability fair value of $83 million, of which $27 million is recorded as a current asset and $110 million is recorded as a current liability. The fair value of these derivative instruments at December 31, 2002, was determined based on prices actively quoted, generally NYMEX and Dated Brent prices. The company had after-tax deferred losses of $50 million in accumulated other comprehensive income associated with these contracts. The company expects to reclassify the entire amount of these losses into earnings during the next 12 months, assuming no further changes in fair-market value of the contracts. During 2002, the company realized a $28 million loss on domestic oil hedging, a $50 million loss on North Sea oil hedging and a $2 million loss on domestic natural gas hedging. The losses offset the oil and natural gas prices realized on the physical sale of crude oil and natural gas. Losses for hedge ineffectiveness are recognized as a reduction to Sales in the Consolidated Statement of Operations and totaled $2 million in 2002.

The HS Resources gas basis swaps that settle between 2004 and 2008 continue to be treated by the company as speculative and are marked to market through income. These derivatives are recorded at fair value of $21 million in Investments—Other assets. The net gain associated with these derivatives was $8 million in 2002 and is included in Other Income in the Consolidated Statement of Operations. In 2001, all of the HS Resources derivative contracts were treated by the company as speculative and marked to market through income each month. At December 31, 2001, the fair value of these contracts was $6 million. Of this amount, $6 million was recorded in current assets, $5 million in Investments—Other assets, $4 million in current liabilities and $1 million in deferred credits. The net gain associated with these derivatives was $27 million in 2001 and is included in Other Income in the Consolidated Statement of Operations.

The marketing subsidiary, Kerr-McGee Energy Services (KMES) markets purchased gas (primarily equity gas) in the Denver area. Existing contracts for the physical delivery of gas at fixed or index-plus prices are marked to market each month in accordance with FAS 133. KMES has entered into natural gas basis and price derivative contracts that offset its fixed-price risk on physical contracts. These derivative contracts lock in the margins associated with the physical sale. The company believes that risk associated with these derivatives is minimal due to the creditworthiness of the counterparties. The net asset fair value of the physical and offsetting derivative contracts was $8 million at year-end 2002. Of this amount, $31 million was recorded in current assets, $1 million in Investments—Other assets, $23 million in current liabilities and $1 million in deferred credits. The fair value of the outstanding derivative instruments at December 31, 2002, was determined based on prices actively quoted, generally NYMEX prices. During 2002, the net loss associated with these derivative contracts was $20 million and is included in Sales in the Consolidated Statement of Operations. At year-end 2001, the net asset fair value of the commodity-related derivatives and physical contracts was $21 million. Of this amount, $30 million was recorded in current assets, $11 million in Investments—Other assets, $19 million in current liabilities and $1 million in deferred credits. The 2001 net loss associated with these derivative contracts was $24 million and is included in Sales in the Consolidated Statement of Operations. The losses on the derivative contracts are generally offset by the prices realized on the physical sale of the natural gas.

2.164

MCDONALD'S CORPORATION (DEC)

(In millions)	2002	2001
Total current assets	$ 1,715.4	$ 1,819.3
Other assets		
Investments in and advances to affiliates	1,037.7	990.2
Goodwill, net	1,559.8	1,320.4
Miscellaneous	1,074.2	1,115.1
Total other assets	3,671.7	3,425.7
Property and equipment		
Property and equipment, at cost	26,218.6	24,106.0
Accumulated depreciation and amortization	(7,635.2)	(6,816.5)
Net property and equipment	18,583.4	17,289.5
Total assets	$23,970.5	$22,534.5

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (In Part)

Financial Instruments

The Company generally borrows on a long-term basis and is exposed to the impact of interest-rate changes and foreign currency fluctuations. The Company uses foreign currency denominated debt and derivative instruments to manage the impact of these changes. The Company does not use derivatives with a level of complexity or with a risk higher than the exposures to be hedged and does not hold or issue derivatives for trading purposes.

The counterparties to these agreements consist of a diverse group of financial institutions. The Company continually monitors its positions and the credit ratings of its counterparties, and adjusts positions as appropriate. The Company did not have significant exposure to any individual counterparty at December 31, 2002 and has master agreements that contain netting arrangements. Certain of these agreements also require each party to post collateral if credit ratings fall below, or aggregate exposures exceed, certain contractual limits. During 2002, certain counterparties were required to post collateral as aggregate exposures exceeded certain contractual limits due to increased values. At December 31, 2002, collateral in the amount of $2.2 million was posted by a counterparty while the Company was not required to collateralize any of its obligations.

Effective January 1, 2001, the Company adopted SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities,* as amended. SFAS No. 133 requires companies to recognize all derivatives as either assets or liabilities in the balance sheet at fair value. SFAS No. 133 also requires companies to designate all derivatives that qualify as hedging instruments as either fair value hedges, cash flow hedges or hedges of net investments in foreign operations. This designation is based upon the exposure being hedged.

The Company recorded a transition adjustment at January 1, 2001 related to cash flow hedges, which reduced accumulated other comprehensive income in shareholders' equity by $17.0 million, after tax. This adjustment was primarily related to interest-rate exchange agreements used to lock in long-term borrowing rates. The cumulative effect of adopting SFAS No. 133 at January 1, 2001 was not material to the Company's Consolidated statement of income.

All derivatives, primarily interest-rate exchange agreements and foreign currency exchange agreements, were classified in the Company's Consolidated balance sheet at December 31, 2002 as follows: miscellaneous other assets—$133.9 million; other long-term liabilities (excluding accured interest)—$39.2 million; and accrued payroll and other liabilities—$23.8 million.

Debt Financing (In Part)

Fair Values (In Part)

The carrying amounts for both cash and equivalents and notes receivable approximate fair value. Foreign currency and interest-rate exchange agreements, foreign currency options and forward foreign exchange contracts were recorded in the Consolidated balance sheet at fair value using various pricing models or discounted cash flow analyses that incorporated quoted market prices. No fair value was estimated for noninterest-bearing security deposits by franchisees, because these deposits are an integral part of the overall franchise arrangements.

Property Held for Sale

2.165

CTS CORPORATION (DEC)

(In thousands of dollars)	2002	2001
Total current assets	$ 152,334	$ 200,674
Property, plant and equipment		
Buildings and land	112,243	111,346
Machinery and equipment	287,819	287,824
Total property, plant and equipment	400,062	399,170
Accumulated depreciation	(251,430)	(207,212)
Net property, plant and equipment	148,632	191,958
Other assets		
Prepaid pension asset	120,277	102,196
Intangible assets, net	39,923	44,004
Assets held for sale—Note D	23,135	21,940
Other	5,731	7,159
Total other assets	189,066	175,299
Total assets	$ 490,032	$ 567,931

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note D—Assets Held for Sale

Assets held for sale at December 31, 2002 are comprised of facilities, primarily the Longtan, Taiwan, building, production equipment for the 3.2×5mm TCXO production line, and other machinery and equipment that has been removed from service and is to be disposed of pursuant to the Company's restructuring activities (refer also to Note B, "Restructuring and Impairment Charges"). The assets are held by the Components and Sensors business segment. These assets are recorded at amounts not in excess of what management currently expects to receive upon sale, less cost of disposal; however, the amounts the Company will ultimately realize are

dependent on numerous factors, some of which are beyond management's ability to control, and could differ materially from the amounts currently recorded.

The Company has entered into a definitive agreement to sell the production equipment from its 3.2×5mm TCXO production line. CTS expects the sale to be completed in the first quarter of 2003 at no gain or loss.

During the fourth quarter of 2001, CTS completed an assessment of the carrying value of its assets in light of then-existing and expected market conditions. The review highlighted certain assets for which no production demand or use existed or was forecasted to exist before economic obsolescence of the asset. Such assets have been removed from service. An impairment loss was recorded to reduce these assets to their then-estimated fair value. The Company routinely monitors the estimated value of all assets held for sale and records adjustments to these values as required. During the third quarter of 2002, CTS reduced their estimate of the fair value of these assets by an additional $0.4 million. During 2002, CTS sold machinery and equipment classified as assets held for sale for approximately $1.6 million, which approximated the carrying value of these assets held for sale.

Cash Value of Life Insurance

2.166

WINN-DIXIE STORES, INC. AND SUBSIDIARIES (JUN)

(Dollar amounts in thousands)	2002	2001
Total current assets	$1,638,306	$1,599,201
Cash surrender value of life insurance, net	16,197	16,876
Property, plant and equipment, net	966,752	1,146,654
Goodwill	87,808	87,808
Non-current deferred income taxes	113,291	106,145
Other assets, net	115,224	84,986
Total assets	$2,937,578	$3,041,670

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollar amounts in thousands)

11 (In Part): Commitments and Contingent Liabilities

b) Defined Benefit Plan Obligation

The Company has a Management Security Plan (MSP), which is a non-qualified defined benefit plan providing disability, death and retirement benefits to 314 qualified active associates of the Company and 715 former participants. Total MSP cost charged to operations was $7,621, $6,686 and $6,104 in 2002, 2001 and 2000, respectively. The projected benefit obligation at June 26, 2002 was approximately $52,887. The effective discount rate used in determining the net periodic MSP cost was 8.0% for 2002, 2001 and 2000.

Life insurance policies, which are not considered MSP assets for liability accrual computations, were purchased to fund the MSP payments. These insurance policies are shown on the balance sheet at their cash surrender values, net of policy loans aggregating $238,502 and $224,593 at June 26, 2002 and June 27, 2001, respectively.

Contracts

2.167

UNISYS CORPORATION (DEC)

(Millions)	2002	2001
Total current assets	$1,946.0	$2,204.1
Properties	1,542.7	1,460.4
Less—Accumulated depreciation and amortization	932.9	910.8
Properties, net	609.8	549.6
Investments at equity	111.8	212.3
Marketable software, net	311.8	287.9
Prepaid pension cost		1,221.0
Deferred income taxes	1,476.0	747.8
Goodwill	160.6	159.0
Other long-term assets	365.4	387.4
Total assets	$4,981.4	$5,769.1

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Outsourcing Contract Costs

Costs on outsourcing contracts are generally charged to expense as incurred. However, certain direct costs incurred related to the inception of an outsourcing contract are deferred and charged to expense over the contract term. These costs consist principally of initial customer setup and employment obligations related to employees assumed. At December 31, 2002 and 2001, $158.0 million and $137.0 million, respectively, of these costs were reported in other long-term assets. These costs are tested for recoverability quarterly.

Assets of Nonhomogeneous Operations

2.168

ALTRIA GROUP, INC. (DEC)

(In millions of dollars)	2002	2001
Total consumer products assets	$78,309	$76,104
Financial services		
Finance assets, net	9,075	8,691
Other assets	156	173
Total financial services assets	9,231	8,864
Total assets	$87,540	$84,968

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (In Part): Background and Basis of Presentation

Basis of Presentation (In Part)

Balance sheet accounts are segregated by two broad types of business. Consumer products assets and liabilities are classified as either current or non-current, whereas financial services assets and liabilities are unclassified, in accordance with respective industry practices.

Note 7. Finance Assets, Net

At December 31, 2002, finance assets, net, of $9,075 million were comprised of investment in finance leases of $9,358 million and other receivables of $161 million, reduced by allowance for losses of $444 million. At December 31, 2001, finance assets, net, of $8,691 million were comprised of investment in finance leases of $8,238 million and other receivables of $585 million, reduced by allowance for losses of $132 million.

A summary of net investment in finance leases at December 31, before allowance for losses, was as follows:

	Leveraged Leases		Direct Finance Leases		Total	
(In millions)	2002	2001	2002	2001	2002	2001
Rentals receivable, net	$ 9,381	$ 8,677	$2,110	$1,482	$11,491	$10,159
Unguaranteed residual values	2,267	2,296	148	82	2,415	2,378
Unearned income	(3,953)	(3,807)	(546)	(431)	(4,499)	(4,238)
Deferred investment tax credits	(49)	(61)			(49)	(61)
Investment in finance leases	7,646	7,105	1,712	1,133	9,358	8,238
Deferred income taxes	(5,163)	(4,934)	(434)	(189)	(5,597)	(5,123)
Net investment in finance leases	$ 2,483	$ 2,171	$1,278	$ 944	$ 3,761	$ 3,115

Rentals receivable, net, for leveraged leases, represent unpaid rentals, less principal and interest payments on remaining third-party non-recourse debt. PMCC's rights to rentals receivable are subordinate to the non-recourse debt-holders and the leased equipment is pledged as collateral to the debt-holders. PMCC has no obligation for the payment of non-recourse third-party debt issued to purchase the assets under the lease. The payment of the debt is collateralized only by lease payments receivable and the leased property, and is non-recourse to all other assets of PMCC. As required by U.S. GAAP, the non-recourse third-party debt of $20.0 billion and $17.9 billion at December 31, 2002 and 2001, respectively, has been offset against the related rentals receivable. There were no leases with contingent rentals in 2002 and 2001.

PMCC's investment in finance leases is principally comprised of the following investment categories: aircraft (27%), electric power (20%), surface transport (17%), real estate (14%), manufacturing (14%), energy (6%) and other (2%). Investments located outside the United States, which are all dollar-denominated, represent 20% and 16% of PMCC's finance assets in 2002 and 2001, respectively.

PMCC leases a number of aircraft, predominantly to major United States carriers. On August 11, 2002, US Airways Group, Inc. ("US Air") filed for Chapter 11 bankruptcy protection. PMCC currently leases 16 Airbus A319 aircraft to US Air under long-term leveraged leases, which expire in 2018 and 2019. The aircraft were leased in 1998 and 1999 and represent an investment in finance leases of $150 million at December 31, 2002. PMCC ceased recording income on these leases as of the date of the bankruptcy filing, pending US Air's effort to restructure with the assistance of a government loan guarantee.

On December 9, 2002, United Air Lines Inc. ("UAL") filed for Chapter 11 bankruptcy protection. At December 31, 2002, PMCC leased 24 Boeing 757 aircraft to UAL, 6 under long-term leveraged leases, which expire in 2014; and 18 under long-term single investor leases, which expire in 2011 and 2014. The investment in finance assets totals $92 million for the 6 aircraft under leveraged leases and $747 million for the 18 aircraft under single investor leases. Of the existing single investor leases, 16 were originally leveraged leases. As a result of PMCC's purchase of the senior non-recourse debt on these planes totaling $239 million, these 16 leases, as required by U.S. GAAP, were converted to single investor leases. The remaining non-recourse debt principal and accrued interest on these aircraft totaling $214 million is held by UAL and is subordinate to the senior debt. Aggregate exposure to UAL totals $625 million, net of the non-recourse debt held by UAL at December 31, 2002. PMCC continues to evaluate the effect of the UAL bankruptcy filing, while seeking to negotiate with UAL in its efforts to restructure and emerge from bankruptcy. PMCC ceased recording income on the leases as of the date of the bankruptcy filing.

In recognition of the recent economic downturn in the airline industry, PMCC increased its allowance for losses by $290 million in the fourth quarter of 2002.

Rentals receivable in excess of debt of service requirements on non-recourse debt related to leveraged leases and rentals receivable from direct finance leases at December 31, 2002 were as follows:

(In millions)	Leveraged Leases	Direct Finance Leases	Total
2003	$ 260	$ 218	$ 478
2004	285	227	512
2005	231	187	418
2006	266	169	435
2007	258	148	406
2008 and thereafter	8,081	1,161	9,242
Total	$9,381	$2,110	$11,491

Included in net revenues for the years ended December 31, 2002, 2001 and 2000 were leveraged lease revenues of $363 million, $284 million and $256 million, respectively, and direct finance lease revenues of $99 million, $102 million and $104 million, respectively. Income tax expense on leveraged lease revenues for the years ended December 31, 2002, 2001

and 2000 was $142 million, $110 million and $93 million, respectively.

Income from investment tax credits on leveraged leases and initial direct costs and executory costs on direct financing leases were not material during the years ended December 31, 2002, 2001 and 2000.

Broadcast Rights

2.169

TRIBUNE COMPANY AND SUBSIDIARIES (DEC)

(In thousands of dollars)	2002	2001
Total current assets	$ 1,524,654	$ 1,363,991
Properties		
Machinery, equipment and furniture	2,223,075	2,060,399
Buildings and leasehold improvements	919,945	822,667
	3,143,020	2,883,066
Accumulated depreciation	(1,586,497)	(1,400,042)
	1,556,523	1,483,024
Land	130,346	130,361
Construction in progress	112,757	224,939
Net properties	1,799,626	1,838,324
Other assets		
Broadcast rights	413,857	388,244
Goodwill	5,419,113	5,345,653
Other intangible assets, net	2,997,958	3,185,783
AOL Time Warner stock related to PHONES debt	199,040	529,600
Other investments	700,582	879,914
Prepaid pension costs	864,626	808,040
Other	158,872	145,318
Total other assets	10,754,048	11,282,552
Total assets	$14,078,328	$14,484,867

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Broadcast Rights

Broadcast rights consist principally of rights to broadcast syndicated programs, sports and feature films and are stated at the lower of cost or estimated net realizable value. The total cost of these rights is recorded as an asset and a liability when the program becomes available for broadcast. Syndicated program rights that have limited showings are generally amortized using an accelerated method as programs are aired. Sports and feature films rights are amortized using the straight-line method. The current portion of broadcast rights represents those rights available for broadcast that are expected to be amortized in the succeeding year.

CURRENT LIABILITIES

2.170 ARB No. 43, Chapter 3A, *Current Assets and Current Liabilities,* as amended by SFAS No. 6, *Classification of Short-Term Obligations Expected to Be Refinanced,* and SFAS No. 78, *Classification of Obligations That Are Callable by the Creditor,* discusses, in paragraphs 7 and 8, the nature of current liabilities. Examples of the various types of current liabilities follow.

SHORT-TERM DEBT

2.171 Table 2-22 lists the captions used by the survey companies to describe short-term notes payable, loans payable and commercial paper. By definition, such short-term obligations are financial instruments.

2.172 *SFAS No. 107,* as amended by *SFAS No. 133,* requires disclosure of both the fair value and the bases for estimating the fair value of short-term notes payable, loans payable, and commercial paper unless it is not practicable to estimate that value. 227 survey companies made 320 fair value disclosure. 20 of those disclosures used market or broker quotes of the short-term debt to determine fair value. 23 of those disclosures stated that either discounted cash flows or market prices of similar instruments were used to estimate fair value. 2 of those disclosures estimated fair value using other valuation methods. 200 disclosures presented carrying amounts which approximated fair value of short-term debt. In addition there were 39 disclosures in which carrying value was compared to fair value in an exposition or table. 3 disclosures stated it was not practicable to estimate fair value.

2.173 *SFAC No. 7* provides a framework for using future cash flows and present value as the basis for accounting measurements of fair value of an asset or a liability at initial recognition or fresh-start measurements and for future-cash-flow-based amortization techniques, such as interest method amortization. Fresh-start measurements are measurements in periods following initial recognition that establish a new carrying amount unrelated to previous amounts and accounting conventions.

2.174 When observable marketplace-determined values are not available, discounted cash flows are often used to estimate fair value. Accounting applications of present value typically use a single set of estimated cash flows and a risk-adjusted discount rate. This Statement introduces the expected cash flow approach, which differs from the traditional approach by focusing on explicit assumptions about the range of possible cash outcomes and their respective probabilities.

2.175 While *SFAC No. 7* does not require modification of any existing pronouncements, its concepts may be used to determine fair value. This Standard will be used in developing future accounting standards. No data on the use of expected cash flow approach in discounted cash flow applications were compiled.

2.176 Examples of short-term debt presentations and disclosures follow.

2.177

TABLE 2-22: SHORT-TERM DEBT

	2002	2001	2000	1999
Description				
Notes or loans				
Payee indicated	45	45	40	54
Payee not indicated	112	131	140	150
Short-term debt or borrowings	148	142	144	103
Commercial paper	53	59	56	70
Other	31	57	61	38
Total Presentations	**389**	**434**	**441**	**415**
Number of Companies				
Showing short-term debt	321	361	382	383
Not showing short-term debt	279	239	218	217
Total Companies	**600**	**600**	**600**	**600**

2.178

EASTMAN KODAK COMPANY AND SUBSIDIARY COMPANIES (DEC)

(In millions)	2002	2001
Current liabilities		
Accounts payable and other current liabilities	$3,351	$3,276
Short-term borrowings	1,442	1,534
Accrued income taxes	584	544
Total current liabilities	$5,377	$5,354

NOTES TO FINANCIAL STATEMENTS

Note 8 (In Part): Short-Term Borrowings and Long-Term Debt

Short-Term Borrowings

The Company's short-term borrowings at December 31, 2002 and 2001 were as follows:

(In millions)	2002	2001
Commercial paper	$ 837	$1,140
Current portion of long-term debt	387	156
Short-term bank borrowings	218	238
Total short-term borrowings	$1,442	$1,534

The weighted average interest rates for commercial paper outstanding during 2002 and 2001 were 2.0% and 3.6%, respectively. The weighted average interest rates for short-term bank borrowings outstanding during 2002 and 2001 were 3.8% and 6.2%, respectively.

Lines of Credit

The Company has $2,225 million in committed revolving credit facilities (the EKC Credit Facility) renegotiated in 2002, which are available to support the Company's commercial paper program and for general corporate purposes. The EKC Credit Facility is comprised of a 364-day committed facility at $1,000 million expiring in July 2003 and a 5-year committed facility at $1,225 million expiring in July 2006. If unused, they have a commitment fee of $3 million per year, at the Company's current credit rating. Interest on amounts borrowed under these facilities is calculated at rates based on spreads above certain reference rates and the Company's credit rating of BBB+ (Standard & Poor's) and Baa1 (Moody's). There were no amounts outstanding under these arrangements at December 31, 2002. The EKC Credit Facility includes a covenant that requires the Company to maintain a certain debt to EBITDA (earnings before interest, income taxes, depreciation and amortization) ratio. In the event of violation of the covenant, the facility would not be available for borrowing until the covenant provisions were waived, amended or satisfied. The Company was in compliance with this covenant at December 31, 2002. The Company does not anticipate that a violation is likely to occur.

The Company has other committed and uncommitted lines of credit at December 31, 2002 totaling $241 million and $1,993 million, respectively. These lines primarily support borrowing needs of the Company's subsidiaries, including term loans, overdraft coverage, letters of credit and revolving credit lines. Interest rates and other terms of borrowing under these lines of credit vary from country to country, depending on local market conditions. Total outstanding borrowings against these other committed and uncommitted lines of credit at December 31, 2002 were $143 million and $465 million, respectively. These outstanding borrowings are reflected in the short-term bank borrowings and long-term debt balances at December 31, 2002.

Accounts Receivable Securitization Program

In March 2002, the Company entered into an accounts receivable securitization program (the Program), which provides the Company with borrowings up to a maximum of $400 million. Under the Program, the Company sells certain of its domestic trade accounts receivable without recourse to EK Funding LLC, a Kodak wholly owned, consolidated, bankruptcy-remote, limited purpose, limited liability corporation (EKFC). Kodak continues to service, administer and collect the receivables. A bank, acting as the Program agent, purchases undivided percentage ownership interests in those receivables on behalf of the conduit purchasers, who have a first priority security interest in the related receivables pool. The receivables pool at December 31, 2002, representing the outstanding balance of the gross accounts receivable sold to EKFC, totaled approximately $634 million. As the Company has the right at any time during the Program to repurchase all of the then outstanding purchased interests for a purchase price equal to the outstanding principal plus accrued fees, the receivables remain on the Company's Consolidated Statement of Financial Position, and the proceeds from the sale of undivided interests are recorded as secured borrowings.

As the Program is renewable annually subject to the bank's approval, the secured borrowings under the Program are included in short-term borrowings. The Company expects the Program to be renewed upon its expiration in March 2003 at a minimum borrowing level of $250 million. At December 31, 2002, the Company had outstanding secured borrowings under the Program of $74 million.

The cost of the secured borrowings under the Program is comprised of yield, liquidity, conduit, Program and Program agent fees. The yield fee is subject to a floating rate, based on the average of the conduits' commercial paper

rates. The total charge for these fees is recorded in interest expense. Based on the outstanding secured borrowings level of $74 million and the average of the conduits' commercial paper rates at December 31, 2002, the estimated annualized borrowing cost rate is 2.13%. Interest expense for the year ended December 31, 2002 was not material.

The Program agreement contains a number of customary covenants and termination events. Upon the occurrence of a termination event, all secured borrowings under the Program shall be immediately due and payable. The Company was in compliance with all such covenants at December 31, 2002.

Note 11 (In Part): Financial Instruments

The carrying values of cash and cash equivalents, receivables, short-term borrowings and payables approximate their fair values.

2.179

NIKE, INC. (MAY)

(In millions)	2002	2001
Current liabilities:		
Current portion of long-term debt	$ 55.3	$ 5.4
Notes payable (Note 4)	425.2	855.3
Accounts payable	504.4	432.0
Accrued liabilities	768.3	472.1
Income taxes payable	83.0	21.9
Total current liabilities	$1,836.2	$1,786.7

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4—Short-Term Borrowings and Credit Lines

Commercial paper outstanding, notes payable to banks, and interest-bearing accounts payable to Nissho Iwai American Corporation (NIAC) are summarized below:

	2002		2001	
(In millions)	Borrowings	Interest Rate	Borrowings	Interest Rate
Notes payable and commercial paper:				
U.S. operations	$339.2	1.82%	$710.0	4.07%
Non-U.S. operations	86.0	6.61%	145.3	6.50%
	$425.2		$855.3	
NIAC	36.3	2.62%	30.4	5.14%

At May 31, 2002 there was $338.3 million outstanding and at May 31, 2001 there was $710.0 million outstanding under our commercial paper program.

The Company purchases through NIAC certain athletic footwear and apparel it acquires from non-U.S. suppliers. These purchases are for the Company's operations outside of the U.S., Europe, and Japan. Accounts payable to NIAC are generally due up to 60 days after shipment of goods from the foreign port. The interest rate on such accounts payable is the 60 day London Interbank Offered Rate (LIBOR) as of the beginning of the month of the invoice date, plus 0.75%.

The Company has a $600.0 million, 364-day committed credit facility and a $500.0 million, multi-year committed credit facility in place with a group of banks under which no amounts are outstanding. The $600.0 million facility matures on November 15, 2002 and can be extended 364 days on each maturity date. The $500.0 million facility matures on November 17, 2005, and once a year, it can be extended for one additional year. Based on the Company's current senior unsecured debt ratings, the interest rate charged on any outstanding borrowings on the $600.0 million facility would be the prevailing LIBOR plus 0.24%, and the interest rate charged on any outstanding borrowings on the $500.0 million facility would be the prevailing LIBOR plus 0.22%. The facility fees for the $600.0 million and the $500.0 million facilities are 0.06% and 0.08%, respectively, of the total commitment. Under these agreements, the Company must maintain, among other things, certain minimum specified financial ratios with which the Company was in compliance at May 31, 2002.

Note 14—Fair Value of Financial Instruments

The carrying amounts reflected in the consolidated balance sheet for cash and equivalents and notes payable approximate fair value due to the short maturities. The fair value of long-term debt is estimated using discounted cash flow analyses, based on the Company's incremental borrowing rates for similar types of borrowing arrangements. The fair value of the Company's long-term debt, including current portion, is approximately $723.9 million, compared to a carrying value of $681.2 million at May 31, 2002 and $437.8 million, compared to a carrying value of $441.3 million at May 31, 2001.

TRADE ACCOUNTS PAYABLE

2.180 All the survey companies disclosed the existence of amounts owed to trade creditors. As shown in Table 2-23, such amounts were usually described as *Accounts Payable* or *Trade Accounts Payable.*

2.181 As stated in paragraph 13 of *SFAS No. 107,* as amended by *SFAS No. 133,* fair value disclosure is not required for trade payables when the carrying amount of the trade payable approximates its fair value. 243 survey companies made 248 fair value disclosures. Carrying amount approximated fair value of trade payables for 240 disclosures.

2.182 Examples of trade accounts payable presentations follow.

2.183

TABLE 2-23: TRADE ACCOUNTS PAYABLE

	2002	2001	2000	1999
Accounts payable	454	453	451	448
Trade accounts payable	96	107	103	112
Accounts payable combined with accrued liabilities or accrued expenses	28	27	30	31
Other captions	22	13	16	9
Total Companies	**600**	**600**	**600**	**600**

2.184

UNITED STATES STEEL CORPORATION (DEC)

(Dollars in millions)	2002	2001
Current liabilities:		
Accounts payable	$ 677	$ 551
Accounts payable to related parties (Note 14)	90	143
Payroll and benefits payable	254	239
Accrued taxes	281	248
Accrued interest	44	45
Long-term debt due within one year	26	32
Total current liabilities	$1,372	$1,258

NOTES TO FINANCIAL STATEMENTS

14 (In Part): Transactions With Related Parties

Accounts payable to related parties reflect the purchase of semi-finished steel products and outside processing services from equity and certain other investees in 2002, and for the first quarter of 2001 and the year 2000 included the purchase of transportation services from Transtar. Purchases from these investees totaled $181 million, $261 million and $566 million in 2002, 2001 and 2000, respectively. U. S. Steel also purchased natural gas and gasoline from Marathon under terms comparable to those with unrelated parties. Total purchases from Marathon were $15 million, $30 million and $60 million in 2002, 2001 and 2000, respectively.

Accounts payable to related parties at December 31, 2002, also included the net present value of the second and final $37.5 million installment of contingent consideration payable to VSZ in July 2003 related to the acquisition of USSK. This payable was reflected as a long-term payable to related parties at December 31, 2001. Accounts payable to related parties at December 31, 2001, also included the net present value of the first $37.5 million installment of contingent consideration paid to VSZ in July 2002 related to the acquisition of USSK, and $54 million due to Marathon that was paid in the first quarter of 2002 in accordance with the terms of the Separation.

24 (In Part): Fair Value of Financial Instruments

Fair value of the financial instruments disclosed herein is not necessarily representative of the amount that could be realized or settled, nor does the fair value amount consider the tax consequences of realization or settlement. The following table summarizes financial instruments, excluding derivative financial instruments disclosed in Note 23, by individual balance sheet account. U. S. Steel's financial instruments at December 31, 2002 and 2001, were:

	2002		2001	
(In millions)	Fair Value	Carrying Amount	Fair Value	Carrying Amount
Financial assets:				
Cash and cash equivalents	$ 243	$ 243	$ 147	$ 147
Receivables	805	805	671	671
Receivables from related parties	129	129	159	159
Investments and long-term receivables	45	44	42	41
Total financial assets	$1,222	$1,221	$1,019	$1,018
Financial liabilities:				
Accounts payable	$ 677	$ 677	$ 551	$ 551
Accounts payable to related parties	90	90	143	143
Accrued interest	44	44	45	45
Long-term debt (including amounts due within one year)	1,165	1,352	1,122	1,375
Total financial liabilities	$1,976	$2,163	$1,861	$2,114

Fair value of financial instruments classified as current assets or liabilities approximates carrying value due to the short-term maturity of the instruments. Fair value of investments and long-term receivables was based on discounted cash flows or other specific instrument analysis. The cost method investment in VSZ at December 31, 2001, was excluded from investments and long-term receivables because the fair value was not readily determinable. U. S. Steel is subject to market risk and liquidity risk related to its investments; however, these risks are not readily quantifiable. Fair value of long-term debt instruments was based on market prices where available or current borrowing rates available for financings with similar terms and maturities.

2.185

UNIVERSAL HEALTH SERVICES, INC. AND SUBSIDIARIES (DEC)

(Dollar amounts in thousands)	2002	2001
Current liabilities		
Current maturities of long-term debt	$ 8,253	$ 2,436
Accounts payable	170,471	144,163
Accrued liabilities		
Compensation and related benefits	82,900	58,607
Interest	3,690	3,050
Taxes other than income	25,068	26,525
Other	67,969	87,050
Federal and state taxes	12,062	885
Total current liabilities	$370,413	$322,716

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Fair Value of Financial Instruments

The fair values of the Company's registered debt, interest rate swap agreements and investments are based on quoted market prices. The fair values of other long-term debt, including capital lease obligations, are estimated by discounting cash flows using period-end interest rates and market conditions for instruments with similar maturities and credit quality. The carrying amounts reported in the balance sheet for cash, accounts receivable, accounts payable, and short-term borrowings approximates their fair values due to the short-term nature of these instruments. Accordingly, these items have been excluded from the fair value disclosures included elsewhere in these notes to consolidated financial statements.

EMPLOYEE-RELATED LIABILITIES

2.186 Table 2-24 shows the nature of employee related liabilities disclosed by the survey companies as current liabilities. Examples of employee related liability presentations and disclosures follow.

2.187

TABLE 2-24: EMPLOYEE-RELATED LIABILITIES

	2002	2001	2000	1999
Description				
Salaries, wages, payrolls, commissions	266	271	273	287
Compensation	218	203	193	211
Benefits	50	47	47	61
Pension or profit-sharing contributions	48	35	41	44
Compensated absences	14	17	14	17
Other	48	41	49	37
Total Presentations	**644**	**614**	**617**	**657**
Number of Companies				
Disclosing employee related liabilities	499	482	469	504
Not disclosing	101	118	131	96
Total Companies	**600**	**600**	**600**	**600**

2.188

CNF INC. (DEC)

(Dollars in thousands)	2002	2001
Current liabilities		
Accounts payable	$356,605	$338,730
Accrued liabilities (Note 4)	334,758	307,676
Income taxes payable	—	21,501
Accrued claims costs	141,632	126,981
Accrued aircraft leases and return provision	27,770	77,483
Current maturities of long-term debt and capital leases	12,289	11,765
Total current liabilities	$873,054	$884,136

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. Accrued Liabilities

As of December 31, accrued liabilities consisted of the following:

(Dollars in thousands)	2002	2001
Holiday and vacation pay	$ 69,035	$ 66,757
Incentive compensation	62,209	10,019
Wages and salaries	33,012	32,848
Taxes other than income taxes	29,371	37,197
Estimated revenue adjustments	19,345	23,781
Accrued interest	5,119	5,568
Net current liabilities of discontinued operations	3,215	5,573
Other accrued liabilities	113,452	125,933
Total accrued liabilities	$334,758	$307,676

2.189

SCIENCE APPLICATIONS INTERNATIONAL CORPORATION (JAN)

(In thousands)	2003	2002
Current liabilities:		
Accounts payable and accrued liabilities	$ 939,045	$ 947,940
Accrued payroll and employee benefits	381,672	358,483
Income taxes payable	214,520	210,392
Notes payable and current portion of long-term debt	16,752	14,694
Total current liabilities	$1,551,989	$1,531,509

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note C (In Part): Composition of Certain Financial Statement Captions

(In thousands)	2003	2002
Accrued payroll and employee benefits:		
Salaries, bonuses and amounts withheld from employees' compensation	$209,603	$210,927
Accrued vacation	133,992	117,596
Accrued contributions to employee benefit plans	38,077	29,960
	$381,672	$358,483

INCOME TAX LIABILITY

2.190 Table 2-25 summarizes the descriptive balance sheet captions used to describe the current liability for income taxes.

2.191

TABLE 2-25: CURRENT INCOME TAX LIABILITY

	2002	2001	2000	1999
Income taxes	296	285	303	306
Taxes—type not specified	47	45	45	50
Federal, state, and foreign income taxes	10	7	10	9
Federal and state income taxes	9	9	12	16
Federal and foreign income taxes	5	5	3	5
Federal income taxes	5	4	3	4
U.S. and foreign income taxes	4	6	7	5
Other captions	18	9	16	12
No current income tax liability	206	230	201	193
Total Companies	**600**	**600**	**600**	**600**

2.192

ABBOTT LABORATORIES (DEC)

(Dollars in thousands)	2002	2001	2000
Current liabilities:			
Short-term borrowings	$1,927,543	$2,950,956	$ 229,282
Trade accounts payable	1,661,650	1,525,215	1,355,985
Salaries, wages and commissions	579,689	557,672	401,366
Other accrued liabilities	2,202,477	2,285,644	1,549,245
Dividends payable	367,345	326,552	293,800
Income taxes payable	42,387	278,399	217,690
Current portion of long-term debt	221,111	2,379	250,172
Total current liabilities	$7,002,202	$7,926,817	$4,297,540

2.193

COMPUTER ASSOCIATES INTERNATIONAL, INC. (MAR)

(Dollars in millions)	2002	2001
Current liabilities		
Loans payable and current portion of long-term debt	$ 508	$ 816
Accounts payable	208	272
Salaries, wages and commissions	236	196
Accrued expenses and other current liabilities	474	613
Deferred subscription revenue (collected)—current	577	166
Taxes payable, other than income taxes payable	116	132
Federal, state and foreign income taxes payable	195	257
Deferred income taxes	7	—
Total current liabilities	$2,321	$2,452

CURRENT AMOUNT OF LONG-TERM DEBT

2.194 Table 2-26 summarizes the descriptive balance sheet captions used to describe the amount of long-term debt payable during the next year. *SFAS No. 107,* as amended by *SFAS No. 133,* requires disclosure of both the fair value and the bases for estimating the fair value of the current amount of long-term debt unless it is not practicable to estimate that value. 195 survey companies made 227 fair value disclosures. 76 of those disclosures used market or broker quotes of the current amount of long-term debt to determine fair value. 89 of those disclosures stated that either discounted cash flows or market prices of similar instruments were used to estimate fair value. 2 of those disclosures estimated fair value using other valuation methods. 109 disclosures presented carrying amounts which approximated fair value of current amount of long-term debt. In addition there

were 50 disclosures in which carrying value was compared to fair value in an exposition or a table. 1 disclosure stated it was not practicable to estimate fair value.

2.195 *SFAC No. 7* provides a framework for using future cash flows and present value as the basis for accounting measurements of fair value of an asset or a liability at initial recognition or fresh-start measurements and for future-cash-flow-based amortization techniques, such as interest method amortization. Fresh-start measurements are measurements in periods following initial recognition that establish a new carrying amount unrelated to previous amounts and accounting conventions.

2.196 When observable marketplace-determined values are not available, discounted cash flows are often used to estimate fair value. Accounting applications of present value typically use a single set of estimated cash flows and a risk-adjusted discount rate. This Statement introduces the expected cash flow approach, which differs from the traditional approach by focusing on explicit assumptions about the range of possible cash outcomes and their respective probabilities.

2.197 While *SFAC No. 7* does not require modification of any existing pronouncements, its concepts may be used to determine fair value. This Standard will be used in developing future accounting standards. No data on the use of expected cash flow approach in discounted cash flow applications were compiled.

2.198

TABLE 2-26: CURRENT AMOUNT OF LONG-TERM DEBT

	Number of Companies			
	2002	**2001**	**2000**	**1999**
Current portion of long-term debt	233	232	217	227
Current maturities of long-term debt	161	169	175	185
Current amount of long-term leases	36	36	29	32
Long-term debt due or payable within one year	36	34	30	32
Current installment of long-term debt	21	15	19	22
Other captions	13	12	25	10

2.199

INTERNATIONAL MULTIFOODS CORPORATION (FEB)

(In thousands)	2002	2001
Current liabilities:		
Notes payable	$ —	$ 39,542
Current portion of long-term debt	24,508	1,000
Accounts payable	182,273	216,050
Other current liabilities	63,278	42,288
Total current liabilities	$270,059	$298,880

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 9 (In Part): Fair Value of Financial Instruments

The following tables provide information on the carrying amount, notional amount and fair value of financial instruments, including derivative financial instruments. The carrying value of financial instruments classified as current assets and current liabilities, such as cash and cash equivalents, receivables, accounts payable and short-term debt, approximate fair value due to the short-term maturity of the instruments. The fair value of long-term debt, futures contracts, currency forward contracts and interest rate swaps was based on quoted market prices. The fair value of the note receivable from Gruma was based on prevailing market conditions and available financial information.

	2002		2001	
(In thousands)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets:				
Note receivable from Gruma	$ —	$ —	$17,219	$15,128
Liabilities:				
Term A loan due Sept. 30, 2006	140,049	140,075	—	—
Term B loan due Feb. 28, 2008	199,000	198,986	—	—
$200 million unsecured notes due Nov. 13, 2009	200,000	205,390	—	—
Medium-term notes	—	—	45,000	41,923

Note 10 (In Part): Notes Payable and Long-Term Debt

Notes payable and long-term debt consisted of the following:

(In thousands)	2002	2001
Notes payable, principally to banks	$—	$ 139,962
Amounts reclassified to long-term debt	—	(100,420)
Total notes payable	$—	$ 39,542

(In thousands)	2002	2001
Term A loan due Sept. 30, 2006	$140,049	$ —
Term B loan due Feb. 28, 2008	199,000	—
$200 million unsecured notes due Nov. 13, 2009	200,000	—
Medium-term notes	—	45,000
Other	—	1,000
Notes payable, reclassified	—	100,420
	539,049	146,420
Current portion of long-term debt	24,508	1,000
Total long-term debt	$514,541	$145,420

2.200

NUCOR CORPORATION (DEC)

	2002	2001
Current liabilities:		
Long-term debt due within one year (Note 5)	$ 16,000,000	$ —
Accounts payable	247,229,067	189,235,046
Federal income taxes	8,948,999	—
Salaries, wages and related accruals	116,246,817	92,769,688
Accrued expenses and other current liabilities	203,110,945	202,153,992
Total current liabilities	$591,535,828	$484,158,726

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

	2002	2001
Industrial revenue bonds:		
1.63% to 2.475%, variable, due from 2014 to 2033	$292,300,000	$206,300,000
5.75% to 8%, fixed, due from 2003 to 2023	77,250,000	79,150,000
Notes, 6%, due 2009	175,000,000	175,000,000
Notes, 4.875%, due in 2012	350,000,000	—
	894,550,000	460,450,000
Less current maturities	(16,000,000)	—
	$878,550,000	$460,450,000

Annual aggregate long-term debt maturities are: $16,000,000 in 2003; none in 2004; none in 2005; $1,250,000 in 2006; and none in 2007.

The fair value of Nucor's long-term debt approximates the carrying value.

OTHER CURRENT LIABILITIES

2.201 Table 2-27 summarizes other identified current liabilities. The most common types of other current liabilities are: liabilities related to discontinued operations, accrued interest, taxes not combined with federal income taxes and deferred revenue.

2.202

TABLE 2-27: OTHER CURRENT LIABILITIES

	Number of Companies			
	2002	**2001**	**2000**	**1999**
Estimated costs related to discontinued operations	157	130	76	100
Interest	122	119	110	107
Deferred revenue	116	106	79	86
Taxes other than federal income taxes	112	106	106	111
Warranties	104	71	60	67
Insurance	76	58	56	64
Deferred taxes	61	46	47	45
Customer advances, deposits	60	68	58	54
Dividends payable	52	58	58	62
Advertising	51	55	48	60
Environmental costs	50	45	40	48
Derivatives	45	37	6	N/C*
Litigation	37	25	11	14
Rebates	21	14	12	N/C*
Due to affiliated companies	20	20	16	19
Royalties	19	15	15	17
Billings on uncompleted contracts	18	15	14	18
Other—described	164	154	158	125

* N/C = Not compiled. Line item was not included in table for the year shown.

Costs/Liabilities Related to Discontinued Operations

2.203

CAREMARK RX,INC. AND SUBSIDIARIES (DEC)

(In thousands)	2002	2001
Current liabilities:		
Accounts payable	$294,758	$203,217
Claims and discounts payable	370,031	297,730
Other accrued expenses and liabilities	180,685	147,888
Income taxes payable	3,409	3,033
Current portion of long-term debt	2,500	2,500
Current liabilities of discontinued operations	25,622	24,489
Total current liabilities	$877,005	$678,857

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

13. Discontinued Operations and Related Contingencies

Overview

On November 11, 1998, the Company announced that Caremark, which operates the Company's PBM business, would become its core operating unit. The Company also announced its intent to divest its physician practice management and contract services businesses. As a result, in 1998 the Company restated its prior period financial statements to reflect these businesses, as well as the international operations sold during 1998, as discontinued operations. The

accompanying audited consolidated statements of operations for the years ended December 31, 2002 and 2000 reflect charges for the loss on disposal of these discontinued operations of $37.5 million (net of income tax benefit of $25 million) and $268 million, respectively.

Results of Discontinued Operations—2002

During the year ended December 31, 2002, the Company recorded a charge of approximately $62.5 million, excluding related income tax benefits, for revised estimates of exit costs related to its discontinued PPM operations based on additional information from that existing in 2000, when the Company recorded a similar charge. The 2002 charge consisted of adjustments to accruals for potential future obligations such as rents and legal disputes triggered by changes in the commercial real estate market and the progress of various litigation and/or arbitration cases. These amounts are estimates, and actual costs could differ from those recorded.

Results of Discontinued Operations—2000

During the year ended December 31, 2000, the Company recorded a charge of $268.0 million as a result of its progress in completing the exit from its PPM operations. This charge included a $167.6 million adjustment in the net assets of the Company's remaining PPM operations and $100.4 million in adjustments to accruals for potential future obligations such as rents and litigation.

Remaining Obligations

The liabilities of discontinued operations ($25.6 million at December 31, 2002) represent remaining direct obligations of the Company's discontinued subsidiaries. The Company has also accrued $81.2 million of estimated remaining discontinued operations exit costs, which are included in "Other accrued expenses and liabilities" ($72.4 million) and "Other long-term liabilities" ($8.8 million) in the accompanying audited consolidated balance sheet at December 31, 2002. The Company expects to pay the majority of these obligations by the end of 2003. These amounts are estimates, and actual amounts could differ from those recorded.

The Company retained numerous operating leases, primarily for administrative and office space, related to its discontinued operations. As of December 31, 2002, the cumulative gross rents related to such leases were approximately $91.1 million, with sublease arrangements of approximately $26.4 million in place. The Company has estimated the costs to terminate or sublease these facilities and has included the net amount in its accrual for remaining discontinued operations exit costs.

Contingencies

The Company and/or one or more of its subsidiaries, affiliates or managed physician practices is a party to certain claims and proceedings related to its discontinued operations. The eventual outcome of these claims and proceedings could differ from the amounts accrued at December 31, 2002, and, if different, could result in the Company's recording additional losses on the disposal of its discontinued operations. Additionally, the Company has assigned to various parties approximately $94.2 million of lease obligations related to its discontinued operations. The Company and/or one or more of its subsidiaries or affiliates remain named as guarantor or obligor on these lease obligations.

2.204

IKON OFFICE SOLUTIONS, INC. (SEP)

(In thousands)	2002	2001
Current portion of long-term debt	$ 11,484	$ 17,643
Current portion of long-term debt, finance subsidiaries	1,312,034	1,229,631
Notes payable	7,162	183,688
Trade accounts payable	232,120	222,999
Accrued salaries, wages and commissions	127,643	126,280
Deferred revenues	176,304	185,261
Other accrued expenses	300,937	299,624
Total current liabilities	$2,167,684	$2,265,126

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 (In Part): Restructuring and Asset Impairment Charges

In the fourth quarter of fiscal 2002, the Company reversed $10,497 ($6,823 after-tax, or $0.04 per share on a diluted basis) of its restructuring charges described below. The reversed charges consisted of $7,418 related to severance, $1,667 related to leasehold termination costs and $1,412 related to contractual commitments. The severance reversal was the result of the average cost of severance per employee being less than estimated and 188 fewer positions eliminated than estimated due to voluntary resignations and our decision not to close a digital print center due to changing business dynamics. The reversal of leasehold termination costs and contractual commitments resulted from our decision not to close a digital print center. Additionally, we were also able to reduce our liability through successful equipment and real property lease termination negotiations.

In the fourth quarter of fiscal 2001, the Company announced the acceleration of certain cost cutting and infrastructure improvements (as described below) and recorded a pre-tax restructuring and asset impairment charge of $60,000, and reserve adjustments related primarily to the exit of the Company's telephony operations of $5,300. The related reserve adjustments were included in cost of goods sold for the write-off of obsolete inventory and selling and administrative expense for the write-off of accounts receivable in the consolidated statement of income. The asset impairments included fixed asset write-offs totaling $6,078 as follows: $100 from technology services businesses closures; $897 from digital print center business closures; $338 from digital print center business sales; and $4,743 relating to IKON infrastructure. The asset impairments also included goodwill write-offs totaling $19,422 as follows: $955 from technology services businesses closures; $6,591 from digital print center business sales; and $11,876 relating to telephony business sales. The Company developed this plan as part of our continuing effort to streamline IKON's infrastructure to increase future productivity, and to address economic changes within specific marketplaces. This resulted in a charge of $65,300 ($49,235 after-tax, or $0.34

per share on a diluted basis). These actions addressed the sale of the Company's telephony operations and the closing of twelve non-strategic digital print centers as the Company shifts its focus from transactional work toward contract print work and the support of major accounts. These actions also addressed further downsizing of operational infrastructures throughout the organization as the Company leverages and intensifies prior standardization and centralization initiatives. These actions included the ongoing centralization and consolidation of many selling and administrative functions, including marketplace consolidation, supply chain, finance, customer service, sales support and the realignment of sales coverage against our long-term growth objectives. Additionally, the Company recorded an asset impairment charge of $3,582 ($3,300 after-tax, or $0.02 per share on a diluted basis) related to the sale of the Company's technology education operations. The asset impairments included fixed asset write-offs totaling $828. The asset impairments also included goodwill write-offs totaling $2,754. Therefore, the aggregate charge recorded in fiscal 2001 (the "Fiscal 2001 Charge") was $68,882 ($52,535 after-tax, or $0.36 per share on a diluted basis). The Fiscal 2001 Charge and the related actions taken resulted in a decline of approximately $110,000 in revenues and an increase in operating income of approximately $47,000 in fiscal 2002, as compared to fiscal 2001.

In the first quarter of fiscal 2000, the Company announced plans to improve performance and efficiency and incurred a total pre-tax restructuring and asset impairment charge (the "First Quarter 2000 Charge") of $105,340 ($78,479 after-tax, or $0.52 per share on a basic and diluted basis). The asset impairments included fixed asset write-offs totaling $12,668 as follows: $631 from technology services integration and education business closures; $2,530 from technology services integration and education business downsizing; $1,269 from digital print center business closures; $588 from digital print center business downsizing; $1,405 from document services excess equipment; $1,244 from a technology services business sale; and $5,001 relating to IKON infrastructure. The asset impairments included goodwill write-offs totaling $38,880 as follows: $3,279 from technology services integration business sales; $10,156 from technology services integration and education business closures; $9,566 from digital print center business closures; $14,950 from a technology services business sale; and $929 relating to an IKON Europe closure. These actions addressed under-performance in certain technology services operations, business document services, and business information services locations as well as the Company's desire to strategically position these businesses for integration and profitable growth. Plans included consolidating or disposing of certain underperforming and non-core locations; implementing productivity enhancements through the consolidation and centralization of activities in inventory management, purchasing, finance/accounting and other administrative functions; and consolidating real estate through the co-location of business units as well as the disposition of unproductive real estate. In the fourth quarter of fiscal 2000, the Company determined that some first quarter restructuring initiatives would not require the level of spending that had been originally estimated, and certain other initiatives would not be implemented due to changing business dynamics. Previously targeted sites were maintained based on their potential for improvement as well as their relationship to IKON's overall strategic direction. As a result of our integration efforts, locations originally identified for sale or closure were combined with other IKON businesses. As a result, $15,961 was reversed from the First Quarter 2000 Charge, and the total amount of the First Quarter 2000 Charge was reduced to $89,379 ($66,587 after-tax, or $0.45 per share on a basic and diluted basis). The components of the reversal were: 538 fewer positions eliminated reduced severance by $1,784, real estate lease payments reduced by $13,426, and contractual commitments reduced by $751. The severance reversal resulted from successfully negotiating business sales whereby affected employees assumed positions with the acquiring companies, higher-than-expected voluntary resignations, and our decision not to implement certain supply chain and shared service center consolidation efforts. The real estate lease payment reversal was primarily the result of our decision not to close certain sites. Also, in the fourth quarter of fiscal 2000, the Company announced other specific actions designed to address the changing market conditions impacting technology services, IKON North America, and outsourcing locations and incurred a total pre-tax restructuring and asset impairment charge (the "Fourth Quarter 2000 Charge") of $15,789 ($12,353 after-tax, or $0.08 per share on a basic and diluted basis). The asset impairments consisted of fixed asset write-offs totaling $2,371 as follows: $1,371 from technology services integration and education business closures; $721 from digital print center business closures; and $279 relating to IKON infrastructure. The First Quarter 2000 Charge (as reduced) and Fourth Quarter 2000 Charge resulted in a net fiscal 2000 charge (the "Fiscal 2000 Charge") of $105,168 ($78,940 after-tax, or $0.53 per share on a basic and diluted basis). The Fiscal 2000 Charge and the related actions resulted in a decline in revenue of approximately $34,000 and an increase in operating income of approximately $63,000 in fiscal 2001, as compared to fiscal 2000.

The pre-tax components of the restructuring, net, and asset impairment charges for fiscal 2002, 2001 and 2000 were as follows:

Type of Charge	Fiscal 2002 Reversal	Fiscal 2001 Charge	Fourth Quarter Fiscal 2000 Charge	Fiscal 2000 Reversal	First Quarter Fiscal 2000 Charge
Restructuring charge:					
Severance	$ (7,418)	$26,500	$ 6,092	$ (1,784)	$ 16,389
Leasehold termination costs	(1,667)	5,534	6,685	(13,426)	33,691
Contractual commitments	(1,412)	2,466	641	(751)	3,712
Total restructuring charge	(10,497)	34,500	13,418	(15,961)	53,792
Asset impairment charge:					
Fixed assets		6,906	2,371		12,668
Goodwill and intangibles		22,176			38,880
Total asset impairment charge		29,082	2,371		51,548
Total	$(10,497)	$63,582	$15,789	$(15,961)	$105,340

The Company calculated the asset and goodwill impairments as required by SFAS 121 "Accounting for the Impairment of Long-Lived Assets and Assets to Be Disposed of." The proceeds received for businesses sold were not sufficient to cover the fixed asset and goodwill balances. As such, those balances were written-off. Goodwill directly associated with businesses that were closed was also written-off.

The following presents a reconciliation of the original restructuring components of the Fiscal 2001 Charge and Fourth Quarter 2000 Charge and First Quarter 2000 Charge to the balance remaining at September 30, 2002, which is included in other accrued expenses on the consolidated balance sheet:

Fiscal 2001 Restructuring Charge	Fiscal 2001 Charges	Payments Fiscal 2001	Balance September 30, 2001	Payments Fiscal 2002	Fiscal 2002 Reversal	Balance September 30, 2002
Severance	$26,500	—	$26,500	$(11,780)	$(6,921)	$ 7,799
Leasehold termination costs	5,534	—	5,534	(1,616)	(1,667)	2,251
Contractual commitments	2,466	—	2,466	(1,140)	(1,296)	30
Total	$34,500	—	$34,500	$(14,536)	$(9,884)	$10,080

Fourth Quarter Fiscal 2000 Restructuring Charge	Fiscal 2000 Charges	Payments Fiscal 2000	Balance September 30, 2000	Payments Fiscal 2001	Balance September 30, 2001	Payments Fiscal 2002	Fiscal 2002 Reversal	Balance September 30, 2002
Severance	$ 6,092		$ 6,092	$(4,763)	$1,329	$ (720)	$(497)	$ 112
Leasehold termination costs	6,685	$(41)	6,644	(1,843)	4,801	(1,853)		2,948
Contractual commitments	641		641	(301)	340	(224)	(116)	
Total	$13,418	$(41)	$13,377	$(6,907)	$6,470	$(2,797)	$(613)	$3,060

First Quarter Fiscal 2000 Restructuring Charge	Fiscal 2000 Charges	Payments Fiscal 2000	Fiscal 2000 Reversal	Balance September 30, 2000	Payments Fiscal 2001	Balance September 30, 2001	Payments Fiscal 2002	Balance September 30, 2002
Severance	$16,389	$(10,616)	$ (1,784)	$ 3,989	$(3,295)	$ 694	$ (339)	$ 355
Leasehold termination costs	33,691	(10,052)	(13,426)	10,213	(5,328)	4,885	(3,271)	1,614
Contractual commitments	3,712	(2,734)	(751)	227	(227)			
Total	$53,792	$(23,402)	$(15,961)	$14,429	$(8,850)	$5,579	$(3,610)	$1,969

The projected payments of the remaining balances of the Fiscal 2001 Charge, Fourth Quarter Fiscal 2000 Charge and First Quarter 2000 Charge, by fiscal year, are as follows:

Fiscal 2001 Projected Payments	2003	2004	2005	Total
Severance	$6,508	$1,214	$ 77	$ 7,799
Leasehold termination costs	1,420	504	327	2,251
Contractual commitments	30			30
Total	$7,958	$1,718	$404	$10,080

Fourth Quarter Fiscal 2000 Projected Payments	2003	2004	2005	Beyond	Total
Severance	$ 112				$ 112
Leasehold termination costs	1,230	$838	$259	$ 621	2,948
Total	$1,342	$838	$259	$ 621	$3,060

First Quarter Fiscal 2000 Projected Payments	2003	2004	2005	Total
Severance	$ 355			$ 355
Leasehold termination costs	1,114	$337	$163	1,614
Total	$1,469	$337	$163	$1,969

The Company determined its probable sublease income through the performance of local commercial real estate market valuations by our external regional real estate brokers. All lease termination amounts are shown net of projected sublease income. Projected sublease income was $3,366, $180 and $9,957 for the Fiscal 2001 Charge, Fourth Quarter Fiscal 2000 Charge and First Quarter Fiscal 2000 Charge, respectively.

All actions related to our restructurings are complete. Remaining employees to be terminated at September 30, 2002 represents employees who received notice of termination but were not yet terminated. Severance payments to terminated employees are made in installments. The charges for contractual commitments relate to real estate lease contracts where the Company has exited certain locations and is required to make payments over the remaining lease term.

Interest

2.205

JOSTENS, INC. AND SUBSIDIARIES (DEC)

(In thousands)	2002	2001
Current liabilities		
Short-term borrowings	$ 8,960	$ —
Accounts payable	13,893	18,721
Accrued employee compensation and related taxes	31,354	27,392
Commissions payable	15,694	18,639
Customer deposits	133,840	126,400
Income taxes payable	7,316	16,940
Interest payable	10,789	10,567
Current portion of long-term debt	17,094	20,966
Other accrued liabilities	14,968	16,913
Current liabilities of discontinued operations	4,323	16,511
Total current liabilities	$258,231	$273,049

Deferred Revenue

2.206

LEE ENTERPRISES, INCORPORATED AND SUBSIDIARIES (SEP)

(Thousands)	2002	2001
Current liabilities:		
Notes payable and current maturities of long-term debt	$ 14,600	$ 11,600
Accounts payable	21,015	10,782
Compensation and other accrued liabilities	32,591	27,048
Income taxes payable	5,103	57,281
Dividends payable	7,533	—
Liabilities of discontinued operations	157	479
Unearned revenue	27,750	17,949
	$108,749	$125,139

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Significant Accounting Policies

Revenue Recognition

Advertising and circulation revenue is recognized based on date of publication. Unearned revenue arises in the ordinary course of business from advance subscription payments for newspapers. Other revenue is recognized in the period in which it is earned.

2.207

TYLER TECHNOLOGIES INC. (DEC)

(In thousands)	2002	2001
Current liabilities:		
Accounts payable	$ 2,390	$ 2,036
Accrued liabilities	11,186	9,774
Net current liabilities of discontinued operations	442	581
Deferred revenue	26,208	27,215
Total current liabilities	$40,226	$39,606

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Revenue Recognition

We earn revenue from software licenses, postcontract customer support ("PCS" or "maintenance"), hardware, software related services and appraisal services. PCS includes telephone support, bug fixes, and rights to upgrades on a when-and-if available basis. We provide services that range from installation, training, and basic consulting to software modification and customization to meet specific customer needs. In software arrangements that include rights to multiple software products, specified upgrades, PCS, and/or other services, we allocate the total arrangement fee among each deliverable based on the relative fair value of each. Fair values are estimated using vendor specific objective evidence.

We recognize revenue from software transactions in accordance with Statement of Position ("SOP") 97-2, "Software Revenue Recognition," as amended by SOP 98-4 and SOP 98-9 as follows.

Software Licenses

We recognize the revenue allocable to software licenses and specified upgrades upon delivery of the software product or upgrade to the customer, unless the fee is not fixed or determinable or collectibility is not probable. If the fee is not fixed or determinable including payment terms three months or more from shipment, revenue is recognized as payments become due from the customer. If collectibility is not considered probable, revenue is recognized when the fee is collected. Arrangements that include software services, such as training or installation, are evaluated to determine whether those services are essential to the product's functionality.

A majority of our software arrangements involve "off-the-shelf" software. We consider software to be off-the-shelf software if it can be added to an arrangement with minor changes in the underlying code and it can be used by the customer for the customer's purpose upon installation. For off-the-shelf software arrangements, we recognize the software license fee as revenue after delivery has occurred, customer acceptance is reasonably assured, that portion of the fee represents an enforceable claim and is probable of collection and the remaining services such as training are not considered essential to the product's functionality.

For arrangements that include customization or modification of the software, or where software services are otherwise considered essential, we recognize revenue using contract accounting. We use the percentage-of-completion method to recognize revenue from these arrangements. We measure progress-to-completion primarily using labor hours incurred, or value added. The percentage of completion methodology generally results in the recognition of reasonably consistent profit margins over the life of a contract since we have the ability to produce reasonably dependable estimates of contract billings and contract costs. We generally use the level of profit margins that are most likely to occur on a contract. If the most likely profit margins cannot be precisely determined, the lowest probable level of profit in the range of estimates is used for the contract until the results can be estimated more precisely. These arrangements are often implemented over an extended time period and occasionally require us to revise total cost estimates. Amounts recognized in revenue are calculated using the progress-to-completion measurement after giving effect to any changes in our cost estimates. Changes to total estimated contract costs, if any, are recorded in the period they are determined. Estimated losses on incompleted contracts are recorded in the period in which we first determine that a loss is apparent.

Software Services

Some of our software arrangements include services considered essential for the customer to use the software for the customer's purposes. For these software arrangements, both the software license revenue and the services revenue are recognized as the services are performed using the percentage-of-completion contract accounting method. When software services are not considered essential, the fee allocable to the service element is recognized as revenue as we perform the services.

Appraisal Services

For our real estate appraisal projects, we recognize revenue using contract accounting. We measure progress-to-completion primarily using units completed and these arrangements are often implemented over a one to three year time period.

Computer Hardware Equipment

Revenue allocable to equipment based on vendor specific objective evidence of fair value is recognized when we deliver the equipment and collection is probable.

Postcontract Customer Support

Our customers generally enter into PCS agreements when they purchase the software license. Our PCS agreements are generally renewable every year. Revenue allocated to PCS is recognized on a straight-line basis over the period the PCS is provided. All significant costs and expenses associated with PCS are expensed as incurred.

Deferred revenue consists primarily of payments received in advance of revenue being earned under software licensing, software services and hardware installation, support and maintenance contracts. Unbilled revenue is not billable at the balance sheet dates but is recoverable over the remaining life of the contract through billings made in accordance with contractual agreements.

Fair Value of Financial Instruments (In Part)

We used the following methods and assumptions to estimate the fair value of each class of financial instruments at the balance sheet date:

Cash and cash equivalents, accounts receivables, trade accounts payables, deferred revenues and certain other assets: Costs approximate fair value because of the short maturity of these instruments. Our available-for-sale investments are recorded at fair value based on quoted market prices.

Taxes Other Than Federal Income Taxes

2.208

MASCO CORPORATION AND CONSOLIDATED SUBSIDIARIES (DEC)

	2002	2001
Current liabilities:		
Notes payable	$ 321,180,000	$ 129,860,000
Accounts payable	541,590,000	322,280,000
Accrued liabilities	1,069,680,000	784,420,000
Total current liabilities	$1,932,450,000	$1,236,560,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Accrued Liabilities

The Company's accrued liabilities were primarily comprised as follows, in thousands:

	2002	2001
Salaries, wages and commissions	$ 166,850	$149,860
Litigation settlement	145,730	3,000
Advertising and sales promotion	133,300	144,780
Insurance	128,160	99,080
Employee retirement plans	93,180	78,320
Interest	82,530	45,550
Dividends payable	70,780	64,220
Property, payroll and other taxes	39,200	35,910
Contingent acquisition payments	37,160	36,490
Income taxes	4,300	2,830
Other	168,490	124,380
	$1,069,680	$784,420

2.209

TESORO PETROLEUM CORPORATION (DEC)

(Dollars in millions)	2002	2001
Current liabilities		
Accounts payable	$338.6	$331.2
Accrued liabilities	199.7	172.9
Current maturities of debt	70.0	34.4
Total current liabilities	$608.3	$538.5

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Revenue Recognition

The company recognizes revenues from product sales upon delivery to customers and when all significant obligations have been satisfied. Certain crude oil and product purchases and resales used for trading purposes are included in revenues on a net basis. Transportation fees charged to customers are included in revenues and the related costs are included in costs of sales in the Statements of Consolidated Operations. In the Company's Retail segment, Federal excise and state motor fuel taxes collected from customers and remitted to governmental agencies are reported in revenues and in costs of sales. These taxes, primarily related to sales of gasoline and diesel fuel, totaled $167 million, $81 million and $43 million in 2002, 2001 and 2000 respectively. In the Company's Refining segment, excise taxes on sales are not included in revenues and costs of sales.

Note N (In Part): Accrued Liabilities

The Company's current accrued liabilities and noncurrent other liabilities as shown in the Consolidated Balance Sheets at December 31, 2002 and 2001 included the following (in millions):

	2002	2001
Accrued liabilities—current:		
Taxes other than income taxes, primarily excise taxes	$ 80.9	$ 87.8
Employee costs	25.6	32.3
Interest	47.6	22.2
Pension benefits	16.8	7.7
Other	28.8	22.9
Total accrued liabilities—current	$199.7	$172.9

Product Warranties

2.210

LUFKIN INDUSTRIES, INC. (DEC)

(Thousands of dollars)	2002	2001
Current liabilities:		
Current portion of long-term notes payable	$ 259	$ 6,598
Accounts payable	12,003	10,680
Accrued liabilities:		
Payroll and benefits	5,833	6,636
Accrued warranty expenses	1,858	2,275
Taxes payable	4,036	4,487
Other	6,826	6,373
Total current liabilities	$30,815	$37,049

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Product Warranties

The Company sells certain of its products to customers with a product warranty that provides repairs at no cost to the customer or the issuance of credit to the customer. The length of the warranty term depends on the product being sold, but ranges from one year to five years. The Company accrues its estimated exposure to warranty claims based upon historical warranty claim costs as a percentage of sales multiplied by prior sales still under warranty at the end of any period. Management reviews these estimates on a regular basis and adjusts the warranty provisions as actual experience differs from historical estimates or other information becomes available.

13) (In Part): Commitments and Contingencies

Product Warranties

The change in the aggregate product warranty liability for the year ended December 31, 2002, is as follows:

($000's)	
Beginning balance	$ 2,276
Claims paid	(1,608)
Additional warranties issued	1,110
Revisions in estimates	80
Other	—
Ending balance	$ 1,858

Insurance

2.211

TYSON FOODS, INC. (SEP)

(In millions)	2002	2001
Current liabilities:		
Current debt	$ 254	$ 760
Trade accounts payable	755	799
Other current liabilities	1,084	857
Total current liabilities	$2,093	$2,416

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Accrued Self Insurance

Insurance expense for casualty claims and employee-related health care benefits are estimated using historical experience and acturial estimates.

Note 8: Other Current Liabilities

Other current liabilities at September 28, 2002 and September 29, 2001 include:

(In millions)	2002	2001
Accrued salaries, wages and benefits	$ 308	$270
Self insurance	225	189
Income taxes payable	202	109
Property and other taxes	52	63
Other	297	226
Total other current liabilities	$1,084	$857

Deferred Taxes

2.212

NEWMONT MINING CORPORATION (DEC)

(In thousands)	2002	2001
Current portion of long-term debt	$115,322	$192,151
Accounts payable	105,277	80,884
Deferred income tax liabilities	28,469	32,919
Derivative instruments	74,999	—
Other accrued liabilities	369,396	214,065
Current liabilities	$693,463	$520,019

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Income and Mining Taxes

The Company accounts for income taxes using the liability method, recognizing certain temporary differences between the financial reporting basis of the Company's liabilities and assets and the related income tax basis for such liabilities and assets. This method generates a net deferred income tax liability or net deferred income tax asset for the Company as of the end of the year, as measured by the statutory tax rates in effect as enacted. The Company derives its deferred income tax charge or benefit by recording the change in the net deferred income tax liability or net deferred income tax asset balance for the year. Mining taxes represent Canadian provincial taxes levied on mining operations and are classified as income taxes as such taxes are based on a percentage of mining profits. With respect to the earnings that the Company derives from the operations of its consolidated subsidiaries, in those situations where the earnings are indefinitely reinvested, no deferred taxes have been provided on the unremitted earnings (including the excess of the carrying value of the net equity of such entities for financial reporting purposes over the tax basis of such equity) of these consolidated companies.

The Company's deferred income tax assets include certain future tax benefits. The Company records a valuation allowance against any portion of those deferred income tax assets when it believes, based on the weight of available evidence, it is more likely than not that some portion or all of the deferred income tax asset will not be realized.

Note 13 (In Part): Income Taxes

Components of the Company's consolidated deferred income tax assets (liabilities) are as follows:

(In thousands)	2002	2001
Deferred tax assets:		
Depletion of the cost of land and mining claims	$ 204,661	$ 216,248
Exploration costs	61,023	77,311
Depreciation	83,255	65,363
Capitalized mining costs	53,920	—
Net operating losses and tax credits	402,188	89,896
Retiree benefit and vacation accrual costs	82,692	39,250
Capitalized inventory costs	6,931	—
Remediation and reclamation costs	70,547	25,228
Foreign exchange	36,114	—
Derivative instruments	137,356	—
Unrealized loss on investments	19,543	—
Other	32,150	17,249
	1,190,380	530,545
Valuation allowance for deferred tax assets	(377,501)	(192,495)
Deferred tax assets, net of valuation allowance	812,879	338,050
Deferred tax liabilities:		
Net undistributed earnings of subsidiaries	(156,049)	(45,986)
Unrealized gain on investments	(35,729)	—
Depletable and amortizable costs associated with mineral rights	(352,454)	—
Depreciation	(76,434)	—
Capitalized mining costs	(32,099)	—
Capitalized inventory costs	—	(11,812)
Capitalized interest	(25,390)	(30,061)
Other	(6,766)	(12,671)
Deferred tax liabilities	(684,921)	(100,530)
Net deferred tax assets	$ 127,958	$ 237,520

Net deferred tax assets consist of:

(In thousands)	2002	2001
Current deferred tax assets	$ 51,451	$ 7,792
Non-current deferred tax assets	761,428	403,447
Current deferred tax liabilities	(28,469)	(32,919)
Non-current deferred tax liabilities	(656,452)	(140,800)
Net deferred tax assets	$ 127,958	$ 237,520

Newmont intends to indefinitely reinvest earnings from certain foreign operations except to the extent the earnings are subject to current U.S. income taxes. Accordingly, U.S. and non-U.S. income and withholding taxes for which a deferred tax might otherwise be required have not been provided on a cumulative amount of temporary differences (including, for this purpose, any difference between the tax basis in the stock of a consolidated subsidiary and the amount of the subsidiary's net equity determined for financial reporting purposes) related to investments in foreign subsidiaries of approximately $971 million at December 31, 2002. The additional U.S. and non-US income and withholding tax that would arise on the reversal of the temporary differences could be offset in part, by tax credits. Because the determination of the amount of available tax credits and the limitations imposed on the annual utilization of such credits are subject to a highly complex series of calculations and expense allocations, it is impractical to estimate the amount of net income and withholding tax that might be payable.

As of December 31, 2002 and December 31, 2001, the Company had (i) $746.5 million and $143.0 million of net operating loss carryforwards respectively; and (ii) $172.4 million and $175.8 million of tax credit carryforwards respectively. Of the amounts of net operating loss carryforwards, $115.9 million and $143.0 million respectively are attributable to acquired mining operations conducted in the United States and will begin expiring in 2013 if not utilized before then.

As of December 31, 2002, another $259.6 million of net operating losses carryforwards are attributable to acquired mining operations in Australia for which current tax law provides no expiration period. The remaining net operating losses available are attributable to acquired entities and have various temporal and other limitations that may restrict the ultimate realization of the tax benefits of such tax attributes. The tax credit carryforwards in the respective amounts of $128.1 million and $124.6 million consist of foreign tax credits available in the United States and substantially all such credits not utilized in the interim period will expire at the end of 2006. The other credit carryforwards in the amounts of $44.3 million and $51.2 million, respectively, represent alternative minimum tax credits attributable to the Company's U.S. operations for which the current tax law provides no period of expiration.

Of the above valuation allowance recorded as of December 31, 2002, $166.9 million is attributable to deferred tax assets for which any subsequently recognized tax benefits will be allocated to reduce goodwill related to the acquisition of Normandy.

The breakdown of the Company's net deferred tax assets (liabilities) between the United States and foreign taxing jurisdictions is as follows:

(In thousands)	2002	2001
United States	$ 344,913	$ 371,312
Foreign	(216,955)	(133,792)
Deferred tax assets	$ 127,958	$ 237,520

Advances/Deposits

2.213

DIMON INCORPORATED (JUN)

(In thousands)	2002	2001
Current liabilities		
Notes payable to banks	$181,629	$205,823
Accounts payable:		
Trade	55,277	51,511
Officers and employees	13,553	10,030
Other	7,964	7,802
Advances from customers	67,616	72,612
Accrued expenses	24,797	22,306
Income taxes	11,015	8,325
Long-term debt current	1,128	122,007
Total current liabilities	$362,979	$500,416

Dividends

2.214

MERCK & CO., INC. AND SUBSIDIARIES (DEC)

($ in millions)	2002	2001
Current liabilities		
Loans payable and current portion of long-term debt	$ 3,669.8	$ 4,066.7
Trade accounts payable	2,413.3	1,895.2
Accrued and other current liabilities	3,365.6	3,213.2
Income taxes payable	2,118.1	1,573.3
Dividends payable	808.4	795.8
Total current liabilities	$12,375.2	$11,544.2

Advertising

2.215

ALBERTO-CULVER COMPANY & SUBSIDIARIES (SEP)

(In thousands)	2002	2001
Current liabilities:		
Short-term borrowings	$ 2,513	$ 2,482
Current maturities of long-term debt	1,189	404
Accounts payable	233,942	191,410
Accrued expenses	208,311	165,525
Income taxes	14,492	30,482
Total current liabilities	$460,447	$390,303

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Advertising and Marketing

Advertising and marketing costs are expensed as incurred and amounted to $189.1 million, $179.0 million and $162.7 million in fiscal years 2002, 2001 and 2000, respectively.

2) Accrued Expenses

Accrued expenses consist of the following:

(In thousands)	2002	2001
Compensation and benefits	$103,449	$ 83,403
Advertising and promotions	38,943	35,125
Other	65,919	46,997
	$208,311	$165,525

Environmental Costs

2.216

OLIN CORPORATION (DEC)

($ in millions)	2002	2001
Current liabilities:		
Current installments of long-term debt	$ 2	$102
Accounts payable	110	97
Accrued liabilities	145	136
Total current liabilities	$257	$335

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS ($ in millions)

Accounting Policies (In Part)

Environmental Liabilities and Expenditures

Accruals for environmental matters are recorded when it is probable that a liability has been incurred and the amount of the liability can be reasonably estimated, based upon current law and existing technologies. These amounts, which are not discounted and are exclusive of claims against third parties, are adjusted periodically as assessment and remediation efforts progress or additional technical or legal information becomes available. Environmental remediation costs are charged to expense as incurred. Environmental costs are capitalized if the costs increase the value of the property and/or mitigate or prevent contamination from future operations.

Environmental

We are party to various governmental and private environmental actions associated with waste disposal sites and manufacturing facilities. Charges to income for investigatory and remedial efforts were $15 in 2002 and 2000 and $14 in 2001. The consolidated balance sheets include reserves for future environmental expenditures to investigate and remediate known sites amounting to $98 at December 31,

2002, and $100 at December 31, 2001, of which $70 and $73 are classified as other noncurrent liabilities, respectively. The 2002 environmental liabilities included $8 from the Chase acquisition.

Environmental exposures are difficult to assess for numerous reasons, including the identification of new sites, developments at sites resulting from investigatory studies, advances in technology, changes in environmental laws and regulations and their application, the scarcity of reliable data pertaining to identified sites, the difficulty in assessing the involvement and financial capability of other potentially responsible parties and our ability to obtain contributions from other parties and the lengthy time periods over which site remediation occurs. It is possible that some of these matters (the outcomes of which are subject to various uncertainties) may be resolved unfavorably against us, which could have a material adverse effect on our operating results and financial condition. At December 31, 2002, we estimate we may have additional contingent environmental liabilities of $40 in addition to the amounts for which we have already taken a reserve.

Derivatives

2.217

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES (OCT)

(In millions)	2002	2001
Current liabilities:		
Notes payable and short-term borrowings	$ 1,793	$ 1,722
Accounts payable	7,012	3,791
Employee compensation and benefits	2,012	1,477
Taxes on earnings	1,529	1,818
Deferred revenue	3,260	1,867
Accrued restructuring	1,309	82
Other accrued liabilities	7,395	3,207
Total current liabilities	$24,310	$13,964

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Derivative Financial Instruments

HP enters into derivative financial instrument contracts to hedge certain foreign exchange and interest rate exposures. On November 1, 2000, HP adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." The cumulative effect of adopting SFAS No. 133 was not material to HP's consolidated financial statements. See Note 8 to the Consolidated Financial Statements for a full description of HP's hedging activities and related accounting policies.

Note 8 (In Part): Financial Instruments

Derivative Financial Instruments

HP is a global company which is exposed to foreign currency exchange rate fluctuations and interest rate changes in the normal course of its business. As part of HP's risk management strategy, HP uses derivative instruments, including forwards, swaps and purchased options, to hedge certain foreign currency and interest rate exposures. HP's objective is to offset gains and losses resulting from these exposures with losses and gains on the derivative contracts used to hedge them, respectively, thereby reducing volatility of earnings or protecting fair values of assets and liabilities. Derivative positions are used only to manage underlying exposures of HP. Based upon the criteria established by SFAS No. 133, HP designates most of its derivatives as fair value hedges, cash flow hedges, or foreign currency hedges.

HP enters into fair value hedges to reduce the exposure of its debt and investment portfolios to both interest rate risk and foreign currency exchange rate risk. HP issues long-term debt in either U.S. dollars or foreign currencies based on market conditions at the time of financing. Interest rate and foreign currency swaps are then typically used to modify the market risk exposures in connection with the debt to achieve primarily U.S. dollar LIBOR-based floating interest expense and to manage exposure to changes in foreign currency exchange rates. The swap transactions generally involve the exchange of fixed for floating interest payment obligations and, when the underlying debt is denominated in a foreign currency, exchange of the foreign currency principal and interest obligations for U.S. dollar-denominated amounts. Alternatively, HP may choose not to swap fixed debt to a floating rate or may terminate a previously executed swap if the fixed rate positions provide a more beneficial relationship between assets and liabilities. Similarly, HP may choose not to hedge the foreign currency risk associated with its foreign currency-denominated debt if this debt acts as a natural foreign exchange rate hedge for assets denominated in the same currency. In order to hedge the fair value of certain fixed-rate investments, HP periodically enters into interest rate swaps that convert fixed interest returns into variable interest returns. For derivative instruments that are designated and qualify as fair value hedges, the gain or loss on the derivative instrument, as well as the offsetting loss or gain on the hedged item, is recognized in earnings in the current period. For interest rate swaps designated as fair value hedges, the critical terms of the interest rate swap and hedged item are generally designed to match up thereby satisfying the criteria for the short-cut method of accounting as defined by SFAS No. 133. Any ineffective portion of the hedge is reflected in interest income or expense for hedges of interest rate risk and in other income or expense for hedges of foreign currency risk. Hedge ineffectiveness for fair value hedges was not material in the years ended October 31, 2002 and 2001. In September 2002, HP sold an interest rate swap associated with its debt portfolio in response to movements in the interest rate market. This transaction resulted in a deferred gain of $185 million, which will be amortized over the remaining life of the corresponding debt as a reduction of interest expense.

HP uses a combination of forwards and purchased options designated as cash flow hedges to protect against the foreign currency exchange rate risks inherent in its forecasted revenue and, to a lesser extent, cost of sales denominated in currencies other than the U.S. dollar. HP's cash flow hedges mature generally within six months. HP also uses forward contracts, which are designated as foreign currency hedges to hedge net investments in certain foreign subsidiaries whose functional currency is the local currency. For derivative instruments that are designated and qualify as cash flow hedges or foreign currency hedges, the effective portions of the gain or loss on the derivative instrument are initially recorded in accumulated other comprehensive income as

a separate component of stockholders' equity and subsequently reclassified into earnings in the period during which the hedged transaction is recognized in earnings. The ineffective portion of the gain or loss is reported in other income or expense immediately. The effective portion of cash flow and foreign currency hedges is reported in the same financial statement line item as the changes in value of the hedged item. For foreign currency option and forward contracts designated as hedges, hedge effectiveness is measured by comparing the cumulative change in the hedge contract with the cumulative change in the hedged item, both of which are based on forward rates. As of October 31, 2002, no amounts were excluded from the assessment of hedge effectiveness. Hedge ineffectiveness for cash flow or foreign currency hedges was not material in the years ended October 31, 2002 and 2001. In addition, during fiscal 2002 and 2001 HP did not discontinue any cash flow hedges for which it was probable that a forecasted transaction would not occur.

Other derivatives not designated as hedging instruments under SFAS No. 133 consist primarily of forwards used to hedge foreign currency balance sheet exposures and warrants in companies invested in as part of strategic relationships. For derivative instruments not designated as hedging instruments under SFAS No. 133, changes in the fair values are recognized in earnings in the period of change. The gains and losses on foreign currency forward contracts used to hedge balance sheet exposures are recognized in other income and expense in the same period as the remeasurement gain and loss of the related foreign currency denominated assets and liabilities and thus naturally offset these gains and losses. HP had net foreign currency exchange losses of $165 million, $72 million, and $50 million in fiscal 2002, 2001, and 2000, respectively.

HP estimates the fair values of derivatives based on quoted market prices or pricing models using current market rates, and records all derivatives on the balance sheet at fair value. The fair market value of derivative financial instruments and the respective SFAS 133 classification on the Consolidated Balance Sheet were as follows at October 31, 2002 and 2001:

	2002				
(In millions)	Other Current Assets	Long-Term Financing Receivables and Other Assets	Other Accrued Liabilities	Other Liabilities	Total
Fair value hedges	$152	$166	$ (14)	$ —	$ 304
Cash flow hedges	29	3	(66)	(14)	(48)
Foreign currency hedges	—	—	(17)	—	(17)
Other derivatives	91	5	(228)	(33)	(165)
Total	$272	$174	$(325)	$(47)	$ 74

	2001				
(In millions)	Other Current Assets	Long-Term Financing Receivables and Other Assets	Other Accrued Liabilities	Other Liabilities	Total
Fair value hedges	$ 17	$385	$ (31)	$—	$371
Cash flow hedges	82	12	(37)	(3)	54
Foreign currency hedges	—	—	—	—	—
Other derivatives	45	—	(69)	(6)	(30)
Total	$144	$397	$(137)	$ (9)	$395

Litigation

2.218

UST INC. (DEC)

(In thousands)	2002	2001
Current liabilities		
Current portion of long-term debt	$ —	$ 3,300
Accounts payable and accrued expenses	183,647	171,610
Income taxes payable	18,285	47,552
Litigation liability	1,260,510	—
Total current liabilities	$1,462,442	$222,462

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Restricted Deposits

At December 31, 2002 and 2001, the Company had $1.242 billion and $513.2 million, respectively, on deposit in a qualified settlement fund with the U.S. District Court in connection with the antitrust litigation involving the Company's smokeless tobacco subsidiary (see Other Matters note). In addition, the Company had $146.7 million on deposit at December 31, 2001 in a restricted collateral account established by the lenders of the terminated $1 billion credit facility.

During 2002, $572.1 million of additional funds were added to the restricted deposits, in addition to the interest income earned on the invested amounts, net of taxes paid. The Company utilized a portion of its net proceeds from its senior notes issued on July 15, 2002 (see Borrowing Arrangements note) and cash from operations for these deposits.

In January 2003, deposits held in the qualified settlement fund, along with additional cash of $19.7 million, was utilized to pay the antitrust judgment.

Other Matters (In Part)

In March 2000, a Kentucky jury rendered a verdict against the Company, awarding $350 million in compensatory damages to Conwood Company, L.P., for its claims under federal antitrust laws that the Company had engaged in exclusionary and anti-competitive conduct in the marketing and promotion of moist smokeless tobacco products. The verdict, when entered as a judgment, was subject to trebling under federal antitrust laws to $1.05 billion plus interest and other costs. On January 13, 2003, the Supreme Court of the United States declined to hear the Company's appeal and let stand the $1.05 billion antitrust award, plus interest and other costs, against the Company. As a result, the Company included a $1.261 billion pretax charge in its net loss for 2002.

In January 2003, the Company paid the antitrust award in the amount of $1.262 billion, which included additional interest charges for 2003. The Company utilized funds held in restricted deposits in the amount of $1.242 billion and $19.7 million of additional cash in satisfaction of the award.

Rebates

2.219

W. R. GRACE & CO. AND SUBSIDIARIES (DEC)

(Amounts in millions)	2002	2001
Current liabilities		
Debt payable within one year	$ 3.4	$ 6.3
Accounts payable	98.2	86.3
Income taxes payable	11.4	14.4
Other current liabilities	130.3	126.3
Total current liabilities	$243.3	$233.3

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Revenue Recognition

Grace recognizes revenue when all of the following criteria are satisfied: risk of loss and title transfer to the customer; the price is fixed and determinable; and collectibility is reasonably assured. Certain customer arrangements include conditions for volume rebates. Grace accrues a rebate allowance and reduces recorded sales for anticipated selling price adjustments at the time of sale. Grace regularly reviews this rebate accrual based on actual and anticipated sales patterns.

9 (In Part): Other Balance Sheet Accounts

(Dollars in millions)	2002	2001
Other current liabilities		
Accrued compensation	$ 40.0	$ 39.4
Accrued interest	6.4	4.8
Deferred tax liability	0.8	0.8
Customer volume rebates	21.2	19.2
Accrued commissions	6.0	6.1
Accrued reorganization fees	9.4	6.4
Other accrued liabilities	46.5	49.6
	$130.3	$126.3

Royalties

2.220

MATTEL, INC. AND SUBSIDIARIES (DEC)

(In thousands)	2002	2001
Current liabilities		
Short-term borrowings	$ 25,190	$ 38,108
Current portion of long-term debt	182,295	210,090
Accounts payable	296,307	334,247
Accrued liabilities	941,912	743,999
Income taxes payable	203,049	239,793
Total current liabilities	$1,648,753	$1,566,237

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 9 (In Part): Commitments and Contingencies

Commitments (In Part)

In the normal course of business, Mattel enters into contractual arrangements to obtain and protect Mattel's right to create and market certain products, and for future purchases of goods and services to ensure availability and timely delivery. Such arrangements include royalty payments pursuant to licensing agreements and commitments for future inventory purchases. Certain of these commitments routinely contain provisions for guaranteed or minimum expenditures during the terms of the contracts. Current and future commitments for guaranteed payments reflect Mattel's focus on expanding its product lines through alliances with businesses in other industries.

Licensing and related agreements provide for terms extending from 2003 through 2010 and contain provisions for future minimum payments as shown in the following table (in thousands):

	Minimum Payments
2003	$ 80,000
2004	85,000
2005	78,000
2006	25,000
2007	27,000
Thereafter	74,000
	$369,000

The largest commitment involves Mattel's agreement with Disney Enterprises, Inc., which expires in December 2004. This licensing agreement, which contains annual minimum royalty guarantees, permits Mattel to produce toys based on classic Disney characters such as Mickey Mouse, Winnie the Pooh and the Disney Princesses, as well as any new infant and preschool toys based on film and television properties created by Disney.

Royalty expense for 2002, 2001 and 2000 was $209.8 million, $220.3 million and $258.8 million, respectively.

Note 13 (In Part): Supplemental Financial Information

Accrued liabilities include the following:

(In thousands)	2002	2001
Receivable collections due to bank	$183,486	$131,399
Incentive compensation	121,111	38,752
Royalties	118,791	109,724
Advertising and promotion	102,398	85,722
Other	416,126	378,402
	$941,912	$743,999

LONG-TERM DEBT

2.221 Table 2-28 summarizes the types of long-term debt most frequently disclosed by the survey companies.

2.222 Paragraph 10b of SFAS No. 47, *Disclosure of Long-Term Obligations,* 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." In addition, disclosure of terms and conditions provided in loan agreements, such as assets pledged as collateral, covenants to limit additional debt, maintain working capital, and restrict dividends, is required by paragraph 18 of SFAS No. 5, *Accounting for Contingencies.*

2.223 Paragraph 7 of *ARB 43, Chapter 3A,* as amended by SFAS No. 78, states that the current liability classification is intended to include long-term obligations that are or will be callable by the creditor either because the debtors' violation of a provision of the debt agreement at the balance sheet date makes the obligation callable or because the violation, if not cured within a specified grace period, will make the obligation callable. Such callable obligations shall be classified as current liabilities unless one of the following conditions is met:

a. The creditor has waived or subsequently lost the right to demand payment for more than one year (or operating cycle, if longer) from the balance sheet date.

b. For long-term obligations containing a grace period within which the debtor may cure the violation, it is probable that the violation will be cured within that period, thus preventing the obligation from becoming callable.

As part of long-term debt presentations there were 11 disclosures of covenant violations.

2.224 *SFAS No. 107,* as amended by *SFAS No. 133,* requires disclosure of both the fair value and the bases for estimating the fair value of long-term debt unless it is not practicable to estimate the value. 509 survey companies made 668 *fair value disclosures.* 260 of those disclosures used market or broker quotes of long-term debt to determine fair value. 299 of those disclosures stated that either discounted cash flows or market prices of similar instruments were used to estimate fair value. 9 of those disclosures estimated fair value using other valuation methods. 271 disclosures presented carrying amounts which approximated fair value of long-term debt. In addition there were 236 disclosures in which carrying value was compared to fair value in an exposition or a table. 3 disclosures stated it was not practicable to estimate fair value.

2.225 *SFAC No. 7* provides a framework for using future cash flows and present value as the basis for accounting measurements of fair value of an asset or a liability at initial recognition or fresh-start measurements and for future-cash-flow-based amortization techniques, such as interest method amortization. Fresh-start measurements are measurements in periods following initial recognition that establish a new carrying amount unrelated to previous amounts and accounting conventions.

2.226 When observable marketplace-determined values are not available, discounted cash flows are often used to estimate fair value. Accounting applications of present value

typically use a single set of estimated cash flows and a risk-adjusted discount rate. This Statement introduces the expected cash flow approach, which differs from the traditional approach by focusing on explicit assumptions about the range of possible cash outcomes and their respective probabilities.

2.227 While *SFAC No. 7* does not require modification of any existing pronouncements, its concepts may be used to determine fair value. This Standard will be used in developing future accounting standards. No data on the use of expected cash flow approach in discounted cash flow applications were compiled.

2.228 Examples of long-term debt disclosures and presentations follow. Examples of long-term lease disclosures and presentations are presented under "Long-Term Leases" in this section.

2.229

TABLE 2-28: LONG-TERM DEBT

	Number of Companies			
	2002	**2001**	**2000**	**1999**
Unsecured				
Notes	438	445	444	450
Debentures	182	165	160	168
Loans	96	79	77	88
Foreign	86	101	81	N/C*
Commercial paper	60	85	104	93
ESOP loans	31	34	38	43
Bonds	30	25	N/C*	N/C*
Collateralized				
Capitalized leases	241	247	275	290
Notes or loans	77	77	90	85
Mortgages	53	55	54	55
Convertible				
Notes	76	59	48	40
Debentures	48	45	34	32

* N/C = Not compiled. Line item was not included in table for year shown.

Unsecured

2.230

BALL CORPORATION AND SUBSIDIARIES (DEC)

($ in millions)	2002	2001
Total current liabilities	$1,068.9	$ 574.7
Long-term debt (Note 9)	1,854.0	949.1
Employee benefit obligations	646.5	235.0
Deferred taxes and other liabilities	64.5	41.0
Total liabilities	$3,633.9	$1,799.8

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9. Debt and Interest Costs

Short-term debt includes non-recourse Asian bank facilities of which $47.1 million and $48 million were outstanding at December 31, 2002 and 2001, respectively. The weighted average interest rate of the outstanding short-term facilities was 4.7 percent at December 31, 2002, and 5.7 percent at December 31, 2001. Also included in 2002 was $20.9 million of debt associated with Ball Packaging Europe's accounts receivable securitization program with a year-end weighted average interest rate of 3.5 percent.

Long-term debt at December 31 consisted of the following:

($ in millions)	2002	2001
Notes payable		
7.75% Senior notes due August 2006	$ 300.0	$ 300.0
8.25% Senior subordinated notes due August 2008	250.0	250.0
6.875% Senior notes due December 2012	300.0	—
Senior credit facilites		
Term Loan A, euro denominated due December 2007 (5.25%)	126.0	—
Term Loan A, British sterling denominated due December 2007 (6.30%)	127.2	—
Term Loan B, euro denominated due December 2009 (5.75%)	308.7	—
Term Loan B, U.S. dollar denominated due December 2009 (3.66%)	350.0	—
Multi-currency revolver, U.S. dollar equivalent (4.825% weighted average at year end)	100.3	—
Term Loan A due August 2004 (2.8125%)	—	245.0
Term Loan B due March 2006 (3.8125%)	—	194.0
Industrial development revenue bonds		
Floating rates due through 2011 (2002 – 1.60%; 2001 – 1.70%)	27.1	27.1
Other	23.7	—
	1,913.0	1,016.1
Less: Current portion of long-term debt	(59.0)	(67.0)
	$1,854.0	$ 949.1

In connection with the acquisition of Ball Packaging Europe on December 19, 2002, Ball refinanced $389 million of its existing debt and, as a result, recorded an after-tax extraordinary charge for the early extinguishment of debt of $3.2 million (6 cents per diluted share).

Ball has offered to exchange the new 6.875% notes with the terms of the new notes being substantially identical in all respects (including principal amount, interest rate, maturity, ranking and covenant restrictions) to the terms of the notes for which they will be exchanged except that the new notes will be registered under the Securities Act of 1933, as amended.

The new senior credit facilities bear interest at variable rates and are comprised of the following: (1) $250 million Term Loan A, denominated in euros and/or British pounds, due in installments through December 2007; (2) $300 million Term Loan B, denominated in euros, due in installments through

December 2009; (3) $350 million Term Loan B, denominated in U.S. dollars, due in installments through December 2009; (4) a multi-currency long-term revolving credit facility which provides the company with up to the equivalent of $415 million and (5) a Canadian long-term revolving credit facility which provides the company with up to the equivalent of $35 million. Both revolving credit facilities expire in 2007. At December 31, 2002, approximately $309 million was available under the revolving credit facilities.

Financing costs of $28.1 million were incurred with the placement of the new senior credit facilities and senior notes. These costs are included in other assets on the consolidated balance sheet and are being amortized to earnings on a straight-line basis over the remaining lives of the related facilities.

The company's previous senior credit facilities bore interest at variable rates and were comprised of the following: (1) Term Loan A due in installments through August 2004; (2) Term Loan B due in installments through March 2006; (3) a $575 million revolving credit facility, comprised of a $125 million, 364-day annually renewable facility which expired in August 2002 and a $450 million long-term committed facility expiring in August 2004; and (4) a $50 million long-term committed Canadian facility which expired in November 2002.

The senior notes, senior subordinated notes and senior credit facilities are guaranteed on a full, unconditional and joint and several basis by certain of the company's domestic wholly-owned subsidiaries. All amounts outstanding under the senior credit facilities are secured by: (1) a pledge of 100 percent of the stock owned by the company in its material direct and indirect majority-owned domestic subsidiaries and (2) a pledge of the company's stock, owned directly or indirectly, of certain foreign subsidiaries, which equals 65 percent of the stock of each such foreign subsidiary. Separate financial statements for the guarantor subsidiaries and the non-guarantor subsidiaries are not presented because management has determined that such financial statements would not be material to investors. Condensed, consolidating financial information for the company, segregating the guarantor subsidiaries and non-guarantor subsidiaries, will be provided in an exhibit to our Form 10-K for the year ended December 31, 2002.

Ball's subsidiary and its consolidated affiliates in the PRC had short-term uncommitted credit facilities of approximately $80 million, of which $47.1 million was outstanding at December 31, 2002.

Maturities of all fixed long-term debt obligations outstanding at December 31, 2002, are $59 million, $62 million, $66.9 million, $363 million and $166 million for the years ending December 31, 2003 through 2007, respectively, and $1,196.1 million thereafter.

Ball issues letters of credit in the ordinary course of business to secure liabilities recorded in connection with industrial development revenue bonds and insurance arrangements, of which $41.2 million and $28.6 million were outstanding at December 31, 2002 and 2001, respectively.

The company was not in default of any loan agreement at December 31, 2002, and has met all payment obligations. The U.S. note agreements, bank credit agreement and industrial development revenue bond agreements contain certain restrictions relating to dividends, share repurchases, investments, financial ratios, guarantees and the incurrence of additional indebtedness.

A summary of total interest cost paid and incurred follows:

($ in millions)	2002	2001	2000
Interest costs	$78.0	$89.7	$98.5
Amounts capitalized	(2.4)	(1.4)	(3.3)
Interest expense	$75.6	$88.3	$95.2
Interest paid during the year	$74.3	$89.0	$96.8

15 (In Part): Financial Instruments and Risk Management

The fair value of all non-derivative financial instruments approximates their carrying amounts with the exception of long-term debt. Rates currently available to the company for loans with similar terms and maturities are used to estimate the fair value of long-term debt based on discounted cash flows. The fair value of derivatives generally reflects the estimated amounts that we would pay or receive upon termination of the contracts at December 31, 2002 and 2001, taking into account any unrealized gains and losses on open contracts.

	2002		2001	
($ in millions)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-term debt	$1,913.0	$1,943.4	$1,016.1	$1,042.2
Unrealized net loss on derivative contracts relating to debt	—	(1.7)	—	(6.1)

2.231

CAMPBELL SOUP COMPANY (JUL)

(Millions)	2002	2001
Total current liabilities	$2,678	$3,210
Long-term debt (Note 16)	2,449	2,243
Nonpension postretirement benefits	319	336
Other liabilities	389	475
Total liabilites	$5,835	$6,174

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

16 Notes Payable and Long-Term Debt

Notes payable consists of the following:

	2002	2001
Commercial paper	$ 886	$1,789
Current portion of long-term debt	301	6
Variable-rate bank borrowings	9	11
	$1,196	$1,806

Commerical paper had a weighted average interest rate of 2.54% and 4.38% at July 28, 2002 and July 29, 2001, respectively.

The current portion of Long-term debt had a weighted average interest rate of 6.16% and 5.79% at July 28, 2002 and July 29, 2001, respectively.

The company has short-term lines of credit of approximately $1,982 at July 28, 2002. These lines of credit include two committed lines of credit totaling $1,800 which support commercial paper borrowings and remain unused at July 28, 2002, except for $45 of standby letters of credit issued on behalf of the company.

Long-term debt consists of the following:

Type	Fiscal Year of Maturity	Rate	2002	2001
Notes	2003	6.15%	$ —	$ 300
Notes	2004	4.75%	300	300
Notes	2004	5.63%	—	100
Notes	2004	2.29%	300	—
Notes	2004	5.72%	—	528
Notes	2007	6.90%	300	300
Notes	2007	5.50%	300	—
Notes	2009	5.88%	300	—
Notes	2011	6.75%	700	500
Debentures	2021	8.88%	200	200
Other	2004–2010	6.40%–9.00%	49	15
			$2,449	$2,243

The fair value of the company's long-term debt including the current portion of long-term debt in Notes payable was $2,952 at July 28, 2002, and $2,323 at July 29, 2001.

The company has $1,000 of long-term debt available to issue as of July 28, 2002 under a shelf registration statement filed with the Securities and Exchange Commission.

Principal amounts of long-term debt mature as follows: 2003–$301 (in current liabilities); 2004–$600; 2005–$1; 2006–$1; 2007–$605 and beyond-$1,242.

18 (In Part): Financial Instruments

The carrying values of cash and cash equivalents, accounts and notes receivable, accounts payable and short-term debt approximate fair value. The fair value of long-term debt, as indicated in Note 16, and derivative financial instruments is based on quoted market prices.

2.232

CATERPILLAR INC. (DEC)

(Dollars in millions)	2002	2001	2000
Total current liabilities	$11,344	$10,276	$ 8,668
Long-term debt due after one year:			
—Machinery and engines	3,403	3,492	2,854
—Financial products	8,193	7,799	8,480
Liability for postemployment benefits	4,038	3,103	2,514
Deferred income taxes and other liabilities	401	376	348
Total liabilities	$27,379	$25,046	$22,864

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

13. Long-Term Debt

	2002	2001	2000
Machinery and engines:			
Notes—6.000% due 2003	$ —	$ 253	$ 252
Notes—6.550% due 2011	249	249	—
Debentures—9.000% due 2006	209	211	203
Debentures—6.000% due 2007	189	180	162
Debentures—7.250% due 2009	318	321	300
Debentures—9.375% due 2011	123	123	123
Debentures—9.750% due 2000–2019	—	—	139
Debentures—9.375% due 2021	236	236	236
Debentures—8.000% due 2023	199	199	199
Debentures—6.625% due 2028	299	299	299
Debentures—7.300% due 2031	348	348	—
Debentures—6.950% due 2042	249	—	—
Debentures—7.375% due 2097	297	297	297
Medium-term notes	25	26	96
Capital lease obligations	538	467	474
Commercial paper supported by revolving credit agreements	—	130	—
Other	124	153	74
Total machinery and engines	3,403	3,492	2,854
Financial products:			
Commercial paper supported by revolving credit agreements	$ 1,825	$ 1,755	$ 2,732
Medium-term notes	6,298	5,972	5,687
Other	70	72	61
Total financial products	8,193	7,799	8,480
Total long-term debt due after one year	$11,596	$11,291	$11,334

All outstanding notes and debentures are unsecured. The capital lease obligations are collateralized by leased manufacturing equipment and/or security deposits.

The 6% notes due in 2003, classified as debt due within one year, may be redeemed in whole at their principal amount if we are required to pay additional taxes or duties as a result of a change in tax law and that obligation cannot be reasonably avoided. In addition, if the identity of beneficial owners of the notes must be disclosed in certain circumstances, we would be required either to redeem the notes or satisfy the information disclosure requirement through the payment of certain taxes or charges. We also may purchase the 6% notes at any time in the open market.

The 6% debentures due in 2007, were sold at significant original issue discounts ($144). This issue is carried net of the unamortized portion of its discount, which is amortized as interest expense over the life of the issue. These debentures have a principal at maturity of $250 and an effective annual cost of 13.3%. We may redeem them, at our option, at an amount equal to the respective principal at maturity.

We may redeem the 6.55% notes and the 7.25%, 6.625%, 7.3%, 6.95% and 7.375% debentures in whole or in part at our option at any time at a redemption price equal to the greater of 100% of the principal amount of the debentures to be redeemed or the sum of the present value of the remaining scheduled payments.

The terms of other notes and debentures do not specify a redemption option prior to maturity.

The medium-term notes are offered on a continuous basis through agents and are primarily at fixed rates. At December 31, 2002, *Machinery and Engines* medium-term notes had a weighted average interest rate of 8.1% with one to two years remaining to maturity. *Financial Products* medium-term notes have a weighted average interest rate of 3.7% with remaining maturities up to 13 years at December 31, 2002.

The aggregate amounts of maturities of long-term debt during each of the years 2003 through 2007, including amounts due within one year and classified as current, are:

	2003	2004	2005	2006	2007
Machinery and engines	$ 258	$ 67	$ 18	$ 231	$ 204
Financial products	3,654	2,714	1,474	981	818
	$3,912	$2,781	$1,492	$1,212	$1,022

Interest paid on short-term and long-term borrowings for 2002, 2001 and 2000 was $815, $1,009 and $930, respectively.

Please refer to Note 17 on Page A-20 and Table V on Page A-21 for fair value information on long-term debt.

17 (In Part): Fair Values of Financial Instruments

Long-Term Debt

For *Machinery and Engines* notes and debentures, fair value was estimated based on quoted market prices. For *Financial Products,* fair value was estimated by discounting the future cash flow using our current borrowing rates for similar types and maturities of debt, except for floating rate notes and commercial paper supported by revolving credit agreements for which the carrying amounts were considered a reasonable estimate of fair value.

● ● ● ● ● ●

Fair Values of Financial Instruments

	2002		2001		2000	
Asset (Liability)	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and short-term investments	$ 309	$ 309	$ 400	$ 400	$ 334	$ 334
Long-term investments	874	874	791	791	741	741
Foreign currency contracts	47	47	2	2	(30)	(34)
Finance receivables—net (excluding finance type leases)	12,093	12,177	10,931	10,957	10,479	10,582
Short-term borrowings	2,175	2,175	(2,180)	(2,180)	(971)	(971)
Long-term debt (including amounts due within one year)						
Machinery and engines	3,661	4,185	(3,565)	(3,749)	(3,058)	(3,198)
Financial products	11,847	12,118	(10,857)	(11,048)	(11,038)	(11,154)
Interest rate swaps						
Machinery and engines—						
in a net receivable position	—	—	—	—	—	25
in a net payable position	—	—	—	—	(1)	—
Financial products—						
in a net receivable position	84	84	58	58	8	27
in a net payable position	(85)	(85)	(71)	(71)	—	(25)

2.233

UNIFI, INC. (JUN)

(Amounts in thousands)	2002	2001
Total current liabilities	$129,519	$245,986
Long-term debt and other liabilities	280,267	259,188
Deferred income taxes	84,712	80,307
Minority interests	11,159	11,295

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. Long-Term Debt and Other Liabilities

A summary of long-term debt follows:

(Amounts in thousands)	2002	2001
Bonds payable	$248,860	$248,651
Revolving credit facility dated December 7, 2001	23,000	—
Revolving credit facility dated December 20, 2000	—	6,500
Accounts receivable securitization	—	70,085
Sale-leaseback obligation	3,046	3,020
Other obligations	13,643	16,894
Total debt	288,549	345,150
Current maturities	8,282	85,962
Total long-term debt and other liabilities	$280,267	$259,188

On February 5, 1998, the Company issued $250 million of senior, unsecured debt securities (the "Notes") which bear a coupon rate of 6.50% and mature in 2008. The estimated fair value of the Notes, based on quoted market prices, at June 30, 2002, and June 24, 2001, was approximately $200.0 million and $195.0 million, respectively.

On December 7, 2001, the Company refinanced its $150 million revolving bank credit facility, as amended, and its $100 million accounts receivable securitization, which were entered into on December 20, 2000, with a new five-year $150 million asset based revolving credit agreement (the "Credit Agreement"). The Credit Agreement is secured by substantially all U.S. assets excluding manufacturing facilities and manufacturing equipment. Borrowing availability is based on eligible domestic accounts receivable and inventory. As of June 30, 2002, the Company had outstanding borrowings of $23.0 million and availability of $116.7 million under the terms of the Credit Agreement.

Borrowings under the Credit Agreement bear interest at LIBOR plus 2.50% and/or prime plus 1.00%, at the Company's option through February 28, 2003. Effective March 1, 2003, borrowing under the Credit Agreement bear interest at rates selected periodically by the Company of LIBOR plus 1.75% to 3.00% and/or prime plus 0.25% to 1.50%. The interest rate matrix is based on the Company's leverage ratio of funded debt to EBITDA, as defined by the Credit Agreement. On borrowings outstanding at June 30, 2002, the interest rate was 4.34%. The weighted average interest rate on borrowings under the Credit Agreement for the period December 7, 2001 through June 30, 2002 was 4.46%. Under the Credit Agreement, the Company pays an unused line fee ranging from 0.25% to 0.50% per annum on the unused portion of the commitment. In connection with the refinancing, the Company incurred fees and expenses aggregating $1.9 million, which are being amortized over the term of the Credit Agreement. In addition, $0.5 million of unamortized fees related to the previously outstanding debt facilities were charged to operations in the second quarter of fiscal year 2002.

The Credit Agreement contains customary covenants for asset based loans that restrict future borrowings and capital spending. In addition, if borrowing capacity is less than $25.0 million at any time during the quarter, covenants include a required minimum fixed charge coverage ratio of 1.1 to 1.0 and a required maximum leverage ratio of 5.0 to 1.0. At June 30, 2002, the Company was in compliance with all covenants under the Credit Agreement.

Effective December 20, 2000, the Company refinanced a $400 million credit facility dated April 15, 1996, that was scheduled to mature April 15, 2001, with a new unsecured three year $250 million revolving bank credit facility. Additionally, the Company entered into a $100 million trade receivables financing agreement (the "Receivables Agreement") that was secured by its domestic and certain foreign accounts receivable. The Receivables Agreement did not have a stated maturity but was terminable at the option of the Company with a five-day written notice. Outstanding borrowing of $70.1 million at June 24, 2001 under the Receivables Agreement were classified as a current maturity of long-term debt, pending renegotiation or refinancing of the December 20, 2000 revolving credit facility discussed in the following paragraph. Interest on loans under the December 20, 2000 credit facility was charged at LIBOR plus .825% and interest on advances under the receivables financing agreement was charged at the applicable commercial paper rate plus .30%. The weighted average interest rates for the borrowings made from the revolver and the accounts receivable securitization for the period of time they were outstanding in fiscal year 2002 prior to refinancing were 4.94% and 3.14%, respectively. The weighted average interest rates for the revolver and securitization from December 20, 2000 through June 24, 2001 were 6.60% and 5.92%, respectively. The weighted average interest rate for the $400 million revolving credit facility for the period of time this debt was outstanding in fiscal year 2001 was 6.91%.

The loans under the December 20, 2000 revolving credit facility included financial covenants that required, at June 24, 2001, tangible net worth of $396.1 million, a maximum leverage ratio of 3.25 and a minimum interest coverage ratio of 2.50. The Company was in default of the interest coverage covenant of the new revolving credit facility at June 24, 2001. As a result, the Company obtained a waiver through October 31, 2001, which reduced the facility from $250 million to $150 million and raised the effective interest rate approximately 2.0%. The outstanding balance of the revolving credit facility of $6.5 million at June 24, 2001 was classified as a current maturity of long-term debt.

On May 20, 1997, the Company entered into a sales-leaseback agreement with a financial institution whereby land, buildings and associated real and personal property improvements of certain manufacturing facilities were sold to the financial institution and will be leased by the Company over a sixteen-year period. This transaction has been recorded as a direct financing arrangement. On June 30, 1997, the Company entered into a Contribution Agreement associated with the formation of Parkdale America, LLC (see Footnote 11 "Investment in Unconsolidated Affiliates" for further discussion). As a part of the Contribution Agreement,

ownership of a significant portion of the assets financed under the sales-leaseback agreement and the related debt ($23.5 million) were assumed by the LLC. Payments for the remaining balance of the sales-leaseback agreement are due semi-annually and are in varying amounts, in accordance with the agreement. Average annual principal payments over the next five years are approximately $277 thousand. The interest rate implicit in the agreement is 7.84%.

Other obligations consist primarily of acquisition-related liabilities and advances from the Brazilian government. These obligations mature $8.2 million in fiscal year 2003 and $5.4 million in fiscal year 2004.

Interest capitalized during fiscal 2002 and 2001 was $0.2 million and $2.4 million, respectively.

10 (In Part): Derivative Financial Instruments and Fair Value of Financial Instruments

Long-Term Debt

The fair value of the Company's borrowings is estimated based on the quoted market prices for the same or similar issues or on the current rates offered to the Company for debt of the same remaining maturities (see Footnote 4 "Long-Term Debt and Other Liabilities").

Collateralized

2.234

GREIF BROS. CORPORATION AND SUBSIDIARY COMPANIES (OCT)

(Dollars in thousands)	2002	2001
Total current liabilities	$281,572	$293,519
Long-term liabilities		
Long-term debt	629,982	654,374
Deferred tax liability	135,577	124,346
Postretirement benefit liability	47,131	50,028
Other long-term liabilities	93,559	62,015
Total long-term liabilities	$906,249	$890,763

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 6—Long-Term Debt

Long-term debt is summarized as follows (Dollars in thousands):

	2002	2001
$550 million Amended and Restated Senior Secured Credit Agreement	$384,250	$ —
8-7/8% Senior Subordinated Notes	247,965	—
$900 million Senior Secured Credit Agreement	—	696,306
Other debt	767	1,208
	632,982	697,514
Less current portion	(3,000)	(43,140)
	$629,982	$654,374

$550 Million Amended and Restated Senior Secured Credit Agreement

On August 23, 2002, the Company, as U.S. borrower, and Greif Spain Holdings, S.L., Greif Canada Inc., Van Leer (UK) Ltd., Koninklijke Emballage Industrie Van Leer B.V. (dba Royal Packaging Industries Van Leer B.V.), and Van Leer Australia Pty. Limited, as non-U.S. borrowers, entered into a $550 million Amended and Restated Senior Secured Credit Agreement with a syndicate of lenders. A portion of the proceeds from the Amended and Restated Senior Secured Credit Agreement was used to refinance amounts outstanding under the Company's then existing $900 million Senior Secured Credit Agreement. The Amended and Restated Senior Secured Credit Agreement provides for a $300 million term loan and a $250 million revolving multicurrency credit facility. The revolving multicurrency credit facility is available for working capital and general corporate purposes. The term loan periodically reduces through its maturity date of August 23, 2009, and the revolving multicurrency credit facility matures on February 28, 2006.

The Company is required to pay a commitment fee each quarter equal to 0.250% to 0.500% of the total unused revolver commitment amount, based upon the Company's leverage ratio. Interest is based on either a LIBOR rate or an alternative base rate that resets periodically plus a calculated margin amount. At October 31, 2002, the Company had $384.3 million outstanding under the Amended and Restated Senior Secured Credit Agreement with a weighted average interest rate of 4.04%. The amounts outstanding, as well as the base rates and margins, at October 31, 2002, were as follows (dollars in thousands):

	Amount	Base Rate	Margin
Term Loan C	$299,250	1.76%	2.25%
Multicurrency revolver:	$ 80,000	1.76%	2.25%
	$ 5,000	4.75%	1.25%

The Amended and Restated Senior Secured Credit Agreement contains certain covenants, which include financial covenants that require the Company to maintain a certain leverage ratio, a minimum coverage of interest expense and fixed charges and a minimum net worth. At October 31, 2002, the Company was in compliance with these covenants. The repayment of this facility is secured by a first lien on substantially all of the personal property and certain of the real property of Greif Bros. Corporation and its U.S. subsidiaries and, in part, by the capital stock of the non-U.S. borrowers and any intercompany notes payable to them. Standard & Poor's and Moody's Investor Service have assigned a "BB" rating and a "Ba3" rating, respectively, to the loan obligations of the Company under the Amended and Restated Senior Secured Credit Agreement.

The $250 million revolving multicurrency credit facility was also used to issue letters of credit. At October 31, 2002, the Company had outstanding $20.0 million in letters of credit. The quarterly fronting fee related to these letters of credit was 0.125% of the outstanding amount plus a calculated margin (2.25% at October 31, 2002) for the use of this facility.

8-7/8% Senior Subordinated Notes

On July 31, 2002, the Company issued Senior Subordinated Notes in the aggregate principal amount of $250 million, receiving net proceeds of approximately $248 million before

expenses. Interest on the Senior Subordinated Notes is payable semiannually at the annual rate of 8-7/8%. The Senior Subordinated Notes do not have required principal payments prior to maturity on August 1, 2012. However, the Senior Subordinated Notes are redeemable at the option of the Company beginning August 1, 2007, at the redemption prices set forth below (expressed as percentages of principal amount), plus accrued interest, if any, to the redemption date:

Year	Redemption Price
2007	104.438%
2008	102.958%
2009	101.479%
2010 and thereafter	100.000%

In addition, prior to August 1, 2007, the Company may redeem the Senior Subordinated Notes by paying a specified "make-whole" premium.

The net proceeds from the Senior Subordinated Notes issuance were utilized to repay indebtedness under the Company's $900 million Senior Secured Credit Agreement and fees paid in connection with the offering. The fair value of the Senior Subordinated Notes was approximately $259 million at October 31, 2002, based on quoted market prices. The trust indenture pursuant to which the Senior Subordinated Notes were issued contains certain covenants. At October 31, 2002, the Company was in compliance with these covenants.

A description of the guarantees of the Senior Subordinated Notes by the Company's U.S. subsidiaries is included in Note 16.

$900 Million Senior Secured Credit Agreement

On March 2, 2001, the Company and Greif Spain Holdings, S.L. had entered into a $900 million Senior Secured Credit Agreement with a syndicate of lenders. A portion of the proceeds from the Senior Secured Credit Agreement was used to fund the Van Leer Industrial Packaging acquisition and to refinance amounts outstanding under the Company's then existing revolving credit facility. The Senior Secured Credit Agreement provided for three term loans, a $150 million U.S. Dollar Term Loan A, a $200 million Euro Term Loan A and a $400 million U.S. Dollar Term Loan B, and a $150 million revolving multicurrency credit facility. The revolving multicurrency credit facility was available for working capital and general corporate purposes.

The Term Loan A (both U.S. dollar and euro) and Term Loan B were to amortize quarterly through the maturity dates of February 28, 2006 and February 29, 2008, respectively. The revolving multicurrency credit facility was to mature on February 28, 2006. However, during 2002, the $900 million Senior Secured Credit Agreement was refinanced using proceeds from the Amended and Restated Senior Secured Credit Agreement and the Senior Subordinated Notes.

During 2002, the Company incurred a non-cash debt extinguishment charge of $10.3 million related to the extinguishment of the indebtedness outstanding under the Senior Secured Credit Agreement. The Company has early adopted SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections." SFAS No. 145 rescinds SFAS No. 4, which required all gains and losses from extinguishment of debt to be aggregated and, if material, classified as an extraordinary item, net of the related income tax effect. As such, the debt extinguishment charge has been presented as a component of income before income taxes, minority interest in income of consolidated subsidiaries and equity in earnings of affiliates.

The Company was required to pay a commitment fee each quarter equal to 0.375% to 0.500% of the total unused revolver commitment amount, based upon the Company's leverage ratio. Interest was based either on a LIBOR rate or an alternative base rate that reset periodically plus a calculated margin amount. At October 31, 2001, the Company had $696.3 million outstanding under the Senior Secured Credit Agreement with a weighted average interest rate of 5.50%. The amounts outstanding, as well as the base rates and margins, at October 31, 2001, were as follows (U.S. dollars and euros in thousands):

	Amount	Base Rate	Margin
Term Loan A (U.S. dollar)	$131,526	2.27%	2.50%
Term Loan A (euro)	€187,660	3.59%	2.50%
Term Loan B	$377,256	2.27%	3.25%
Multicurrency revolver	$ 20,000	2.34%	2.50%

The $150 million revolving multicurrency credit facility was also used to issue letters of credit. At October 31, 2001, the Company had outstanding $13.0 million in letters of credit. The quarterly fronting fee related to these letters of credit was 0.125% of the outstanding amount plus a calculated margin (2.50% at October 31, 2001) for the use of this facility.

Other

In addition to the amounts borrowed against the Amended and Restated Senior Secured Credit Agreement and the Senior Subordinated Notes, the Company had outstanding debt of $20.8 million, comprised of $0.8 million in long-term debt and $20.0 million in short-term borrowings at October 31, 2002. At October 31, 2001, the Company had outstanding debt of $17.7 million, comprised of $1.2 million in long-term debt and $16.5 million in short-term borrowings, in addition to the amounts borrowed against the Senior Secured Credit Agreement.

Annual maturities of the Company's long-term debt are $3.0 million in 2003, $3.0 million in 2004, $3.0 million in 2005, $88.0 million in 2006, $3.0 million in 2007 and $533.0 million thereafter.

At October 31, 2002 and 2001, the Company had deferred financing fees and debt issuance costs of $16.1 million and $14.5 million, respectively, which are included in other long-term assets.

During 2002, the Company paid $41.1 million of interest ($44.8 million in 2001 and $16.6 million in 2000) related to its long-term obligations. Interest of $0.5 million in 2002, $2.5 million in 2001 and $2.5 million in 2000 was capitalized.

Non-Cancelable Operating Leases

The Company has entered into non-cancelable operating leases for buildings, trucks and computer equipment. During 2002, the Company sold a building to a subsidiary of CorrChoice for $7.5 million. Concurrently with the sale, the Company entered into a lease-back arrangement for the building. The $0.2 million gain on the sale transaction has been deferred over the term of the lease. The resulting 10-year lease is accounted for as an operating lease and is included

in future minimum lease payments. The future minimum lease payments for the non-cancelable operating leases are $14.7 million in 2003, $13.1 million in 2004, $11.3 million in 2005, $9.1 million in 2006, $7.2 million in 2007 and $19.5 million thereafter. Rent expense was $21.4 million in 2002, $20.5 million in 2001 and $14.0 million in 2000.

Note 7 (In Part): Financial Instruments

The estimated fair value of the Company's long-term debt was $643.8 million and $697.5 million as compared to the carrying amounts of $633.0 million and $697.5 million at October 31, 2002 and 2001, respectively. The fair value of the Company's long-term obligations is estimated based on either the quoted market prices for the same or similar issues and the current interest rates offered for debt of the same remaining maturities.

2.235

HURCO COMPANIES, INC. (OCT)

(In thousands)	2002	2001
Total current liabilities	$21,185	$18,217
Non-current liabilities:		
Long-term debt	7,572	11,800
Deferred credits and other	378	732
	$ 7,950	$12,532

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. Debt Agreements

Long-term debt as of October 31, 2002 and 2001, consisted of (in thousands):

	2002	2001
Domestic bank revolving credit facility	$ —	$11,200
European bank credit facility	2,475	—
First mortgage	4,460	—
Installment promissory note	1,350	—
Economic development revenue bonds, series 1990	600	800
	8,885	12,000
Less current portion	1,313	200
	$7,572	$11,800

As of October 31, 2002, long-term debt was payable as follows (in thousands):

	2002
Fiscal 2003	$1,313
Fiscal 2004	3,120
Fiscal 2005	317
Fiscal 2006	126
Fiscal 2007	136
Thereafter	3,873
	$8,885

Domestic Bank Credit Facility

As of October 31, 2002 and 2001, we had $1.1 million and $2.1 million, respectively, of outstanding letters of credit issued to non-U.S. suppliers for inventory purchase commitments. As of October, 31, 2002, we had unutilized credit facilities of $6.5 million available for either direct borrowings or commercial letters of credit.

Interest on the bank credit facility was payable at rates ranging from 4.28% to 5.25% at October 31, 2002 and from 3.5% to 5.5% at October 31, 2001.

As of October 31, 2002, our domestic bank credit agreement was amended, extending the maturity date to December 15, 2003 and reducing the bank's commitment to $7.0 million. Interest on all outstanding borrowings is payable at Libor, plus an applicable Eurodollar rate margin, or at our option, prime rate plus a specified margin, as follows:

	Libor Margin	Prime Margin
November 1, 2002—June 30, 2003	3.5%	1.5%
June 30, 2003—December 15, 2003	4.0%	2.0%

Our domestic credit agreement requires that we maintain a tangible net worth, exclusive of Accumulated Other Comprehensive Income (as set forth in our consolidated balance sheet), of not less than $32.3 million at October 31, 2002, $30.0 million at January 31, 2003, April 30, 2003 and July 31, 2003 and $30.5 million at October 31, 2003. Our adjusted EBITDA, as defined, for the twelve consecutive months then ending cannot be less than negative $2.15 million on October 31, 2002, negative $1.75 million on January 31, 2003, nagative $600,000 on April 30, 2003, positive $280,000 on July 31, 2003 and positive $1.8 million on October 31, 2003. Other financial covenants were extended unchanged to December 15, 2003. A facility fee of $50,000 previously payable March 31, 2003 has been reduced to $35,000, payable June 30, 2003, unless we have obtained a replacement financing arrangement by then. The credit agreement provides the lender with a security interest in substantially all domestic assets and 67% of the common stock of our U.S. holding companies, which own our foreign subsidiaries. At October 31, 2002, our ability to repurchase shares of our common stock and pay cash dividends were restricted under the bank credit agreement. We were in compliance with all loan covenants at October 31, 2002. We are currently in discussion with other lenders for a long-term domestic credit facility, and while we believe that we will be able to obtain a replacement facility in fiscal 2003 under acceptable terms, no such assurance can be given.

Promissory Note

On October 24, 2002, we issued a secured promissory note for $1,350,000 to the seller of patented technology that we purchased. The note bears interest at 2.75% per annum and is due in four equal installments of $337,500 on March 31, 2003, June 30, 2003, July 31, 2003 and December 31, 2003.

First Mortgage

On April 30, 2002, we obtained a $4.5 million first mortgage loan on our Indianapolis corporate headquarters. The loan bears interest at a rate of $7^3/_8$% and matures in April 2009. We are required to make principal payments over the seven-year

term of the loan, based on a twenty-year amortization schedule. The proceeds from the first mortgage loan, together with other available cash, were used to repay bank debt.

European Bank Credit Facility

On January 8, 2002 we entered into a 3.0 million Euro credit facility with a European bank, which currently matures November 30, 2003. Interest on the facility is payable at 7.16% per annum or, at the Company's option, 1.75% above EURIBOR for fixed rate borrowings. Although the facility is uncollateralized, the bank reserves the right to require collateral in the event of increased risk evaluation. Borrowings outstanding under this facility at October 31, 2002 were $2.5 million.

Economic Development Revenue Bonds

The Economic Development Revenue Bonds are payable in three remaining equal annual installments due on September 1, 2003 thru 2005 and are secured by a letter of credit issued by our domestic bank. Interest rates on the bonds adjust weekly and, as of October 31, 2002 and 2001, interest was accruing at a rate of 2.10% and 2.40%, respectively.

5 (In Part): Financial Instruments

The carrying amounts for trade receivables and payables approximate their fair values. At October 31, 2002, the carrying amounts and fair values of our financial instruments, which include bank revolving credit facilities, senior notes and Economic Development Revenue Bonds, are not materially different. The fair value of long-term debt, including the current portion, is estimated based on quoted market prices for similar issues or on current rates offered to us for debt of the similar terms and maturities.

Convertible

2.236

CORNING INCORPORATED AND SUBSIDIARY COMPANIES (DEC)

(In millions)	2002	2001
Total current liabilities	$1,680	$1,994
Long-term debt (Note 14)	3,963	4,463
Postretirement benefits other than pensions	617	608
Pensions	455	92
Other liabilities	83	96

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

14. Long-Term Debt and Loans Payable

Long-term debt and loans payable consisted of the following (in millions):

	2002	2001
Loans payable		
Current portion of long-term debt	$ 191	$ 244
Other short-term borrowings	13	233
Total loans payable	$ 204	$ 477
Long-term debt		
Debentures, 8.25%, due 2002		$ 75
Debentures, 6%, due 2003	$ 100	100
Euro notes, 5.625%, due 2005	206	178
Debentures, 7%, due 2007, net of unamortized discount of $25 million in 2002 and $28 million in 2001	75	72
Convertible notes, 4.875%, due 2008	96	96
Convertible debentures, 3.5%, due 2008	665	665
Notes, 6.3%, due 2009	150	150
Euro notes, 6.25%, due 2010	310	267
Debentures, 6.75%, due 2013	100	100
Zero coupon convertible debentures, 2%, due 2015, redeemable and callable in 2005	1,606	2,059
Debentures, 8.875%, due 2016	86	74
Debentures, 8.875%, due 2021	88	75
Debentures, 7.625%, putable in 2004, due 2024	100	100
Medium-term notes, average rate 7.9%, due through 2025	242	231
Debentures, 6.85%, due 2029	150	150
Other, average rate 1.9%, due through 2015	180	315
Total long-term debt	4,154	4,707
Less current portion of long-term debt	191	244
Long-term debt	$3,963	$4,463

At December 31, 2002 and 2001, the weighted-average interest rate on short-term borrowings was 5.5% and 4.6%, respectively.

Based on borrowing rates currently available to Corning for loans with similar terms and maturities, the fair value of long-term debt was $3.105 billion at year-end 2002.

The following table shows the maturities by year of the total long-term debt obligations at December 31 (in millions):

2003	2004	2005	2006	2007–2029
$191	$127	$1,910	$11	$1,964

The zero coupon convertible debentures are presented in the above table as due in 2005 representing the earliest possible redemption date.

During 2002, Corning repurchased and retired a portion of its zero coupon convertible debentures due November 8, 2015, with an accreted value of $493 million in exchange for cash of $308 million in a series of open-market purchases. Corning recorded a gain of $176 million ($108 million after-tax) on these transactions, net of the write-off of the unamortized issuance costs. Corning recorded the gain on repurchases as a component of income from continuing operations, as permitted by SFAS No. 145.

In November 2001, Corning completed a convertible debt offering of $665 million due November 1, 2008 and convertible into approximately 69 million shares of common stock. Each $1,000 debenture was issued at par and pays interest of 3.5% semi-annually on May 1 and November 1 of each year. The debentures are available for conversion into 103.3592 shares of Corning common stock if certain conditions are met. Corning may repurchase securities at certain redemption prices beginning on November 8, 2004.

In November 2000, Corning completed an offering of $2.7 billion (amount due at maturity) of zero coupon convertible debentures which generated net proceeds of approximately $2.0 billion. The initial price of the debentures was $741.92 with a 2% annual yield. Interest is compounded semi-annually with a 25% conversion factor. The remaining debentures mature on November 8, 2015, and are convertible into approximately 17 million shares of Corning common stock at the rate of 8.3304 per $1,000 debenture. Corning may call the debentures at any time on or after November 8, 2005. The debentures may be redeemed for $819.54 on November 8, 2005 and $905.29 on November 8, 2010. The holder can convert the debenture into Corning common stock at any time prior to maturity or redemption. Corning has the option of settling this obligation in cash, common stock, or a combination of both.

In February 1998, Oak Industries Inc. (Oak) issued $100 million of convertible subordinated notes bearing interest at 4.875%, due in 2008. The notes are convertible into 6 million shares of Corning common stock at a conversion price of approximately $16 per share.

Corning has full access to a revolving line of credit with a syndicate of banks for $2.0 billion. The line of credit expires in August 2005. There were no borrowings under the agreement at December 31, 2002. The revolving credit agreements provide for borrowing of U.S. dollars and Eurocurrency at various rates and supports Corning's commercial paper program when available. The facility includes a covenant requiring Corning to maintain a total debt to total capital ratio, as defined, not greater than 60%. At December 31, 2002, this ratio was 47%.

Debt Covenant Violation

2.237

TASTY BAKING COMPANY AND SUBSIDIARIES (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6 (In Part): Long-Term Debt

During the fourth quarter of 2002, the company violated certain of its restrictive covenants under the Credit Facility due to the restructure and pension corridor charges that it recognized. The company has obtained an amendment to the Credit Facility, which cures the covenant violations and extends the term of the 364-day line of credit for an additional year. The terms of the amendment include the payment of a fee for the amendment, and an increase in future interest rates and commitment fees. As a result of the amendment, interest rates will increase between .20% and .95% relative to the furture performance of the company.

CREDIT AGREEMENTS

2.238 As shown in Table 2-29, many of the survey companies disclosed the existence of loan commitments from the banks or insurance companies for future loans. Examples of such loan commitment disclosures follow:

2.239

TABLE 2-29: CREDIT AGREEMENTS

	2002	2001	2000	1999
Disclosing credit agreements	540	554	551	549
Not disclosing credit agreements	60	46	49	51
Total Companies	**600**	**600**	**600**	**600**

2.240

THE COCA-COLA COMPANY AND SUBSIDIARIES (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 6: Short-Term Borrowings and Credit Arrangements

Loans and Notes Payable consist primarily of commercial paper issued in the United States. On December 31, 2002 and 2001, we had approximately $2,122 million and $3,361 million, respectively, outstanding in commercial paper borrowings. Our weighted-average interest rates for commercial paper borrowings. Our weighted-average interest rates for commercial paper outstanding were approximately 1.4 percent and 1.9 percent at December 31, 2002 and 2001, respectively. In addition, we had $2,331 million in lines of credit and other short-term credit facilities available as of December 31, 2002, of which approximately $353 million was outstanding. All of this $353 million amount relates to our international subsidiaries. Included in the available facilities discussed above, the Company had $1,900 million in lines of credit for general corporate purposes, including commercial paper back-up, which had no borrowings during 2002.

These facilities are subject to normal banking terms and conditions. Some of the financial arrangements require compensating balances, none of which is presently significant to our Company.

2.241

GRIFFON CORPORATION (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

In October 2001 the company and a subsidiary entered into a six-year $160,000,000 credit agreement with several banks. This agreement provides revolving credit for four years after which the credit facility may be converted, at the option of the company, into a reducing revolving credit for two years. Borrowings under the agreement bear interest at rates (3.0% at September 30, 2002) based upon LIBOR or the prime rate, and are secured by the capital stock of a subsidiary. At September 30, 2002, $45,800,000 was outstanding under this loan agreement, and the weighted average interest rate was 3.2%.

The company's European operations have bank agreements which provide for a term loan of approximately $13,000,000 with maturities through 2004 and revolving credits for up to approximately $20,000,000. Outstanding borrowings ($16,296,000 as of September 30, 2002) under these agreements bear interest at rates (4.7% at September 30, 2002) based upon the prime rate or Euribor.

2.242

THE MANITOWOC COMPANY, INC. AND SUBSIDIARIES (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Table information in thousands of dollars)

8 (In Part): Debt

Debt at December 31 is summarized as follows:

	2002	2001
Senior credit facility:		
Term Loan A	$101,713	$128,000
Term Loan B	172,375	174,125
Revolving credit facility	2,000	5,900
Senior subordinated notes due 2011 (175 million Euro)	183,523	154,227
Senior subordinated notes due 2012	175,000	—
Industrial revenue bonds	3,150	3,371
Fair value of interest rate swaps	2,493	—
Other	25,925	22,947
Total debt	666,179	488,570
Less current portion	(42,632)	(42,048)
Long-term debt	$623,547	$446,522

In May 2001, the company entered into a new $475 million Senior Credit Facility (Senior Credit Facility) maturing in May 2007. The Senior Credit Facility is comprised of term loans aggregating $350 million and a $125 million Revolving Credit Facility. As a result of prepayments made by the company during 2002 and 2001, the Term Loan A requires a principal payment of $3.8 million in March 2003 and quarterly principal payments of $7.5 million from June 2003 through May 2006. The Term Loan B requires quarterly principal payments of $0.4 million through March 2006 and $33.3 million from June 2006 through May 2007. Substantially all domestic, tangible and intangible assets of the company and its subsidiaries are pledged as collateral under the Senior Credit Facility.

Borrowings under the Senior Credit Facility bear interest at a rate equal to the sum of a base rate or a Eurodollar rate plus an applicable margin, which is based on the company's consolidated total leverage ratio, as defined by the Senior Credit Facility. The weighted-average interest rates for the Term Loan A, Term Loan B and Revolving Credit Facility were 4.06%, 4.32% and 5.88%, respectively, at December 31, 2002. The annual commitment fee in effect on the unused portion of the company's Revolving Credit Facility was 0.5% at December 31, 2002. The company had $93.5 million of unused availability under the terms of its Revolving Credit Facility at December 31, 2002.

In May 2001, the company incurred an extraordinary loss of $5.5 million ($3.3 million net of income taxes) related to a prepayment penalty and the write-off of unamortized financing fees from its previous credit facility.

2.243

REGAL ENTERTAINMENT GROUP (DEC)

NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

6 (In Part): Long-Term Obligations

Long-term obligations at December 26, 2002 and January 3, 2002, consist of the following:

(In millions)	2002	2001
Regal Cinemas Senior Credit Facility	$219.4	$ —
Regal Cinemas $9^3/_8$% Senior Subordinated Notes	350.0	—
United Artists Term Credit Facility	—	240.6
Edwards Senior Secured Term Loan	—	180.0
Edwards Subordinated Notes to shareholders	—	10.3
Lease financing arrangements, 11.5%, maturing in various installments through 2021	97.8	—
Capital lease obligations	4.1	2.7
Other	7.1	5.3
United Artists Revolving Credit Facility	—	—
Total long-term obligations	678.4	438.9
Less current maturities	(17.0)	(15.6)
Total long-term obligations, net	$661.4	$423.3

Regal Cinemas Senior Credit Facility

Regal Cinemas entered into an amended and restated senior credit agreement with several financial institutions including Lehman Brothers, Inc., Credit Suisse First Boston Corporation, General Electric Capital Corporation and Lehman Commercial Paper, Inc., on August 12, 2002, amending its existing senior credit agreement to increase the amount available for borrowing under the senior secured revolving credit facility

from $100 million to $145 million and to decrease the amount of the senior secured term loan from $270 million to $225 million. Under the amended and restated senior credit agreement, the lenders advanced Regal Cinemas $225.0 million through a senior secured term loan, which was used, together with cash on hand at Regal Cinemas, Inc., to repay in full its existing $270.0 million term loan. The amended and restated senior credit agreement also made available, subject to the satisfaction of conditions customary for extensions of credit of this type, an additional $145.0 million through a senior secured revolving credit facility. The $225.0 million term loan will amortize at a rate of 5% per annum until December 31, 2006, with the remaining 75% due in four installments ending on December 31, 2007. The senior secured revolving credit facility became available on August 12, 2002 and will be available until January 29, 2007. Regal Cinemas also maintains a letter of credit for $15.0 million related to its general unsecured claims as of December 26, 2002, which reduces the availability under its senior secured revolving credit facility to $130.0 million. As of December 26, 2002, there were no amounts outstanding on the senior secured revolving credit facility.

Borrowings under the term facility bear interest, at Regal Cinemas' option, at either the base rate or Eurodollar rate plus, in each case, an applicable margin, subject to adjustment based upon the consolidated total leverage ratio of Regal Cinemas. The base rate is a fluctuating interest rate equal to the higher of (a) the British Banking Association's prime rate or (b) the Federal Funds Effective Rate plus 0.5%. At December 26, 2002, the interest rate on the senior credit facility was approximately 4.6%.

Regal Cinemas may prepay borrowings under the amended and restated senior credit facility in whole or in part, in minimum amounts and subject to other conditions set forth in the amended and restated senior credit agreement. Regal Cinemas is required to make mandatory prepayments to the lenders from the net cash proceeds from asset sales and new debt issuances, in particular circumstances specified in the amended and restated senior credit agreement.

Regal Cinemas' obligations are secured by, among other things, the capital stock of most of its subsidiaries, mortgages on most of its properties and a security interest in substantially all of its assets.

The amended and restated senior credit agreement includes various financial covenants such as certain leverage and coverage ratios. The amended and restated senior credit agreement also contains customary covenants, including limitations on Regal Cinemas' ability to incur debt, and events of default, including a change of control, as defined in the amended and restated senior credit agreement. The amended and restated senior credit agreement also limits Regal Cinemas' ability to pay dividends, to make advances and otherwise to engage in intercompany transactions.

United Artists Term Credit Facility

As described in Note 1—"The Company and Basis of Presentation," the United Artists Term Credit Facility was repaid in connection with Regal's May 2002 initial public offering. The Company recorded an extraordinary loss of approximately $1.4 million as a result of the early redemption of the United Artists Term Credit Facility.

United Artists Revolving Credit Facility

The $35.0 million United Artists Revolving Credit Facility (the "UA Revolver") was terminated during the third quarter of fiscal 2002.

2.244

SWIFT TRANSPORTATION CO., INC. AND SUBSIDIARIES (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

10) Borrowings Under Revolving Credit Agreement

The Company has a $255 million unsecured revolving line of credit under an agreement with seven banks (the Credit Agreement), which matures on November 21, 2005. Interest on outstanding borrowings is based upon one of two options, which the Company selects at the time of borrowing: the bank's prime rate or the London Interbank Offered Rate (LIBOR) plus applicable margins ranging from 62.5 to 137.5 basis points, as defined in the Credit Agreement (currently 70 basis points). The unused portion of the line of credit is subject to a commitment fee ranging from 17.5 to 25 basis points (currently 20 basis points). As of December 31, 2002 and 2001, there was $136.4 and $117 million outstanding under the line of credit.

The Credit Agreement requires the Company to meet certain covenants with respect to leverage and fixed charge coverage ratios and tangible net worth. The Credit Agreement also requires the Company to maintain unencumbered assets of not less than 120% of indebtedness (as defined).

The Credit Agreement includes financing for letters of credit up to $150 million. The Company has outstanding letters of credit primarily for workers' compensation and liability self-insurance purposes totaling $48.4 million at December 31, 2002.

LONG-TERM LEASES

2.245 Standards for reporting leases on the financial statements of lessees and lessors are set forth in SFAS No. 13, *Accounting for Leases,* and in subsequently issued amendments and interpretations of *SFAS No.13.*

2.246 Table 2-30, in addition to summarizing the number of survey companies reporting capitalized and/or noncapitalized lessee leases, shows the nature of information most frequently disclosed by the survey companies for capitalized and noncapitalized lessee leases. 61 survey companies reported lessor leases.

2.247 Examples of long-term lease presentations and disclosures follow.

2.248

TABLE 2-30: LONG-TERM LEASES

	Number of Companies			
	2002	**2001**	**2000**	**1999**
Information Disclosed as to Capitalized Leases				
Minimum lease payments	122	112	114	118
Imputed interest	85	80	87	94
Leased assets by major classifications	43	44	35	33
Executory costs	7	7	8	11
Information Disclosed as to Noncapitalized Leases				
Rental expenses				
Basic	563	548	531	496
Sublease	59	62	46	58
Contingent	53	52	56	49
Minimum rental payments				
Schedule of	543	528	518	513
Classified by major categories of property	11	14	4	5
Number of Companies				
Noncapitalized leases only	331	330	331	314
Capitalized and noncapitalized leases	236	230	215	227
Capitalized leases only	4	6	12	10
No leases disclosed	29	34	42	49
Total Companies	**600**	**600**	**600**	**600**

Lessee—Capital Leases

2.249

BROADWING INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5 (In Part): Debt

The Company's debt consisted of the following as of the dates below:

($ in millions)	2002	2001
Short-term debt:		
Capital lease obligations, current portion	$ 9.0	$ 11.2
Bank notes, current portion	172.1	118.8
Current maturities of long-term debt	20.0	20.0
Other short-term debt	2.6	—
Total short-term debt	$ 203.7	$ 150.0
Long-term debt:		
Bank notes, less current portion	$1,476.0	$1,828.2
9% Senior subordinated notes (Broadwing Communications)	46.0	46.0
6% Convertible subordinated debentures	502.8	470.5
Cincinnati Bell Telephone notes, less current portion	249.5	269.5
7% Senior secured notes	49.6	49.5
Capital lease obligations, less current portion	30.0	37.5
12% Senior notes (Broadwing Communications)	0.8	0.8
Total long-term debt	$2,354.7	$2,702.0

• • • • • •

Capital Lease Obligations

The Company leases facilities and equipment used in its operations, some of which are required to be capitalized in accordance with Statement of Financial Accounting Standard No. 13, "Accounting for Leases" ("SFAS 13"). SFAS 13 requires the capitalization of leases meeting certain criteria, with the related asset being recorded in property, plant and equipment and an offsetting amount recorded as a liability. The Company had $39.0 million in total indebtedness relating to capitalized leases as of December 31, 2002, $30.0 million of which was considered long-term.

• • • • • •

Debt Maturity Schedule

The following table summarizes the Company's annual maturities of debt and minimum payments under capital leases for the five years subsequent to December 31, 2002, and thereafter:

($ in millions)	Long-Term Debt	Capital Leases	Total Debt
Year of maturity			
2003	$ 194.7	$ 9.0	$ 203.7
2004	995.0	5.9	1,000.9
2005	25.0	3.4	28.4
2006	403.0	2.4	405.4
2007	73.1	2.3	75.4
Thereafter (net of unamortized discount of $0.9 million)	828.6	16.0	844.6
	2,519.4	39.0	2,558.4
Less current portion	194.7	9.0	203.7
Total long-term debt	$2,324.7	$30.0	$2,354.7

Interest expense recognized on the Company's debt is as follows:

($ in millions)	2002	2001	2000
Interest expense:			
Long-term debt	$155.6	$159.6	$157.1
Short-term debt	3.5	2.5	1.1
Other	5.1	6.0	5.4
Total	$164.2	$168.1	$163.6

The decrease in interest expense on long-term debt is due to lower average debt levels resulting primarily from the sale of CBD, reclassification of long-term debt to short-term debt, and lower average interest rates in 2002 compared to 2001. Interest on long-term debt is net of the capitalization of $9 million, $24 million, and $25 million in interest expense in 2002, 2001 and 2000, respectively. Interest on short-term debt increased in 2002 compared to 2001 as the result of $81.1 million of the credit facility, previously classified as long-term, becoming current at different intervals throughout the year. Additionally, short-term debt related to the credit facility was zero in the first half of 2001 compared to an average balance of approximately $50 million in the first half of 2002. These increases in short-term interest were partially offset by lower interest rates in 2002. Other interest expense pertains primarily to capitalized leases, which decreased in 2002 as a result of a decrease in capital lease obligations.

2.250

COCA-COLA BOTTLING CO. CONSOLIDATED (DEC)

(In thousands)	2002	2001
Current liabilities:		
Portion of long-term debt payable within one year	$ 31	$ 56,708
Current portion of obligations under capital leases	3,960	1,489
Accounts payable, trade	38,303	28,370
Accounts payable to The Coca-Cola Company	9,823	7,925
Other accrued liabilities	72,647	49,169
Due to Piedmont Coca-Cola Bottling Partnership		24,682
Accrued compensation	20,462	17,350
Accrued interest payable	10,649	11,878
Total current liabilities	155,875	197,571
Deferred income taxes	155,964	133,743
Pension and postretirement benefit obligations	37,227	37,203
Other liabilities	58,261	57,770
Obligations under capital leases	42,066	935
Long-term debt	807,725	620,156
Total liabilities	$1,257,118	$1,047,378

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6. Leased Property Under Capital Leases

(In thousands)	2002	2001	Estimated Useful Lives
Leased property under capital leases	$47,618	$12,265	1–29 years
Less: Accumulated amortization	2,995	6,882	
Leased property under capital leases, net	$44,623	$ 5,383	

The Company recorded a capital lease of $41.6 million at the end of the first quarter of 2002 related to its production/distribution center located in Charlotte, North Carolina. As disclosed in Note 16 to the consolidated financial statements, this facility is leased from a related party. The lease obligation was capitalized as the Company received a renewal option to extend the term of the lease, which it expects to exercise.

12 (In Part): Commitments and Contingencies

Operating lease payments are charged to expense as incurred. Such rental expenses included in the consolidated statements of operations were $7.4 million, $12.4 million and $15.7 million for 2002, 2001 and 2000, respectively. Amortization of assets recorded under capital leases was included in depreciation expense.

The following is a summary of future minimum lease payments for all capital and operating leases as of December 29, 2002.

(In thousands)	Capital Leases	Operating Leases	Total
2003	$ 5,327	$ 6,944	$ 12,271
2004	5,275	6,243	11,518
2005	5,069	5,882	10,951
2006	5,178	5,118	10,296
2007	5,132	5,080	10,212
Thereafter	149,724	8,777	158,501
Total minimum lease payments	$175,705	$38,044	$213,749
Less: Amounts representing interest	129,679		
Present value of minimum lease payments	46,026		
Less: Current portion of obligations under capital leases	3,960		
Long-term portion of obligations under capital leases	$ 42,066		

2.251

THE GREAT ATLANTIC & PACIFIC TEA COMPANY, INC. (FEB)

(Dollars in thousands)	2002	2001
Current liabilities:		
Current portion of long-term debt	$ 526	$ 6,195
Current portion of obligations under capital leases	10,691	11,634
Accounts payable	547,113	566,482
Book overdrafts	127,079	108,448
Accrued salaries, wages and benefits	167,724	158,450
Accrued taxes	69,559	62,169
Other accruals	261,771	216,684
Total current liabilities	1,184,463	1,130,062
Long-term debt	779,440	915,321
Long-term obligations under capital leases	93,587	106,797
Other non-current liabilities	463,786	418,166
Total liabilities	$2,521,276	$2,570,346

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars in thousands)

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

Properties

Depreciation and amortization are calculated on the straight-line basis over the estimated useful lives of the assets. Buildings are depreciated based on lives varying from twenty to fifty years and equipment based on lives varying from three to ten years. Real property leased under capital leases is amortized over the lives of the respective leases or over their economic useful lives, whichever is less. During fiscal 2001, 2000 and 1999, the Company disposed of and/or wrote down certain assets which resulted in a pretax net loss of $0.3 million, a pretax net loss of $4.3 million and a pretax net gain of $3.0 million, respectively.

Note 8—Lease Obligations

The Company operates primarily in leased facilities. Lease terms generally range up to twenty-five years for store leases and thirty years for other leased facilities, with options to renew for additional periods. In addition, the Company also leases some store equipment and trucks. The majority of the leases contain escalation clauses relating to real estate tax increases and certain store leases provide for increases in rentals when sales exceed specified levels.

The Consolidated Balance Sheets include the following:

	2002	2001
Real property leased under capital leases	$ 193,568	$ 205,409
Accumulated amortization	(116,768)	(120,651)
Net property leased under capital leases	$ 76,800	$ 84,758

During fiscal 2001, the Company did not enter into any new capital leases. During fiscal 2000 and 1999, the Company entered into new capital leases totaling $7 million and $16 million, respectively. These capital lease amounts are non-cash transactions and, accordingly, have been excluded from the Statements of Consolidated Cash Flows. Interest paid as part of capital lease obligations was approximately $13 million in fiscal 2001 and $14 million in both fiscal 2000 and 1999.

Rent expense for operating leases during the last three fiscal years consisted of the following:

	Fiscal 2001	Fiscal 2000	Fiscal 1999
Minimum rentals	$249,509	$219,113	$194,158
Contingent rentals	4,126	3,777	3,780
Total rent expense	$253,635	$222,890	$197,938

Future minimum annual lease payments for capital leases and noncancelable operating leases in effect at February 23, 2002 are shown in the table below. All amounts are exclusive of lease obligations and sublease rentals applicable to facilities for which reserves have previously been established. In addition, the Company subleases 67 stores to the franchise business. Included in the operating lease column in the table below are the rental payments to be made by the Company partially offset by the rental income to be received from the franchised stores.

Fiscal	Capital Leases Real Property	Operating Leases
2002	$ 22,267	$ 248,979
2003	20,075	242,185
2004	18,593	228,769
2005	14,577	221,361
2006	13,038	213,149
2007 and thereafter	124,961	2,196,357
	213,511	$3,350,800
Less executory costs	(692)	
Net minimum rentals	212,819	
Less interest portion	(108,541)	
Present value of net minimum rentals	$ 104,278	

During fiscal 2000 an agreement was entered into which provided financing for software purchases and hardware leases up to $71 million in the aggregate primarily relating to the business process initiative. At that time, software purchases and hardware leases were to be financed at an effective rate of 8.49% per annum, were to occur from time to time through 2004 and were to have equal monthly payments of $1.4 million. In May 2001, the agreement was amended to include only hardware leases. The amounts previously funded relating to software purchases of approximately $29 million were to be repaid over the next several months. Accordingly, as of February 23, 2002, substantially all of this balance had been repaid. Additionally, the monthly payment amount was amended to reflect expected utilization related to hardware leases. As of February 23, 2002, approximately $30 million had been funded related to hardware leases. Future payments related to these leases are included in the future minimum annual lease payments table on the previous page. There will be no further funding under this agreement. The leasing of the hardware under this agreement is being accounted for as an operating lease in accordance with SFAS No. 13, "Accounting for Leases."

2.252

JOHNSON CONTROLS, INC. (SEP)

(In millions)	2002	2001
Current liabilities	$4,806.2	$4,579.7
Long-term debt	1,826.6	1,394.8
Postretirement health and other benefits	170.5	162.5
Minority interests in equity of subsidiaries	189.0	207.3
Other noncurrent liabilities	673.3	581.8
Long-term liabilities	$2,859.4	$2,346.4

NOTES TO CONSOLIDATED STATEMENTS

5. Leases

Certain administrative and production facilities and equipment are leased under long-term agreements. Most leases contain renewal options for varying periods, and certain leases include options to purchase the leased property during or at the end of the lease term. Leases generally require the Company to pay for insurance, taxes and maintenance of the property. Leased capital assets included in net property, plant and equipment, primarily buildings and improvements, were $83 million and $59 million at September 30, 2002 and 2001, respectively.

Other facilities and equipment are leased under arrangements that are accounted for as operating leases. Total rental expense was $197 million in 2002, $186 million in 2001 and $167 million in 2000.

Future minimum capital and operating lease payments and the related present value of capital lease payments at September 30, 2002 were as follows:

(In millions)	Capital Leases	Operating Leases
2003	$ 17.4	$115.8
2004	16.4	94.2
2005	15.7	70.3
2006	12.2	123.7
2007	7.0	32.1
After 2007	52.0	49.5
Total minimum lease payments	120.7	$485.6
Interest	26.1	
Present value of net minimum lease payments	$ 94.6	

7 (In Part): Long-Term Debt

(In millions)	2002	2001
Unsecured notes		
6.06% due in 2003	$ 5.8	$ 11.5
Floating rate note due in 2004	250.0	—
5% due in 2007 ($350 million par value)	371.8	—
6.3% due in 2008	175.0	175.0
7.7% due in 2015	124.8	124.8
7.125% due in 2017	149.1	149.1
8.2% due in 2024	125.0	125.0
6.95% due in 2046	125.0	125.0
Industrial revenue bonds due through 2015, net of unamortized discount of $0.6 million in 2002 and $0.9 million in 2001	36.5	50.2
Guaranteed ESOP debt due in increasing annual installments through 2004 at an average interest rate of 7.06% (tied in part to LIBOR)	44.6	63.3
Capital lease obligations	94.6	60.5
Foreign-denominated debt:		
euro	214.1	368.1
yen	139.5	172.9
Other	10.7	14.7
Gross long-term debt	1,866.5	1,440.1
Less current portion	39.9	45.3
Net long-term debt	$1,826.6	$1,394.8

Lessee—Operating Leases

2.253

CHEVRONTEXACO CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Millions of dollars)

Note 12 (In Part): Lease Commitments

Rental expenses incurred for operating leases during 2002, 2001 and 2000 were as follows:

	2002	2001	2000
Minimum rentals	$1,270	$1,132	$1,062
Contingent rentals	4	14	35
Total	1,274	1,146	1,097
Less: Sublease rental income	53	76	77
Net rental expense	$1,221	$1,070	$1,020

Contingent rentals are based on factors other than the passage of time, principally sales volumes at leased service stations. Certain leases include escalation clauses for adjusting rentals to reflect changes in price indices, renewal options ranging from one to 25 years, and/or options to purchase the leased property during or at the end of the initial or renewal lease period for the fair market value or other specified amount at that time.

At December 31, 2002, the estimated future minimum lease payments (net of noncancelable sublease rentals) under operating and capital leases, which at inception had a noncancelable term of more than one year, were as follows:

	Operating Leases	Capital Leases
Year: 2003	$ 360	$ 74
2004	321	84
2005	285	48
2006	263	45
2007	215	38
Thereafter	759	566
Total	$2,203	$855
Less: Amounts representing interest and executory costs		265
Net present values		590
Less: Capital lease obligations included in short-term debt		345
Long-term capital lease obligations		$245

2.254

CONOCOPHILLIPS (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 19—Non-Mineral Leases

The company leases ocean transport vessels, railroad tank cars, corporate aircraft, service stations, computers, office buildings and other facilities and equipment. Certain leases include escalation clauses for adjusting rentals to reflect changes in price indices, as well as renewal options and/or options to purchase the leased property for the fair market value at the end of the lease term. There are no significant restrictions on ConocoPhillips imposed by the leasing agreements in regards to dividends, asset dispositions or borrowing ability. Leased assets under capital leases were not significant in any period presented.

ConocoPhillips has leasing arrangements with several special purpose entities (SPEs) that are third-party trusts established by a trustee and funded by financial institutions. Other than the leasing arrangement, ConocoPhillips has no other direct or indirect relationship with the trusts or their investors. Each SPE from which ConocoPhillips leases assets is funded by at least 3 percent substantive third-party residual equity capital investment, which is at-risk during the entire term of the lease. ConocoPhillips does have various purchase options to acquire the leased assets from the SPEs at the end of the lease term, but those purchase options are not required to be exercised by ConocoPhillips. See Note 28—Variable Interest Entities, for a discussion of how the accounting for certain leasing arrangements with SPEs may change in 2003.

In connection with the committed plan to sell a major portion of the company's owned retail stores, the company plans to exercise purchase option provisions of various operating leases during 2003 involving approximately 900 store sites and two office buildings. Depending upon the timing of when the company adopts FASB Interpretation No. 46, "Consolidation of Variable Interest Entities," and the determination of whether or not the lessor entities in these leases are variable interest entities, some or all of these lessor entities could become consolidated subsidiaries of the company prior to the exercise of the purchase options. See Note 27—New Accounting Standards, and Note 28—Variable Interest Entities, for additional information on FASB Interpretation No. 46.

At December 31, 2002, future minimum rental payments due under non-cancelable leases, including those associated with discontinued operations, were:

(Millions of dollars)	
2003	$ 649
2004	546
2005	479
2006	425
2007	367
Remaining years	1,635
Total	4,101
Less income from subleases	641*
Net minimum operating lease payments	$3,460

* Includes $164 million related to railroad cars subleased to CPChem, a related party.

The above amounts exclude guaranteed residual value payments, including those associated with discontinued operations, totaling $196 million in 2003, $219 million in 2004, $827 million in 2005, $145 million in 2006, and $434 million in the remaining years, due at the end of lease terms, which would be reduced by the fair market value of the leased assets returned. See Note 4—Discontinued Operations regarding the company's commitment to exit certain retail sites and the related accrual for probable deficiencies under the residual value guarantees.

The company also expects to recognize probable guaranteed residual value deficiencies associated with certain retail sites included in continuing operations. The company plans to exercise its purchase options under these leases in 2003, resulting in the recognition of a $142 million, $92 million after-tax, loss.

ConocoPhillips has agreements with a shipping company for the long-term charter of five crude oil tankers that are currently under construction. The charters will be accounted for as operating leases upon delivery, which is expected in the third and fourth quarters of 2003. If the completed tankers are not delivered to ConocoPhillips before specified dates in 2004, the chartering commitments are cancelable by ConocoPhillips. Upon delivery, the base term of the charter agreements is 12 years, with certain renewal options by ConocoPhillips. ConocoPhillips has options to cancel the charter agreements at any time, including during construction or after delivery. After delivery, if ConocoPhillips were to exercise its cancellation options, the company's maximum commitment for the five tankers together would be $92 million. If ConocoPhillips does not exercise its cancellation options, the total operating lease commitment over the 12-year term for the five tankers would be $383 million on an estimated bareboat basis.

Operating lease rental expense for the years ended December 31 was:

(Millions of dollars)	2002	2001	2000
Total rentals*	$541	271	128
Less sublease rentals	21	22	2
	$520	249	126

* Includes $12 million of contingent rentals in 2002. Contingent rentals in 2001 and 2000 were not significant.

2.255

CVS CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Leases

The Company leases most of its retail locations and five of its distribution centers under noncancelable operating leases, whose initial terms typically range from 15 to 22 years, along with options that permit renewals for additional periods. The Company also leases certain equipment and other assets under noncancelable operating leases, whose initial terms typically range from 3 to 10 years. Minimum rent is expensed on a straight-line basis over the term of the lease. In addition to minimum rental payments, certain leases require additional payments based on sales volume, as well as reimbursements for real estate taxes, maintenance and insurance.

Following is a summary of the Company's net rental expense for operating leases for the respective years:

(In millions)	2002	2001	2000
Minimum rentals	$790.4	$758.2	$684.9
Contingent rentals	65.6	67.6	66.3
	856.0	825.8	751.2
Less: sublease income	(9.3)	(9.1)	(9.2)
	$846.7	$816.7	$742.0

Following is a summary of the future minimum lease payments under capital and operating leases as of December 28, 2002:

(In millions)	Capital Leases	Operating Leases
2003	$ 0.2	$ 805.1
2004	0.2	769.2
2005	0.2	718.2
2006	0.2	654.4
2007	0.2	600.5
Thereafter	0.5	6,162.4
	1.5	$9,709.8
Less: imputed interest	(0.6)	
Present value of capital lease obligations	$ 0.9	

The Company finances a portion of its store development program through sale-leaseback transactions. The properties are sold at net book value and the resulting leases qualify and are accounted for as operating leases. The Company does not have any retained or contingent interests in the stores nor does the Company provide any guarantees, other than a corporate level guarantee of lease payments, in connection with the sale-leasebacks. Proceeds from sale-leaseback transactions totaled $448.8 million in 2002, $323.3 million in 2001 and $299.3 million in 2000. During 2001, the Company completed a sale-leaseback transaction involving five of its distribution centers. The distribution centers were sold at fair market value resulting in a $35.5 million gain, which was deferred and is being amortized to offset rent expense over the life of the new operating leases. The operating leases that resulted from these transactions are included in the above table.

2.256

UNITED STATES STEEL CORPORATION (DEC)

NOTES TO FINANCIAL STATEMENTS

17. 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
2003	$ 13	$101
2004	11	108
2005	11	82
2006	11	55
2007	20	42
Later years	54	190
Sublease rentals	—	(79)
Total minimum lease payments	120	$499
Less imputed interest costs	38	
Present value of net minimum lease payments included in long-term debt	$ 82	

(In millions)

Operating Lease Rental Expense	2002	2001	2000
Minimum rental	$109	$133	$132
Contingent rental	12	18	17
Sublease rentals	(18)	(17)	(6)
Net rental expense	$103	$134	$143

U.S. Steel 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. See discussion of residual value guarantees in Note 25.

25 (In Part): Contingencies and Commitments

Other Contingencies (In Part)

U.S. Steel has the option, under certain operating lease agreements covering various equipment, to renew the leases or to purchase the equipment during or at the end of the terms of the leases. If U.S. Steel does not exercise the purchase options by the end of the terms of the leases, U.S. Steel guarantees a residual value of the equipment as determined at the lease inception date of each agreement (approximately $51 million at December 31, 2002). No liability has been recorded for these guarantees as either management believes that the potential recovery of value from the equipment when sold is greater than the residual value guarantee, or the potential loss is not probable and/or estimable.

Lessor Leases

2.257

ELECTRONIC DATA SYSTEMS CORPORATION AND SUBSIDIARIES (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4 (In Part): Investments and Other Assets

The following is a summary of investments and other assets at December 31, 2002 and 2001 (in millions):

	2002	2001
Lease contracts receivable (net of principal and interest on non-recourse debt)	$123	$130
Estimated residual values of leased assets (not guaranteed)	35	47
Unearned income, including deferred investment tax credits	(59)	(77)
Total investment in leveraged leases (excluding deferred taxes of $42 and $53 at December 31, 2002 and 2001, respectively)	99	100
Leveraged lease partnership investment	145	227
Investments in securities, joint ventures and partnerships	32	84
Deferred pension costs	318	234
Long-term deposit	87	—
Other	305	266
Total	$986	$911

The Company holds interests in various equipment financing leases, including a $61 million interest in a fiber optic equipment lease with a domestic subsidiary of WorldCom, financed with non-recourse borrowings at lease inception accounted for as leveraged leases. The Company has no general obligation for principal and interest on notes and other instruments representing third-party participation related to leveraged leases. The Company's share of rent receivable on leveraged leases is subordinate to the share of other participants who also have security interests in the leased equipment. For U.S. federal income tax purposes, the Company receives the investment tax credit (if available) at lease inception and has the benefit of tax deductions for depreciation on the leased asset and for interest on the non-recourse debt.

During 2001, the Company contributed certain leveraged aircraft lease investments to a partnership in exchange for an equity interest in the partnership. The Company accounts for its interest in the partnership under the equity method. During 2002, the Company recorded writedowns totaling $76 million to its investment in the partnership due to uncertainties regarding the recoverability of the partnership's investments with US Airways and United Airlines, both of which filed for bankruptcy in 2002. These writedowns are reflected in other income (expense) in the Company's consolidated statements of income. At December 31, 2002, the partnership's remaining leveraged lease investments included investments with American Airlines valued at $23 million. The Company's ability to recover its remaining investment in the partnership is dependent upon the continued payment of rentals by the lessees. In the event such lessees are relieved from their

obligation to pay such rentals as a result of bankruptcy, the investment in the partnership would likely be further impaired.

2.258

ILLINOIS TOOL WORKS INC. AND SUBSIDIARIES (DEC)

(In thousand)	2002	2001
Total current assets	$ 3,878,809	$3,163,244
Plant and equipment:		
Land	119,749	114,649
Buildings and improvements	1,041,680	960,232
Machinery and equipment	2,817,006	2,800,341
Equipment leased to others	135,508	123,422
Construction in progress	91,714	105,316
	4,205,657	4,103,960
Accumulated depreciation	(2,574,408)	(2,470,270)
Net plant and equipment	1,631,249	1,633,690
Investments	1,392,410	1,278,285
Goodwill	2,394,519	2,516,813
Intangible assets	230,291	221,881
Deferred income taxes	541,625	439,278
Other assets	506,552	459,429
Net noncurrent assets of discontinued operations	47,646	109,729
	$10,623,101	$9,822,349

NOTES TO FINANCIAL STATEMENTS

Operating Revenues (In Part)

Operating Revenues are recognized when legal title and the risks of ownership are transferred to the customer, which is generally at the time of product shipment. Operating revenues for the Leasing and Investments segment include income from mortgage-related investments, leases and other investments that is recognized based on the applicable accounting method for each type of investment. See the Investments note for the detailed accounting policies related to the Company's significant investments.

Investments (In Part)

Investments as of December 31, 2002 and 2001 consisted of the following:

(In thousands)	2002	2001
Mortgage-related assets	$ 972,877	$ 972,480
Leveraged, direct financing and sales-type leases of equipment	217,130	82,864
Affordable housing limited partnerships	116,623	129,714
Prepaid forward contract	24,554	23,398
Venture capital limited partnership	21,724	13,071
Property developments	20,039	32,352
Properties held for sale	19,505	19,921
Other	(42)	4,485
	$1,392,410	$1,278,285

• • • • • •

The components of the investment in leveraged, direct financing and sales-type leases at December 31, 2002 and 2001 were as shown below:

(In thousands)	2002	2001
Gross lease contracts receivable, net of nonrecourse debt service	$114,330	$62,992
Estimated residual value of leased assets	196,656	47,822
Unearned income	(93,856)	(27,950)
Investment in leveraged, direct financing and sales-type leases	217,130	82,864
Deferred income taxes related to leveraged and direct financing leases	(8,613)	(22,616)
Net investment in leveraged, direct financing and sales-type leases	$208,517	$60,248

The investment in leveraged, direct financing and sales-type leases relates to the following types of equipment at December 31, 2002 and 2001:

(In thousands)	2002	2001
Aircraft	$ 47,315	$74,198
Railcars	575	655
Telecommunications	162,187	—
Manufacturing	7,053	8,011
Investment in leveraged, direct financing and sales-type leases	$217,130	$82,864

In 2002, the Company entered into leveraged leasing transactions related to mobile telecommunications equipment with two major European telecommunications companies. The Company's cash investment in these leveraged leases was $144,676,000.

In 2001, the Company entered into a leveraged lease of a Boeing 777 aircraft with United Airlines. The Company's cash investment in this leveraged lease was $29,198,000.

The components of the income from leveraged, direct financing and sales-type leases for the years ended December 31, 2002, 2001 and 2000 were as shown below:

(In thousands)	2002	2001	2000
Lease income before income taxes	$ 26,731	$ 3,941	$ 3,695
Impairment on aircraft leases	(31,565)	—	—
Investment tax credits recognized	(548)	430	652
Income tax expense	2,258	(1,471)	(1,124)
	$ (3,124)	$ 2,900	$ 3,223

Unearned income is recognized as lease income over the life of the lease based on the effective yield of the lease. The residual values of leased assets are estimated at the inception of the lease based on market appraisals and reviewed for impairment at least annually. In 2002, an impairment charge of $31,565,000 was recorded related to the Company's investments in aircraft leased to United Airlines, which declared bankruptcy in December 2002.

● ● ● ● ● ●

Cash flows related to investments during 2002, 2001 and 2000 were as follows:

(In thousands)	2002	2001	2000
Cash used to purchase investments—			
Leveraged leases of equipment	$(152,253)	$ (29,198)	$ —
Affordable housing limited partnerships	(29,065)	(48,088)	(379)
Venture capital limited partnership	(11,872)	(14,104)	—
Property developments	(1,402)	(9,727)	(14,146)
Other	(149)	(212)	(126)
	$(194,741)	$(101,329)	$(14,651)
Cash proceeds from investments—			
Commercial mortgage transactions	$ 26,467	$ 26,934	$ 26,934
Leases of equipment	16,755	14,385	13,907
Properties held for sale	13,609	8,940	11,474
Property developments	20,810	31,097	29,302
Affordable housing limited partnerships	—	126,760	—
Other	139	2,553	2,485
	$ 77,780	$ 210,669	$ 84,102

2.259

TEXTRON INC. (DEC)

(Dollars in millions)	2002	2001
Total current assets	$ 3,887	$ 4,017
Property, plant and equipment, net	1,981	2,044
Goodwill	1,368	1,821
Other intangibles assets, net	83	144
Other assets	1,532	1,562
Total Textron Manufacturing assets	8,851	9,588
Textron Finance		
Cash	21	19
Finance receivables, net	5,589	5,492
Goodwill	181	204
Other assets	863	749
Total Textron Finance assets	6,654	6,464
Total assets	$15,505	$16,052

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Revenue Recognition (In Part)

Revenue from certain qualifying non-cancelable aircraft and other product lease contracts are accounted for as sales-type leases. The present value of all payments (net of executory costs and any guaranteed residual values) is recorded as revenue, and the related costs of the product are charged to cost of sales. Generally, this lease financing is through Textron Finance and the associated interest is recorded over the term of the lease agreement using the interest method. Lease financing transactions which do not qualify as sales-type leases are accounted for under the operating method wherein revenue is recorded as earned over the lease period.

Securitized Transactions

Textron Finance sells or securitizes loans and leases and retains servicing responsibilities and subordinated interests, including interest-only securities, subordinated certificates and cash reserves, all of which are retained interests in the securitized receivables. These retained interests are subordinate to other investors' interests in the securitizations. A gain or loss on the sale of finance receivables depends in part on the previous carrying amount of the finance receivables involved in the transfer, allocated between the assets sold and the retained interests based on their relative fair values at the date of transfer. Retained interests are recorded at fair value as a component of other assets. Textron Finance estimates fair value based on the present value of future expected cash flows using management's best estimates of key assumptions—credit losses, prepayment speeds, forward interest rate yield curves and discount rates commensurate with the risks involved. Textron Finance reviews the fair values of the retained interests quarterly using updated assumptions and compares such amounts with the carrying value of the retained interests. When the carrying value exceeds the fair value of the retained interests and the decline in fair value is determined to be other than temporary, the retained interest is written down to fair value. When a change in the fair value of the retained interest is deemed temporary, any

unrealized gains or losses are included in shareholders' equity as a component of accumulated other comprehensive loss (OCL).

Note 3. Finance Receivables and Securitizations

Finance Receivables

Textron Finance provides financial services primarily to the aircraft, golf, vacation interval resort, dealer floorplan and middle market industries under a variety of financing vehicles with various contractual maturities.

Installment contracts and finance leases have initial terms ranging from one to 20 years, and are primarily secured by the financed equipment. Finance leases include residual values expected to be realized at contractual maturity. Distribution finance and revolving loans generally mature within one to five years. Distribution finance receivables are generally secured by the inventory at the financed distributor, while revolving loans are secured by trade receivables, inventory, plant and equipment, and pools of vacation interval notes receivables, pools of residential and recreational land lots and the underlying real property. Golf course mortgages have initial terms ranging from five to seven years with amortization periods from 15 to 25 years. Resort mortgages generally represent construction and inventory loans with terms up to two years. Golf course and resort mortgages are secured by real property and are generally limited to 75% or less of the property's appraised market value at loan origination. Leveraged leases are secured by the ownership of the leased equipment and real property and have initial terms up to 30 years.

At the end of 2002 and 2001, Textron Finance had nonaccrual finance receivables, excluding receivables with recourse to the Manufacturing group, totaling $182 million and $114 million, respectively. Approximately $122 million and $54 million of these respective amounts were considered impaired, which excludes finance leases and homogeneous loan portfolios. The allowance for losses on finance receivables related to impaired loans was $33 million and $11 million at the end of 2002 and 2001, respectively. The average recorded investment in impaired loans during 2002 was $97 million, compared to $51 million in 2001.

The following table displays the contractual maturity of the finance receivables. It does not necessarily reflect future cash collections because of various factors including the repayment or refinancing of receivables prior to contractual maturity. Cash collections of finance receivables, excluding proceeds from receivable sales or securitizations, were $7.7 billion and $5.8 billion in 2002 and 2001, respectively. The ratio of cash collections (net of finance charges) to average net receivables, excluding distribution finance receivables and revolving loans, was approximately 54% in 2002 and 65% in 2001.

	Contractual Maturities					Finance Receivables Outstanding	
(In millions)	2003	2004	2005	2006	Thereafter	2002	2001
Installment contracts	$ 275	$234	$187	$166	$ 966	$1,828	$2,047
Distribution finance	491	188	51	28	34	792	474
Revolving loans	447	208	115	233	363	1,366	1,579
Finance leases	29	54	40	17	207	347	319
Golf course and resort mortgages	55	117	231	144	416	963	813
Leveraged leases	(16)	(19)	22	4	469	460	404
	$1,281	$782	$646	$592	$2,455	5,756	5,636
Less allowance for credit losses						167	144
						$5,589	$5,492

The net investment in finance leases and leveraged leases was as follows:

(In millions)	2002	2001
Finance and leveraged lease receivables, net of nonrecourse debt	$ 725	$ 490
Estimated residual values on leased assets	589	589
	1,314	1,079
Unearned income	(507)	(356)
Investment in leases	807	723
Deferred income taxes	(328)	(258)
Net investment in leases	$ 479	$ 465

The activity in the allowance for credit losses on finance receivables was as follows:

(In millions)	2002	2001	2000
Balance at the beginning of the year	$144	$116	$113
Provision for losses	139	82	37
Charge-offs	(139)	(82)	(45)
Recoveries	11	8	7
Acquisitions and other	12	20	4
Balance at the end of the year	$167	$144	$116

At December 28, 2002, Textron Finance had unused commitments to fund new and existing customers under $1.5 billion of committed revolving lines of credit and $1.0 billion of uncommitted revolving lines of credit. Generally, interest rates on these commitments are not set until the loans are funded; therefore, Textron Finance is not exposed to interest rate changes.

Textron Finance manages finance receivables for a variety of investors, participants and third-party portfolio owners.

The total managed and serviced finance receivable portfolio, including owned finance receivables, was $9.4 billion at the end of 2002 and $9.3 billion at the end of 2001.

Owned and securitized finance receivables are primarily diversified geographically across the United States, along with 4% held in South America and 9% in other international countries. At December 28, 2002, Textron Finance's most significant collateral concentration was general aviation aircraft, which accounted for 21% of owned and securitized receivables. Textron Finance also has industry concentrations in the golf and vacation interval industries, which each accounted for 15% of owned and securitized receivables at December 28, 2002.

Transactions Between Finance and Manufacturing Groups

A portion of Textron Finance's business involves financing retail purchases and leases for new and used aircraft and equipment manufactured by Textron Manufacturing's Aircraft and Industrial Products segments. In 2002, 2001 and 2000, Textron Finance paid Textron Manufacturing $1.1 billion, $1.3 billion, and $1.4 billion, respectively, relating to the sale of manufactured products to third-parties that were financed by Textron Finance and $104 million, $62 million and $50 million, respectively, for the purchase of operating lease equipment. Operating agreements specify that Textron Finance has recourse to Textron Manufacturing for outstanding balances from these transactions. At year-end 2002 and 2001, the amounts guaranteed by Textron Manufacturing totaled $562 million and $652 million, respectively. In addition, Textron Finance has recourse to Textron Manufacturing for an $87 million lease with C&A and on $70 million in retained interests in securitizations at the end of 2002 and 2001.

Included in the finance receivables guaranteed by Textron Manufacturing are past due loans of $85 million at the end of 2002 ($90 million at the end of 2001) that meet the non-accrual criteria but are not classified as non-accrual by Textron Finance due to the guarantee. Textron Finance continues to recognize income on these loans. Concurrently, Textron Manufacturing is charged for their obligation to Textron Finance under the guarantee so that there are no net interest earnings for the loans on a consolidated basis. Textron Manufacturing has established reserves for losses related to these guarantees which are included in other current liabilities.

Securitizations

Textron Finance received proceeds of $0.9 billion in 2002 and $1.3 billion in 2001 from the securitization and sale (with servicing rights retained) of finance receivables. Gains from securitized trust sales were approximately $54 million in 2002 and $43 million in 2001. At the end of 2002, $2.6 billion in securitized loans were outstanding with $78 million in past due loans. Textron Finance has securitized certain receivables generated by Textron Manufacturing for which it has retained full recourse to Textron Manufacturing.

Textron Finance retained subordinated interests in the trusts which are approximately 2% to 10% of the total trust. Servicing fees range from 50 to 200 basis points. During 2002, key economic assumptions used in measuring the retained interests at the date of each securitization included prepayment speeds ranging from 7% to 23%, weighted average lives ranging from 0.3 to 5 years, expected credit losses ranging from 0.3% to 4.5%, and residual cash flows discount rates ranging from 4.7% to 11.5%. At December 28, 2002, key economic assumptions used in measuring these retained interests were as follows:

(Dollars in millions)	Aircraft Loans	Small Business Loans	Equipment Loans and Leases	Vacation Interval and Land Loans	Distribution Finance Loans
Carrying amount of retained interests in securitizations, net	$ 89	$ 58	$ 47	$ 40	$ 89
Weighted-average life (in years)	3.2	1.6	1.8	5.1–5.3	.3
Prepayment speed (annual rate)	22.0%	7.0%	7.0%	15.0–20.0%	—
Expected credit losses (annual rate)	0.4%	4.5%	0.2%	0.5–1.5%	0.3%
Residual cash flows discount rate	6.6%	11.5%	7.4%	9.2–10.0%	5.8%

Hypothetical adverse changes of 10% and 20% to either the prepayment speed, expected credit losses and residual cash flows discount rates assumptions would not have a material impact on the current fair value of the residual cash flows associated with the retained interests. These hypothetical sensitivities should be used with caution as the effect of a variation in a particular assumption on the fair value of the retained interest is calculated without changing any other assumption. In reality, changes in one factor may result in another that may magnify or counteract the sensitivities losses, such as increases in market interest rates may result in lower prepayments and increased credit losses.

OTHER NONCURRENT LIABILITIES

2.260 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 2-31 summarizes the nature of such noncurrent liabilities and deferred credits. Examples of presentations and disclosures for noncurrent liabilities and deferred credits follow.

2.261

TABLE 2-31: OTHER NONCURRENT LIABILITIES

	Number of Companies			
	2002	**2001**	**2000**	**1999**
Deferred income taxes	370	392	390	397
Minority interest	160	159	151	153
Derivatives	93	39	12	N/C*
Preferred securities of subsidiary trust	32	34	30	25
Liabilities of nonhomogeneous operations	6	10	4	4
Employee Liabilities				
Benefits	221	191	195	205
Pension accruals	220	141	114	131
Deferred compensation, bonus, etc.	55	52	45	51
Other—described	17	9	36	29
Estimated Losses or Expenses				
Environmental	67	54	45	52
Discontinued operations	54	21	13	20
Insurance	38	33	27	24
Warranties	22	10	6	10
Litigation	17	13	N/C*	N/C*
Other—described	91	93	99	68
Deferred Credits				
Payments received prior to rendering service	34	33	9	9
Deferred profit on sales	34	33	9	8
Other—described	10	11	26	27

* N/C = Not compiled. Line item was not included in the table for the year shown.

Deferred Income Taxes

2.262

CONOCOPHILLIPS (DEC)

(Millions of dollars)	2002	2001
Total current liabilities	$12,816	$ 4,821
Long-term debt	18,917	8,610
Accrued dismantlement, removal and environmental costs	1,666	1,059
Deferred income taxes	8,361	4,015
Employee benefit obligations	2,755	948
Other liabilities and deferred credits	1,803	769
Total liabilities	$46,318	$20,222

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (In Part): Accounting Policies

Income Taxes

Deferred income taxes are computed using the liability method and are provided on all temporary differences between the financial-reporting basis and the tax basis of the company's assets and liabilities, except for deferred taxes on income considered to be permanently reinvested in certain foreign subsidiaries and foreign corporate joint ventures. Allowable tax credits are applied currently as reductions of the provision for income taxes.

Note 21 (In Part): Taxes

Deferred income taxes reflect the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Major components of deferred tax liabilities and assets at December 31 were:

(Millions of dollars)	2002	2001
Deferred tax liabilities		
Properties, plants and equipment, and intangibles	$10,147	$4,750
Investment in joint ventures	1,013	522
Inventory	385	212
Other	144	74
Total deferred tax liabilities	11,689	5,558
Deferred tax assets		
Benefit plan accruals	1,304	450
Accrued dismantlement, removal and environmental costs	724	452
Deferred state income tax	201	164
Other financial accruals and deferrals	311	182
Alternative minimum tax carryforwards	421	180
Operating loss and credit carryforwards	650	310
Other	394	107
Total deferred tax assets	4,005	1,845
Less valuation allowance	608	263
Net deferred tax assets	3,397	1,582
Net deferred tax liabilities	$ 8,292	$3,976

Current assets, long-term assets, current liabilities and long-term liabilities included deferred taxes of $68 million, $41 million, $40 million and $8,361 million, respectively, at December 31, 2002, and $47 million, $9 million, $17 million and $4,015 million, respectively, at December 31, 2001.

The company has operating loss and credit carryovers in multiple taxing jurisdictions. These attributes generally expire between 2003 and 2009 with some carryovers, including the alternative minimum tax, having indefinite carryforward periods.

Valuation allowances have been established for certain operating loss and credit carryforwards that reduce deferred tax assets to an amount that will, more likely than not, be realized. Uncertainties that may affect the realization of these assets include tax law changes and the future level of product prices and costs. Based on the company's historical taxable income, its expectations for the future, and available tax-planning strategies, management expects that the net deferred tax assets will be realized as offsets to reversing

deferred tax liabilities and as offsets to the tax consequences of future taxable income.

The Conoco purchase price allocation for the merger resulted in net deferred tax liabilities of $4,073 million. Included in this amount is a valuation allowance for certain deferred tax assets of $251 million, for which subsequently recognized tax benefits, if any, will be allocated to goodwill.

At December 31, 2002, and December 31, 2001, income considered to be permanently reinvested in certain foreign subsidiaries and foreign corporate joint ventures totaled approximately $569 million and $247 million, respectively. Deferred income taxes have not been provided on this income, as the company does not plan to initiate any action that would require the payment of income taxes. It is not practicable to estimate the amount of additional tax that might be payable on this foreign income if distributed.

2.263

OWENS-ILLINOIS, INC. (DEC)

(Millions of dollars)	2002	2001
Total current liabilities	$1,297.4	$1,231.5
Long-term debt	5,268.0	5,329.7
Deferred taxes	278.4	465.2
Nonpension postretirement benefits	291.5	303.4
Other liabilities	563.6	386.9
Asbestos-related liabilities	357.7	78.8
Commitments and contingencies		
Minority share owners' interests	141.9	159.3

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Tabular data in millions of dollars)

1 (In Part): Significant Accounting Policies

Income Taxes on Undistributed Earnings

In general, the Company plans to continue to reinvest the undistributed earnings of foreign subsidiaries and foreign corporate joint ventures accounted for by the equity method. Accordingly, taxes are provided only on that amount of undistributed earnings in excess of planned reinvestments.

11 (In Part): Income Taxes

Deferred income taxes reflect: (1) 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 (2) carryovers and credits for income tax purposes. Significant components of the Company's deferred tax assets and liabilities at December 31, 2002 and 2001 are as follows:

	2002	2001
Deferred tax assets:		
Accrued postretirement benefits	$ 88.2	$ 106.2
Asbestos-related liabilities	193.4	104.6
Tax loss carryovers	156.9	63.5
Alternative minimum tax credits	23.6	31.5
Other, principally accrued liabilities	149.1	253.9
Total deferred tax assets	611.2	559.7
Deferred tax liabilities:		
Property, plant and equipment	334.1	317.1
Prepaid pension costs	299.9	301.9
Insurance for asbestos-related costs	4.3	13.0
Inventory	30.1	37.4
Other	107.9	156.8
Total deferred tax liabilities	776.3	826.2
Net deferred tax liabilities	$ (165.1)	$ (266.5)

Deferred taxes are included in the Consolidated Balance Sheets at December 31, 2002 and 2001 as follows:

	2002	2001
Prepaid expenses	$ 113.3	$ 198.7
Deferred tax liabilities	(278.4)	(465.2)
Net deferred tax liabilities	$(165.1)	$(266.5)

At December 31, 2002, the Company had unused net operating losses and research tax credits expiring from 2007 to 2022.

The Company also has unused alternative minimum tax credits which do not expire and which will be available to offset future U.S. Federal income tax.

At December 31, 2002, the Company's equity in the undistributed earnings of foreign subsidiaries for which income taxes had not been provided approximated $865.9 million. It is not practicable to estimate the U.S. and foreign tax which would be payable should these earnings be distributed.

Minority Interest

2.264

NORTHROP GRUMMAN CORPORATION (DEC)

($ in millions)	2002	2001
Total current liabilities	$11,373	$5,100
Long-term debt	9,398	5,038
Accrued retiree benefits	5,942	1,927
Deferred income taxes		669
Other long-term liabilities	742	221
Minority interest	139	122
Preferred stock	350	350

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Minority Interest

As of December 31, 2002, the minority interest balance is primarily comprised of preferred shares of a subsidiary totaling $116 million. Upon the acquisition of TRW on December 11, 2002, TRW Automotive Inc. (TAI) became a subsidiary of Northrop Grumman Corporation. As of December 31, 2002, TAI has outstanding 100,000 shares of Series A Convertible Preferred Stock (TAI Series A) and 30,000 shares of Series B Preferred Stock (TAI Series B) (of which 14,000 shares are owned by Northrop Grumman) with a per share liquidation preference of $1,000 plus accrued and unpaid dividends. The dividend rate of TAI Series A and B is 12 percent per year, payable quarterly, subject to increase if certain financial covenants are not maintained. TAI Series A and B shares are redeemable at the holders' option upon the sale of substantially all of the assets of TAI. The redemption, at the liquidation preference price, would be on May 29, 2003 or the holders may elect to defer such redemption until December 10, 2004. TAI Series B shares are redeemable at the holders option on each of the 6th through 19th anniversaries and at any time after the 20th anniversary of the original issuance date. TAI may redeem the Series B shares on the 5th, 10th, 15th, and 20th anniversary dates. Holders of TAI Series B stock also may require Northrop Grumman Space & Mission Systems Corp. (formerly TRW Inc.) to repurchase the shares at the second anniversary of issuance and Northrop Grumman Space & Mission Systems Corp. may redeem these shares on the third anniversary of issuance.

On February 28, 2003, the company sold all the assets of TAI to the Blackstone Group and TAI Series A and Series B became redeemable at the holders option. The company received notification that the holder of all TAI Series A shares and 2,000 TAI Series B shares has elected to have these shares redeemed on May 29, 2003. The company has also received notification that the holder of 14,000 TAI Series B shares intends to exercise its sale redemption election on December 10, 2004.

At December 31, 2001, the minority interest balance was principally comprised of the 19.3 percent minority share in Newport News which the company did not own. On January 18, 2002, the company completed the acquisition of the remaining shares of Newport News and now owns 100 percent of Newport News. Following the completion of the acquisition, the company eliminated the 19.3 percent minority interest from its financial statements.

2.265

SARA LEE CORPORATION AND SUBSIDIARIES (JUN)

(Dollars in millions)	2002	2001	2000
Total current liabilities	$5,463	$4,958	$6,759
Long-term debt	4,326	2,640	2,248
Deferred income taxes	534	244	148
Other liabilities	1,038	563	581
Minority interest in subsidiaries	632	625	616
Preferred stock (authorized 13,500,000 shares; no par value)			
ESOP convertible: issued and outstanding—3,120,372 shares in 2002, 3,289,979 shares in 2001 and 3,481,017 shares in 2000	226	238	252
Unearned deferred compensation	(208)	(223)	(227)

NOTES TO 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 the Euribor inter-bank borrowing rate, which averaged 4.7%, 5.2% and 3.6% for 2002, 2001 and 2000, respectively. 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. In the event of this put, the corporation's preferred stock would have a nominal value of $295 with a dividend rate to be set based upon market factors at the time of issuance. The subsidiary may call the securities at any time.

Minority interest in subsidiaries also includes preferred equity securities issued by a domestic subsidiary of the corporation. The amount of these securities was $250 for 2002, 2001 and 2000. The securities provide the holder a rate of return based upon the LIBOR interest rate plus 0.425%, are redeemable in 2005 and may be called at any time by the subsidiary. The weighted average inter-bank borrowing rate was 2.9%, 6.3% and 6.2% for 2002, 2001 and 2000, respectively. The subsidiary has the option of redeeming the securities with either cash, debt or shares of common stock of the corporation with a value of $250.

Minority interest expense of $33 in 2002, $51 in 2001 and $35 in 2000 is recorded in selling, general and administrative expenses.

2.266

TOYS"R"US, INC. AND SUBSIDIARIES (JAN)

(In millions)	2003	2002
Total current liabilities	$2,378	$1,974
Long-term debt	2,139	1,816
Deferred income taxes	545	447
Derivative liabilities	10	122
Other liabilities	282	276
Minority interest in Toysrus.com	13	27

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Amounts in millions)

Toysrus.com

Toysrus.com operates a co-branded toy and video game on-line store (Toysrus.com), a co-branded baby products on-line store (Babiesrus.com), and a co-branded learning products and information on-line store (Imaginarium.com) under a strategic alliance with Amazon.com.

The Toysrus.com strategic alliance with Amazon.com was launched in the third quarter of 2000 and expires in 2010. Under this alliance, each company is responsible for specific aspects of the on-line stores. Toysrus.com is responsible for merchandising, marketing and content for the co-branded stores. Toysrus.com also identifies, buys, owns and manages the inventory. Amazon.com handles web-site development, order fulfillment, customer service, and the housing of Toysrus.com's inventory in Amazon.com's U.S. distribution centers. The company recognizes revenue for Toysrus.com at the point in time when merchandise is shipped to customers, in accordance with the shipping terms (FOB shipping point) that exist under the agreement with Amazon.com.

Toysrus.com also opened a personalized gifts for all ages on-line store (Giftsrus.com) in November 2002. Visitors can choose from hundreds of products, ranging from exclusive stuffed animals, toys, clothing, home décor, and keepsakes, have them personalized with messages, monogrammed, hand-painted or engraved, gift wrapped, and then delivered. Giftsrus.com does not operate as part of the strategic alliance with Amazon.com.

In February 2000, the company entered into an agreement with SOFTBANK that included an investment of $60 by SOFTBANK in Toysrus.com. Accordingly, the company records a 20% minority interest in the net losses of Toysrus.com in selling, general and administrative expenses. Toysrus.com received additional capital contributions of $37 from SOFTBANK, representing its proportionate share of funding required for the operations of Toysrus.com.

Derivatives

2.267

ARKANSAS BEST CORPORATION (DEC)

($ thousands)	2002	2001
Total current liabilities	$195,314	$193,138
Long-term debt, less current portion	112,151	115,003
Fair value of interest rate swap	9,853	5,383
Other liabilities	59,938	40,097
Deferred income taxes	23,656	31,736

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note B (In Part): Accounting Policies

Derivative Financial Instruments

The Company has, from time to time, entered into interest rate swap agreements (see Notes F and M) and interest rate cap agreements designated to modify the interest characteristic of outstanding debt or limit exposure to increasing interest rates in accordance with its interest rate risk management policy. The differential to be paid or received as interest rates change is accrued and recognized as an adjustment of interest expense related to the debt (the accrual method of accounting). The related amount payable or receivable from counter-parties is included in other current liabilities or current assets. In connection with the Company's adoption of Statement of Financial Accounting Standards No. 133 ("FAS 133"), *Accounting for Derivative Financial Instruments and Hedging Activities,* the Company is required to recognize all derivatives on its balance sheet at fair value. Derivatives that are not hedges will be adjusted to fair value through income. If a derivative is a hedge, depending on the nature of the hedge, changes in the fair value of the derivative will either be offset against the change in fair value of the hedged asset, liability or firm commitment through earnings, or recognized in other comprehensive income until the hedged item is recognized in earnings. Hedge ineffectiveness associated with interest rate swap agreements will be reported by the Company in interest expense.

The Company accounts for its derivative financial instruments in accordance with FAS 133. In February, 1998, the Company entered into an interest rate swap agreement with an effective date of April 1, 1998 and a termination date of April 1, 2005 on a notional amount of $110.0 million. The Company's interest rate strategy is to hedge its variable 30-day LIBOR-based interest rate for a fixed interest rate of 5.845% (plus the Credit Agreement margin which was 0.825% and 0.575% at December 31, 2002 and 2001, respectively) on $110.0 million of Credit Agreement borrowings for the term of the interest rate swap to protect the Company from potential interest rate increases. The Company has designated its benchmark variable 30-day LIBOR-based interest rate on $110.0 million of borrowings under the Company's Credit Agreement as a hedged item under a cash flow hedge. If the Company had terminated the interest rate swap on December 31, 2002, it would have had to pay an estimated $9.9 million. The Company recorded liabilities of $9.9 million and $5.4 million, respectively, on its balance sheet in accordance with FAS 133, at December 31, 2002 and 2001, with changes in value included in other comprehensive income, net of income tax benefits.

The Company reported no gain or loss during 2002 or 2001 as a result of hedge ineffectiveness, other derivative instruments' gain or loss or the discontinuance of a cash flow hedge. Future changes in the swap arrangement (including termination of the swap agreement), swap notional amount, hedged portion or forecasted Credit Agreement borrowings below $110.0 million may result in a reclassification of any gain or loss reported in other comprehensive income, into earnings, as interest expense.

Note F (In Part): Long-Term Debt and Credit Agreements

In February 1998, the Company entered into an interest rate swap effective April 1, 1998 on a notional amount of $110.0 million. The purpose of the swap was to limit the Company's exposure to increases in interest rates on $110.0 million of bank borrowings over the seven-year term of the swap. The fixed interest rate under the swap is 5.845% plus the Credit Agreement margin (0.825% and 0.575% at December 31, 2002 and 2001, respectively) (see Note M).

Note M (In Part): Financial Instruments

Interest Rate Instruments

The Company has historically been subject to market risk on all or a part of its borrowings under bank credit lines which have variable interest rates. In February 1998, the Company entered into an interest rate swap effective April 1, 1998. The swap agreement is a contract to exchange variable interest rate payments for fixed rate payments over the life of the instrument. The notional amount is used to measure interest to be paid or received and does not represent the exposure to credit loss. The purpose of the swap is to limit the Company's exposure to increases in interest rates on the notional amount of bank borrowings over the term of the swap. The fixed interest rate under the swap is 5.845% plus the Credit Agreement margin (0.825% and 0.575% at December 31, 2002 and 2001, respectively). This instrument is recorded on the balance sheet of the Company in other liabilities (see Note B). Details regarding the swap, as of December 31, 2002, are as follows:

Notional Amount	Maturity	Rate Paid	Rate Received	Fair Value[2][3]
$110.0 million	April 1, 2005	5.845% plus credit agreement margin (0.825%)	LIBOR rate[1] plus credit agreement margin (0.825%)	($9.9) million

[1] LIBOR rate is determined two London Banking Days prior to the first day of every month and continues up to and including the maturity date.
[2] The fair value is an amount estimated by Societe Generale ("process agent") that the Company would have paid at December 31, 2002 to terminate the agreement.
[3] The swap value changed from ($5.4) million at December 31, 2001. The fair value is impacted by changes in rates of similarly termed Treasury instruments.

Preferred Securities of Subsidiary Trust

2.268

TEXAS INDUSTRIES, INC. AND SUBSIDIARIES (MAY)

(In thousands)	2002	2001
Total current liabilities	$168,628	$191,960
Long-term debt	474,963	614,250
Deferred income taxes and other credits	167,276	138,906
Company-obligated mandatorily redeemable preferred securities of subsidiary holding solely company convertible debentures	200,000	200,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (In Part)

Fair Value of Financial Instruments

The estimated fair value of each class of financial instrument as of May 31, 2002 approximates its carrying value except for long-term debt having fixed interest rates and mandatorily redeemable preferred securities of subsidiary. The fair value of long-term debt at May 31, 2002, estimated by applying discounted cash flow analysis based on interest rates currently available to the Company for such debt with similar terms and remaining maturities, is approximately $461.1 million compared to the carrying amount of $484.2 million. The fair value of mandatorily redeemable preferred securities of subsidiary at May 31, 2002, estimated based on NYSE quoted market prices, is approximately $151.0 million compared to the carrying amount of $200.0 million.

Preferred Securities of Subsidiary

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 therefor 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 par, plus accrued and unpaid interest, under certain circumstances relating to federal income tax matters or in whole or in part at the option of the Company. 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).

Employee-Related Liabilities

2.269

THE BOEING COMPANY AND SUBSIDIARIES (DEC)

(Dollars in millions)	2002	2001
Total current liabilities	$19,810	$20,566
Deferred income taxes		177
Accrued retiree health care	5,434	5,367
Accrued pension plan liability	6,271	555
Deferred lease income	542	622
Long-term debt	12,589	10,866

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Postretirement Plans

The Company sponsors various pension plans covering substantially all employees. The Company also provides postretirement benefit plans other than pensions, consisting principally of health care coverage, to eligible retirees and qualifying dependents. The liabilities and annual income or expense of the Company's pension and other postretirement plans are determined using methodologies that involve several actuarial assumptions, the most significant of which are the discount rate, the long-term rate of asset return, and medical trend (rate of growth for medical costs). Not all net periodic pension income or expense is recognized in net earnings in the year incurred because it is allocated to production as product costs, and a portion remains in inventory at the end of a reporting period.

The Company's funding policy for pension plans is to contribute, at a minimum, the statutorily required amount to an irrevocable trust. Benefits under the plans are generally based on age at retirement, the employee's annual earnings indexed at the U.S. Treasury 30-year bond rate, and years of service. The actuarial cost method used in determining the net periodic pension cost is the projected unit credit method.

Note 16 (In Part): Postretirement Plans

The Company's postretirement benefits other than pensions consist principally of health care coverage for eligible retirees and qualifying dependents, and to a lesser extent, life insurance to certain groups of retirees. Retiree health care is provided principally until age 65 for approximately half those retirees who are eligible for health care coverage. Certain employee groups, including employees covered by most United Auto Workers bargaining agreements, are provided lifetime health care coverage. The following table reconciles the funded status of both pensions and the other postretirement benefits (OPB), principally retiree health care, to the balance on the Consolidated Statements of Financial Position. Plan assets consist primarily of equities, fixed income obligations and cash equivalents. The pension benefit obligations and plan assets shown in the table are valued as of September 30.

	Pensions		Other Postretirement Benefits	
	2002	2001	2002	2001
Benefit obligation				
Beginning balance	$32,693	$29,102	$ 6,800	$ 6,268
Service cost	703	591	133	132
Interest cost	2,261	2,187	471	478
Plan participants' contributions	13	12		
Amendments	204	188	(63)	73
Actuarial loss	2,273	2,562	1,464	258
Acquisitions/dispositions, net	(13)			(34)
Settlement/curtailment	(90)		(57)	
Benefits paid	(2,073)	(1,949)	(440)	(375)
Ending balance	$35,971	$32,693	$ 8,308	$ 6,800
Plan assets—fair value				
Beginning balance	$33,810	$42,856	$ 39	$ 30
Acquisitions/dispositions, net	(20)	6		
Actual return on plan assets	(3,273)	(7,150)		
Company contribution	340	19	16	14
Plan participants' contributions	13	12		
Benefits paid	(2,037)	(1,918)	(7)	(5)
Exchange rate adjustment	1	(15)		
Ending balance	$28,834	$33,810	$ 48	$ 39
Reconciliation of funded status to net amounts recognized				
Funded status—plan assets in excess of (less than) projected benefit obligation	$ (7,137)	$ 1,117	$(8,260)	$(6,761)
Unrecognized net actuarial loss	11,952	2,897	2,980	1,652
Unrecognized prior service costs	1,442	1,465	(338)	(360)
Unrecognized net transition asset	(1)	(5)		
Adjustment for fourth quarter contributions	8	7	120	102
Net amount recognized	$ 6,264	$ 5,481	$(5,498)	$(5,367)
Amount recognized in statement of financial position				
Prepaid benefit cost	$ 6,671	$ 5,838		
Intangible asset	770	388		
Accumulated other comprehensive income	6,271	555		
Accounts payable and other liabilities	(1,177)	(745)	$ (64)	
Accrued retiree health care			(5,434)	$(5,367)
Accrued pension plan liability	(6,271)	(555)		
Net amount recognized	$ 6,264	$ 5,481	$(5,498)	$(5,367)

2.270

JOHNSON & JOHNSON AND SUBSIDIARIES (DEC)

(Dollars in millions)	2002	2001
Total current liabilities	$11,449	$8,044
Long-term debt	2,022	2,217
Deferred tax liability	643	493
Employee related obligations (Note 5)	1,967	1,870
Other liabilities	1,778	1,631

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5. Employee Related Obligations

At the end of 2002 and 2001, employee related obligations were:

(Dollars in millions)	2002	2001
Pension benefits	$ 643	$ 605
Post retirement benefits	907	878
Post employment benefits	193	168
Deferred compensation	335	311
	$2,078	$1,962
Current benefits payable	111	92
Employee related obligations	$1,967	$1,870

Prepaid employee related obligations of $959 million for 2002 are included in other assets on the consolidated balance sheet.

13 (In Part): Retirement and Pension Plans

The Company sponsors various retirement and pension plans, including defined benefit, defined contribution and termination indemnity plans, which cover most employees worldwide. The Company also provides postretirement benefits, primarily health care to all domestic retired employees and their dependents.

Most international employees are covered by government sponsored programs and the cost to the Company is not significant.

Retirement plan benefits are primarily based on the employee's compensation during the last three to five years before retirement and the number of years of service. The Company's objective in funding its domestic plans is to accumulate funds sufficient to provide for all accrued benefits. International subsidiaries have plans under which funds are deposited with trustees, annuities are purchased under group contracts or reserves are provided.

In certain countries other than the United States, the funding of pension plans is not a common practice as funding provides no economic benefit. Consequently, the Company has several pension plans which are not funded.

The Company does not fund retiree health care benefits in advance and has the right to modify these plans in the future.

The following tables set forth the change in benefit obligations and change in plan assets at year-end 2002 and 2001 for the Company's defined benefit retirement plans and other benefit plans:

(Dollars in millions)	Retirement Plans		Other Benefit Plans	
Change in Benefit Obligation	2002	2001	2002	2001
Benefit obligation—beginning of year	$5,026	$4,555	$ 782	$722
Service cost	249	219	23	23
Interest cost	354	325	59	52
Plan participant contributions	18	15	—	—
Amendments	17	8	—	—
Actuarial loss	478	210	190	22
Divestitures & acquisitions	(4)	1	8	—
Curtailments & settlements	(6)	(1)	—	—
Total benefits paid	(246)	(223)	(50)	(34)
Effect of exchange rates	165	(83)	3	(3)
Benefit obligation—end of year	$6,051	$5,026	$1,015	$782
Change in plan assets				
Plan assets at fair value—beginning of year	$4,355	$4,847	$ 48	$ 58
Actual return on plan assets	(611)	(276)	(12)	(8)
Company contributions	1,074	56	47	31
Plan participant contributions	18	15	—	—
Divestitures	(2)	—	(49)	—
Benefits paid from plan assets	(232)	(212)	—	(33)
Effect of exchange rates	103	(75)	—	—
Plan assets at fair value—end of year	$4,705	$4,355	$ 34	$ 48

Amounts recognized in the Company's balance sheet consist of the following:

	Retirement Plans		Other Benefit Plans	
(Dollars in millions)	2002	2001	2002	2001
Plan assets less than projected benefit obligation	$(1,346)	$(671)	$(981)	$(734)
Unrecognized actuarial losses/(gains)	1,588	(14)	92	(123)
Unrecognized prior service cost	124	118	(18)	(21)
Unrecognized net transition asset	(4)	(9)	—	—
Total recognized in the consolidated balance sheet	$ 362	$(576)	$(907)	$(878)
Book reserves	$ (643)	$(770)	$(907)	$(878)
Prepaid benefits	959	165	—	—
Intangible assets	13	14	—	—
Accumulated comprehensive income	33	15	—	—
Total recognized in consolidated balance sheet	$ 362	$(576)	$(907)	$(878)

A minimum pension liability adjustment is required when the actuarial present value of accumulated benefits (ABO) exceeds the fair value of plan assets and accrued pension liabilities. The minimum pension liability adjustments in 2002 and 2001 of $46 million and $29 million, respectively relate primarily to plans outside the U.S.

Plans with accumulated benefit obligations in excess of plan assets consist of the following:

	Retirement Plans		Other Benefit Plans	
(Dollars in millions)	2002	2001	2002	2001
Accumulated benefit obligation	$ (953)	$(544)	$(941)	$(782)
Projected benefit obligation	(1,024)	(645)	—	—
Plan assets at fair value	305	111	34	48

2.271

LOCKHEED MARTIN CORPORATION (DEC)

(In millions)	2002	2001
Total current liabilities	$9,821	$9,689
Long-term debt	6,217	7,422
Post-retirement benefit liabilities	1,480	1,565
Pension liabilities	651	—
Deferred income taxes	—	992
Other liabilities	1,724	1,543

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 13 (In Part): Post-Retirement Benefit Plans

Defined Benefit Pension Plans, and Retiree Medical and Life-Insurance Plans

Most employees are covered by defined benefit pension plans, and certain health care and life insurance benefits are provided to eligible retirees by the Corporation. The Corporation has made contributions to trusts (including Voluntary Employees' Beneficiary Association trusts and 401(h) accounts, the assets of which will be used to pay expenses of certain retiree medical plans) established to pay future benefits to eligible retirees and dependents. Benefit obligations as of the end of each year reflect assumptions in effect as of those dates. Net pension and net retiree medical costs for 2002, 2001 and 2000 were based on assumptions in effect at the end of the respective preceding years.

The following provides a reconciliation of benefit obligations, plan assets and funded status of the plans:

	Defined Benefit Pension Plans		Retiree Medical and Life Insurance Plans	
(In millions)	2002	2001	2002	2001
Change in benefit obligations				
Benefit obligations at beginning of year	$19,713	$18,524	$ 3,125	$ 2,984
Service cost	565	523	37	41
Interest cost	1,401	1,357	213	211
Benefits paid	(1,247)	(1,223)	(320)	(281)
Actuarial losses	1,417	497	190	115
Amendments	102	38	13	11
Divestitures	(33)	(3)	(6)	—
Participants' contributions	—	—	64	44
Benefit obligations at end of year	$21,918	$19,713	$ 3,316	$ 3,125
Change in plan assets				
Fair value of plan assets at beginning of year	$20,300	$22,738	$ 1,026	$ 1,098
Actual return on plan assets	(1,397)	(1,238)	(125)	(70)
Benefits paid	(1,247)	(1,223)	(318)	(181)
Corporation's contributions	69	8	259	135
Participants' contributions	—	—	64	44
Divestitures	(64)	15	—	—
Fair value of plan assets at end of year	$17,661	$20,300	$ 906	$ 1,026
Funded (unfunded) status of the plans	$ (4,257)	$ 587	$(2,410)	$(2,099)
Unrecognized net actuarial losses	6,075	1,036	891	512
Unrecognized prior service cost	568	538	39	22
Unrecognized transition asset	(3)	(5)	—	—
Net amount recognized	$ 2,383	$ 2,156	$(1,480)	$(1,565)
Amounts recognized in the consolidated balance sheet:				
Prepaid (accrued) benefit cost	$ (651)	$ 2,081	$(1,480)	$(1,565)
Intangible asset	551	20	—	—
Accumulated other comprehensive loss related to minimum pension liability	2,483	55	—	—
Net amount recognized	$ 2,383	$ 2,156	$(1,480)	$(1,565)

At December 31, 2002 and 2001, the Corporation recorded pretax minimum pension liability adjustments of $2.5 billion and $55 million, respectively, related to certain of its defined benefit pension plans. This adjustment is calculated on a plan-by-plan basis, and is required if the accumulated benefit obligation of the plan exceeds the fair value of the plan assets and the plan's accrued pension liabilities.

The accumulated benefit obligation and fair value of plan assets for the benefit plans with accumulated benefit obligations in excess of the plans' assets totaled $12.0 billion and $10.1 billion, respectively, at December 31, 2002, and $482 million and $421 million, respectively, at December 31, 2001. At December 31, 2002, substantially all of the Corporation's plans had projected benefit obligations in excess of plan assets as reflected in the table above.

• • • • • •

The actuarial assumptions used to determine the benefit obligations and the net costs related to the Corporation's defined benefit pension and post-retirement benefit plans, as appropriate, are as follows:

	2002	2001	2000
Discount rates	6.75%	7.25%	7.50%
Expected long-term rates of return on assets	9.50[a]	9.50	9.50
Rates of increase in future compensation levels	5.50	5.50	5.50

[a] The expected long-term rate of return on plan assets for determining the 2003 net pension and post-retirement costs was lowered to 8.50%.

The decrease in the discount rate from 7.25% at December 31, 2001 to 6.75% at December 31, 2002 resulted in an increase in the December 31, 2002 benefit obligation of $1.2 billion.

The medical trend rates used in measuring the post-retirement benefit obligation were 9.1% in 2002 and 8.2% in 2001, and were assumed to ultimately decrease to 4.5% by the year 2011. An increase or decrease of one percentage point in the assumed medical trend rates would result in a change in the benefit obligation of approximately 4.7% and

(4.2)%, respectively, at December 31, 2002, and a change in the 2002 post-retirement service cost plus interest cost of approximately 4.4% and (3.9)%, respectively. The medical trend rate for 2003 is 10.0%.

2.272

SPS TECHNOLOGIES, INC. AND SUBSIDIARIES (DEC)

(Thousands of dollars)	2002	2001
Total current liabilities	$158,043	$169,962
Deferred income taxes	20,237	26,370
Long-term debt	213,074	243,078
Pension and post retirement benefit obligations	82,825	42,379
Other long-term liabilities	17,502	16,305

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Thousands of dollars)

1 (In Part): Significant Accounting Policies

Retirement Plans

The majority of the Company's employees are covered by pension plans. Defined benefit plans in the United States are noncontributory and non-United States plans are primarily contributory. For United States plans, the Company funds the minimum amount required by the Employee Retirement Income Security Act (ERISA) and for non-United States plans, the Company generally funds current costs.

17 (In Part): Retirement Plans and Other Benefits

The Company sponsors a number of defined benefit pension plans covering a majority of its employees and a defined benefit plan covering non-employee directors. The benefits of such plans are based primarily on years of service and compensation. Plan assets consist principally of common stocks, pooled equity funds, corporate bonds and United States Government obligations. At December 31, 2002 and 2001, the plans' assets included 394,264 and 398,264 shares of the Company's common stock with fair values of $9,364 and $13,907, respectively. There were no dividends received from Company stock for the years ended December 31, 2002, 2001 and 2000.

The following provides a reconciliation of benefit obligations, plan assets, funded status and the amounts recognized in the Consolidated Balanced Sheets for these plans at December 31, 2002 and 2001:

	2002	2001
Change in benefit obligation:		
Benefit obligation at January 1	$184,923	$171,071
Service cost	7,953	7,925
Interest cost	12,285	11,309
Plan participants' contributions	919	853
Amendments	17	972
Actuarial loss (gain)	10,807	4,935
Benefits paid	(16,281)	(10,838)
Foreign currency exchange rate changes	12,203	(1,304)
Benefit obligation at December 31	$212,826	$184,923
Change in plan assets:		
Fair value of plan assets at January 1	$148,532	$168,400
Actual return on plan assets	(23,363)	(16,558)
Employer contributions	8,048	9,241
Plan participants' contributions	919	853
Benefits paid	(16,281)	(10,838)
Foreign currency exchange rate changes	7,908	(2,566)
Fair value of plan assets at end of year	$125,763	$148,532
Reconciliation of funded status:		
Funded status	$ (87,063)	S (36,391)
Unrecognized net actuarial loss (gain)	98,459	50,782
Unrecognized prior service cost (gain)	(1,472)	(1,719)
Unrecognized transition obligation (asset)	(664)	(1,064)
Net pre-tax amount recognized	$ 9,260	$ 11,608
Amounts recognized in the consolidated balance sheets consist of:		
Prepaid benefit cost	$ 14,394	$ 15,643
Noncurrent benefit plan liability	(73,170)	(31,929)
Intangible asset	2,774	3,537
Accumulated other comprehensive income	65,262	24,357
Net pre-tax amount recognized	$ 9,260	$ 11,608

The plans which have accumulated obligations in excess of plan assets have an obligation of $212,826 and assets of $125,763 and are therefore under funded by $87,063 at December 31, 2002.

• • • • • •

Other Postretirement Benefits (In Part)

In addition to providing pension benefits, the Company and certain of its subsidiaries provide postretirement health care and life insurance benefits. All full-time non-bargaining unit employees hired prior to January 1, 1990 are eligible for medical benefits under a defined dollar benefit plan if they retire with at least 10 years of service and meet certain age requirements. Generally, Company-provided medical benefits terminate when covered individuals become eligible for Medicare benefits. The medical plan is contributory, with retiree contributions adjusted annually. The life insurance plan covers substantially all employees who retire from full-time

employment after age 55 with at least 10 years of service. The life insurance plan is non-contributory. Both of the Company's postretirement plans are unfunded.

An assumed discount rate of 6.75 percent and 7.25 percent was used to determine the accumulated postretirement benefit obligation at December 31, 2002 and 2001, respectively.

The following provides a reconciliation of benefit obligations and funded status of these plans at December 31, 2002 and 2001:

	2002	2001
Change in benefit obligation:		
Benefit obligation at January 1	$ 7,172	$ 9,236
Service cost	121	162
Interest cost	533	587
Plan participants' contributions	118	145
Plan amendments	—	(1,199)
Actuarial loss (gain)	1,036	(727)
Benefit payments	(934)	(1,032)
Benefit obligation at December 31	$ 8,046	$ 7,172
Reconciliation of funded status:		
Funded status	$(8,046)	$ (7,172)
Unrecognized net actuarial loss (gain)	1,084	48
Unrecognized prior service cost (gain)	(2,693)	(3,326)
Noncurrent benefit plan obligation	$(9,655)	$(10,450)

Environmental Costs

2.273

BOWATER INCORPORATED (DEC)

(In millions)	2002	2001
Total current liabilities	$ 756.4	$ 863.5
Long-term debt, net of current installments	2,037.4	1,828.0
Other long-term liabilities	450.7	362.3
Deferred income taxes	518.2	600.0
Minority interests in subsidiaries	72.1	85.2
Commitments and contingencies	—	—

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Environmental Costs

Bowater expenses environmental costs related to existing conditions resulting from past or current operations and from which no current or future benefit is discernible. Expenditures that extend the life of the related property are capitalized. We determine our liability on a site-by-site basis and record a liability at the time it is probable and can be reasonably estimated.

Note 11 (In Part): Acquisition/Divestiture and Severance Related Liabilities

Environmental Reserves

The environmental reserves are discussed in Note 17, "Commitments and Contingencies."

The following tables summarize the activity for the liabilities described above:

(In millions)	Balance, 12/31/01	Reclassification Adjustments	Write-Offs & Payments Against Reserve	Increase (Decrease) Reserve	Foreign Exchange	Balance, 12/31/02
Employee termination costs	$15.5	$ —	$(18.6)	$17.3	$ —	$14.2
Environmental	13.2	—	(0.3)	2.9	0.2	16.0
	$28.7	$ —	$(18.9)	$20.2	$ 0.2	$30.2

(In millions)	Balance, 12/31/00	Reclassification Adjustments	Write-Offs & Payments Against Reserve	Increase (Decrease) Reserve	Foreign Exchange	Balance, 12/31/01
Employee termination costs	$ —	$ —	$ (1.4)	$17.0	$(0.1)	$15.5
Environmental	14.0	—	(0.2)	—	(0.6)	13.2
	$14.0	$ —	$ (1.6)	$17.0	$(0.7)	$28.7

(In millions)	Balance, 12/31/99	Reclassification Adjustments	Write-Offs & Payments Against Reserve	Increase (Decrease) Reserve	Foreign Exchange	Balance, 12/31/00
Employee termination costs	$ 3.3	$ —	$ (3.2)	$ —	$(0.1)	$ —
Asset impairments/ disposals	3.6	(2.8)	(0.7)	—	(0.1)	—
Environmental	15.2	(0.4)	(2.4)	2.1	(0.5)	14.0
	$22.1	$(3.2)	$ (6.3)	$ 2.1	$(0.7)	$14.0

Note 17 (In Part): Commitments and Contingencies

a. Bowater is involved in various legal proceedings relating to contracts, commercial disputes, taxes, environmental issues, employment and workers' compensation claims and other matters. We periodically review the status of these proceedings with both inside and outside counsel. Our management believes that the ultimate disposition of these matters will not have a material adverse effect on our financial condition, but it could have a material adverse effect on the results of operations in a given quarter or the year.

• • • • • •

c. Bowater currently has recorded $17.8 million for environmental liabilities. Approximately $16.0 million of this $17.8 million relates to environmental reserves established in connection with prior acquisitions (Note 11 "Acquisition/Divestiture and Severance Related Liabilities"). The majority of these liabilities are recorded at undiscounted amounts and are included in other long-term liabilities on the Consolidated Balance Sheet. The $17.8 million represents management's estimate based on an assessment of relevant factors and assumptions of the ultimate settlement amounts for these liabilities. The amount of these liabilities could be affected by changes in facts or assumptions not currently known to management. During 2002, environmental reserves were increased by approximately $2.9 million related to the Alliance acquisition. Approximately $15.1 million of the $17.8 million relates to two Canadian mills for costs primarily associated with soil remediation, air compliance and landfill closure and one United States mill for costs primarily for soil testing and monitoring acquired in connection with the Alliance acquisition.

As of December 31, 2002, Bowater has been notified that we are a "potentially responsible party" ("PRP") under the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended, with respect to three sites in South Carolina. One site contained a small landfill on a timber tract sold to CNC by a third party. The third party has remediated the site and continues to monitor the groundwater. Bowater has not been requested to contribute to the remediation costs. One site is a timber tract owned by CNC in which unknown third parties discarded several hundred steel drums containing small amounts of textile residue. The EPA, based on the remoteness of the site, has listed it as "No Further Action Status" in September 2002. The remaining site is a Superfund site where several parties, including Bowater, shipped used steel drums for reclamation. The EPA has remediated the remaining Superfund site for a total cost of approximately $6.2 million. We were notified initially that we were one of the 27 larger PRPs, but the EPA revised its determination in March 2002 and we are only a de minimis PRP. Bowater was also named as a de minimis PRP in a used oil recycling site in Cleveland, Tennessee. The EPA has

agreed to release Bowater at that site for a payment of less than $20,000. Bowater does not believe it will be liable for any significant amounts at these sites.

2.274

FMC CORPORATION (DEC)

(In millions)	2002	2001
Total current liabilities	$ 874.6	$1,038.4
Long-term debt, less current portion	1,035.9	651.8
Accrued pension and other postretirement benefits, long-term	182.2	109.2
Environmental liabilities, continuing and discontinued (Note 11)	171.0	203.5
Reserve for discontinued operations	72.8	86.3
Other long-term liabilities	84.7	124.4
Minority interests in consolidated companies	44.8	44.8
Commitments and contingent liabilities (Note 17)		

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (In Part): Principal Accounting Policies and Related Financial Information

Environmental Obligations

The company provides for environmental-related obligations when they are probable and amounts can be reasonably estimated. Where the available information is sufficient to estimate the amount of liability, that estimate has been used. Where the information is only sufficient to establish a range of probable liability and no point within the range is more likely than any other, the lower end of the range has been used.

Estimated obligations to remediate sites that involve oversight by the U.S. Environmental Protection Agency ("EPA"), or similar government agencies, are generally accrued no later than when a Record of Decision ("ROD"), or equivalent, is issued, or upon completion of a Remedial Investigation/Feasibility Study ("RI/FS") that is accepted by FMC and the appropriate government agency or agencies. Estimates are reviewed quarterly by the company's environmental remediation management, as well as by financial and legal management and, if necessary, adjusted as additional information becomes available. The estimates can change substantially as additional information becomes available regarding the nature or extent of site contamination, required remediation methods, and other actions by or against governmental agencies or private parties.

The company's environmental liabilities for continuing and discontinued operations are principally for costs associated with the remediation and/or study of sites at which the company is alleged to have disposed of hazardous substances. Such costs principally include, among other items, RI/FS, site remediation, costs of operation and maintenance of the remediation plan, fees to outside law firms and consultants for work related to the environmental effort, and future monitoring costs. Estimated site liabilities are determined based upon existing remediation laws and technologies, specific site consultants' engineering studies or by extrapolating experience with environmental issues at comparable sites. Total reserves of $223.4 million and $260.4 million, respectively, before recoveries, were recorded at December 31, 2002 and 2001. In addition, the company has estimated that reasonably possible loss contingencies may exceed amounts accrued by as much as $80.0 million at December 31, 2002.

Provisions for environmental costs are reflected in income, net of probable and estimable recoveries from named Potentially Responsible Parties ("PRPs") or other third parties. Such provisions incorporate inflation and are not discounted to their present values.

In calculating and evaluating the adequacy of its environmental reserves, the company has taken into account the joint and several liability imposed by the Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA") and the analogous state laws on all PRPs and has considered the identity and financial condition of each of the other PRPs at each site to the extent possible. The company has also considered the identity and financial condition of other third parties from whom recovery is anticipated, as well as the status of the company's claims against such parties. Although the company is unable to forecast the ultimate contributions of PRPs and other third parties with absolute certainty, the degree of uncertainty with respect to each party is taken into account when determining the environmental reserve by adjusting the reserve to reflect the facts and circumstances on a site-by-site basis. The company's liability includes management's best estimate of the costs expected to be paid before its consideration of any potential recoveries from third parties. The company believes that any recorded recoveries related to PRPs are realizable in all material respects. Recoveries are recorded in "Environmental liabilities, continuing and discontinued."

Note 11 Environmental Obligations

FMC is subject to various federal, state, local and foreign environmental laws and regulations that govern emissions of air pollutants, discharges of water pollutants, and the manufacture, storage, handling and disposal of hazardous substances, hazardous wastes and other toxic materials and remediation of contaminated sites. The company is also subject to liabilities arising under CERCLA and similar state laws that impose responsibility on persons who arranged for the disposal of hazardous substances, and on current and previous owners and operators of a facility for the clean-up of hazardous substances released from the facility into the environment. In addition, the company is subject to liabilities under RCRA and analogous state laws that require owners and operators of facilities that treat, store or dispose of hazardous waste to follow certain waste management practices and to clean up releases of hazardous waste into the environment associated with past or present practices.

FMC has been named a potentially responsible party, or PRP, at 26 sites on the federal government's National Priority List. In addition, the company also has received notice from the EPA or other regulatory agencies that the company may be a PRP, or PRP equivalent, at other sites, including 43 sites at which we have determined that it is reasonably possible that the company has an environmental liability. In cooperation with appropriate government agencies, FMC is currently participating in, or has participated in, a RI/FS or its equivalent at most of the identified sites, with the status of each investigation varying from site to site. At certain sites, a

RI/FS has only recently begun, providing limited information, if any, relating to cost estimates, timing, or the involvement of other PRPs; whereas, at other sites, the studies are complete, remedial action plans have been chosen, or a ROD has been issued.

Environmental liabilities consist of obligations relating to waste handling and the remediation and/or study of sites at which the company is alleged to have disposed of hazardous substances. These sites include current operations, previously operated sites, and sites associated with discontinued operations. The company has provided reserves for potential environmental obligations that management considers probable and for which a reasonable estimate of the obligation could be made. Accordingly, total reserves of $223.4 million and $260.4 million, respectively, before recoveries, were recorded at December 31, 2002 and 2001. The long-term portion of these reserves is included in "Environmental liabilities, continuing and discontinued" on the Consolidated Balance Sheets, net of recoveries, and amounted to $171.0 million and $203.5 million at December 31, 2002 and 2001, respectively. The short-term portion of these obligations are recorded in accrued and other liabilities. In addition, the company has estimated that reasonably possible environmental loss contingencies may exceed amounts accrued by as much as $80.0 million at December 31, 2002.

To ensure FMC is held responsible only for its equitable share of site remediation costs, FMC has initiated, and will continue to initiate, legal proceedings for contributions from other PRPs. FMC has recorded recoveries, representing probable realization of claims against insurance companies, U.S. government agencies and other third parties, of $27.7 million and $41.5 million, respectively, at December 31, 2002 and 2001. These recoveries are recorded as an offset to the "Environmental liabilities, continuing and discontinued." Cash recoveries for the years 2002, 2001 and 2000 were $16.2 million, $12.5 million and $14.2 million, respectively. During 2001 the company recognized additional receivables for recoveries of $6.9 million.

The table below is a rollforward of the company's environmental reserves, continuing and discontinued from December 31, 2001 to December 31, 2002.

(In millions)	Operating and Discontinued Sites[1]	Pocatello		Total
		Pre-Existing[3]	Shutdown[4]	
2001				
Environmental reserves, current, net of recoveries	$ 5.9	$ 1.3	$ 8.2	$ 15.4
Environmental reserves, long-term, continuing and discontinued, net of recoveries	132.0	33.0	38.5	203.5
Total environmental reserves, net of recoveries at December 31, 2001	$137.9	$34.3	$46.7	$218.9
2002				
Provision	$ 10.2	$ —	$ —	$ 10.2
Spending, net of cash recoveries	(21.8)	(3.5)	(8.1)	(33.4)
Net change	$ (11.6)	$ (3.5)	$ (8.1)	$ (23.2)
Environmental reserves, current, net of recoveries	6.5	13.9	4.3	24.7
Environmental reserves, long-term, continuing and discontinued, net of recoveries	119.8	16.9	34.3	171.0
Total environmental reserves, net of recoveries at December 31, 2002[2]	$126.3	$30.8	$38.6	$195.7

[1] "Current" includes only those reserves related to continuing operations.
[2] Balance includes environmental remediation reserves related to the shutdown of Pocatello recorded as part of Pocatello shutdown, remediation and other costs reserve in 2001.
[3] Pocatello remediation reserve created prior to the decision to shut down the facility in 2001.
[4] Additional remediation reserves recorded at the time of the Pocatello shutdown.

The company's total environmental reserves, before recoveries, include $212.4 million and $245.7 million for remediation activities and $11.0 million and $14.7 million for RI/FS costs at December 31, 2002 and 2001, respectively. For the years 2002, 2001 and 2000, FMC charged $41.3 million, $31.3 million and $44.3 million, respectively, against established reserves for remediation spending, and $8.3 million, $12.1 million and $9.2 million, respectively, against reserves for spending on RI/FS. FMC anticipates that the remediation and RI/FS expenditures for current operating, previously operated and other sites will continue to be significant for the foreseeable future.

In December of 2001, Astaris ceased production at the Pocatello, Idaho elemental phosphorus facility. FMC is responsible for decommissioning of the plant and remediation of the site at an estimated cost (net of expected recoveries of $6.9 million from Astaris) of $46.7 million, which was reserved

at December 31, 2001. To manage decommissioning and remediation more effectively, FMC reacquired the facility from Astaris in February 2002. The estimated closure and remediation costs include the remaining costs of compliance with a June 1999 Consent Decree settling outstanding violations under RCRA at the Pocatello facility, costs expected under a July 2002 Consent Order with the Idaho Department of Environmental Quality ("Idaho Consent Order") and costs to be incurred under a 1998 ROD under CERCLA which addresses previously closed ponds on the Pocatello facility portion of the Eastern Michaud Flats Superfund Site. The company had previously signed a Consent Decree under CERCLA to implement this ROD, which was lodged in court on July 21, 1999. On August 3, 2000, the Department of Justice ("DOJ") withdrew the CERCLA Consent Decree and announced that it needed to review the administrative record supporting the EPA's remedy selection decision. Management believes that the company's reserves for environmental costs adequately provide for the estimated costs of the existing ROD for the site, the expenses previously described related to the RCRA Consent Decree, the Idaho Consent Order and the incremental costs associated with the decommissioning and remediation of the facility associated with the cessation of production. Management cannot predict the potential changes in the scope of the ROD, if any, resulting from the EPA's remedy review, nor estimate the potential incremental costs, if any, of changes to the existing remedy.

In 2002, the company recorded environmental provisions totaling $10.2 million ($6.2 million after tax). These provisions related to costs for the continued cleanup of both operating sites and for certain discontinued manufacturing operations from previous years. In 2001, environmental provisions totaling $68.8 million ($42.0 million after tax) were recorded largely related to the remediation of the Pocatello site. Also included in the 2001 provision were costs related to continued cleanup of certain discontinued manufacturing operations from previous years. In 2000, FMC recorded a charge of $12.5 million ($7.6 million after tax) to provide additional reserves for ongoing remediation of several phosphorus properties. Although these properties are part of Astaris (Note 4) FMC retains certain remedial liabilities associated with the properties.

At its facility in Middleport, New York, the company is performing remediation of soil and groundwater and investigating levels of potential contaminants in the soil at various properties in the area of the site under a RCRA Corrective Action Order. Management believes that the current reserve is sufficient to address the existing onsite remediation project and clean-up of soil, if necessary, at properties adjacent to the site. However, additional costs could result if more extensive off-site remediation is required than is currently anticipated. Costs are included in the estimate of reasonably possible environmental loss contingencies noted above.

On October 21, 1999, the Federal District Court for the Western District of Virginia approved a consent decree signed by FMC, the EPA (Region III) and the DOJ regarding past response costs and future clean-up work at the discontinued fiber-manufacturing site in Front Royal, Virginia. As part of a prior settlement, government agencies are expected to reimburse the company for approximately one-third of the clean-up costs due to the government's role at the site. The company's $70 million portion of the settlement was charged to earnings in 1998 and prior years. The amount of the reserve for anticipated expenditures at the company's former site in Front Royal, Virginia, is $44.1 million.

Although potential environmental remediation expenditures in excess of the reserves and estimated loss contingencies could be significant, the impact on the company's future consolidated financial results is not subject to reasonable estimation due to numerous uncertainties concerning the nature and scope of contamination at many sites, identification of remediation alternatives under constantly changing requirements, selection of new and diverse clean-up technologies to meet compliance standards, the timing of potential expenditures and the allocation of costs among PRPs as well as other third parties.

The liabilities arising from potential environmental obligations that have not been reserved for at this time may be material to any one quarter or year's results of operations in the future. Management, however, believes any liability arising from potential environmental obligations is not likely to have a material adverse effect on the company's liquidity or financial condition and may be satisfied over the next 20 years or longer.

Regarding current operating sites, the company spent $9.7 million, $87.4 million and $79.4 million for the years 2002, 2001 and 2000, respectively, on capital projects relating to environmental control facilities. Additionally, in 2002, 2001 and 2000, FMC spent $24.5 million, $35.9 million and $44.0 million, respectively, for environmental compliance costs, which are an operating cost of the company and are not covered by established reserves. A significant majority of the 2001 and 2000 spending was associated with the Consent Decree for the company's U.S.-based phosphorus chemicals business.

Discontinued Operations

2.275

AGWAY INC. AND CONSOLIDATED SUBSIDIARIES (JUN)

(Thousands of dollars)	2002	2001
Total current liabilities	$ 202,009	$ 225,896
Long-term debt (including capital leases)	17,143	18,278
Subordinated debt	388,449	401,710
Deferred tax liabilities	31,897	53,021
Other liabilities	60,350	62,765
Total liabilities of discontinued operations	810,410	711,797
Total liabilities	$1,510,258	$1,473,467

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Thousands of dollars)

1 (In Part): Summary of Significant Accounting Policies

Disposal of Long-Lived Assets/Discontinued Operations

SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," was early adopted by the Company on January 1, 2002 and supersedes a portion of Accounting Principle Board (APB) No. 30, "Reporting the Results of Operations—Reporting the Effects of Disposal of a Segment of a Business," while retaining many of the requirements of this statement. Under SFAS No. 144, the definition of what constitutes a discontinued operation is broader, discontinued

operations are no longer measured on a net realizable value basis, and future operating losses are no longer recognized before they occur.

As of June 30, 2002, Agway has a number of operations being classified as discontinued operations for financial reporting purposes. See Note 3 for details.

3. Discontinued Operations

On March 6, 2002, the Company announced details of a comprehensive plan designed to strengthen our capital structure and reduce our debt. This plan focuses our capital resources on four selected businesses: Animal Feed and Nutrition (the principal operation within the Agriculture segment), Energy Products (Energy segment), Produce, and Agricultural Technologies (operations within the Country Products Group segment). This plan also disclosed our intentions to divest four business operations: Telmark (the former Leasing segment), Agway Insurance Company (the principal operation within the former Insurance segment), and Agronomy and Seedway (formerly components of the Agriculture segment).

After this restructuring plan was announced, as part of its ongoing strategic assessment of remaining Agway businesses, in June 2002, the Agway Board of Directors affirmed management's intentions to actively pursue a sale of Agway's sunflower business (an operation formerly included within the Country Products Group segment).

With the announcement of our March 6, 2002 restructuring plan, our ongoing strategic assessment, and our adoption of SFAS No. 144, we are required to separately report the combined results of businesses that we are taking steps to sell as discontinued operations and to immediately recognize any estimated losses directly related to the sales of those businesses. Any estimated gains on sale of those businesses are not reported until they are realized. The results of operations of all discontinued businesses are reported in discontinued operations in the periods in which they occur. Discontinued business operations results are reported in the income statement, net of tax, in earnings (loss) from operations of discontinued operations. The recognition of any estimated losses directly related to the sales of these businesses are reported in the income statement, net of taxes, in gain (loss) on disposal of discontinued operations. The total assets of discontinued operations and total liabilities of discontinued operations are separately reported in the consolidated balance sheet.

In the second quarter of fiscal 2000, the Agway Board of Directors approved a plan to restructure the retail store distribution system. The plan called for the sale or closure of 227 Agway retail properties. In the spring of 2000, the Agway Board of Directors authorized the sale of the wholesale procurement and supply system to Southern States Cooperative, Inc. An agreement for this sale was executed on June 20, 2000 and closed on July 31, 2000. The sale of the wholesale procurement and supply system, when combined with the sale and closure of the Agway-owned or operated retail stores, constituted a plan to discontinue operations of the retail services business. The discontinued retail services business was measured and recognized under APB No. 30, "Reporting the Results of Operations—Reporting the Effects of Disposal of a Segment of a Business." For financial reporting purposes, the measurement date upon which this discontinued operation plan became effective was June 20, 2000. All retail store operations ceased during 2001, and the Company is continuing to market any remaining store properties for sale. No adjustments to the estimated net loss on disposal established as of the June 20, 2000 measurement date has been required.

For the businesses noted above that are reflected in discontinued operations, a summary of net sales and revenues and pre-tax operating results for each of the three years ended June 30, 2002, and total assets of discontinued operations and total liabilities of discontinued operations at June 30, 2002 and June 30, 2001 are detailed below. Furthermore, a portion of the Company's interest expense has been allocated to discontinued operations based on the outstanding debt attributable to holding these discontinued operations. Income taxes have been allocated between continuing and discontinued operations for all periods presented.

	Discontinued Operations for the Years Ended June		
	2002	2001	2000
Total sales and revenues	$369,712	$441,256	$598,186
Pre-tax operating results	19,422	16,494	(6,003)
Interest expense allocated to discontinued operations	12,514	10,971	10,707
Earnings (loss) from operations, before tax	6,908	5,523	(16,710)

	Discontinued Operations	
	June 2002	June 2001
Discontinued assets:		
Cash	$ 2,832	$ 3,329
Restricted cash	9,114	8,306
Accounts receivable and notes receivable, net	102,425	110,008
Total lease receivables, net	716,499	688,878
Inventories	42,909	48,095
Prepaid and other current assets	55,473	42,119
Marketable securities available for sale	39,826	37,556
Other security investments	41,483	40,321
Property, plant and equipment	35,342	43,765
Other assets	8,704	16,837
Total assets of discontinued operations	$1,054,607	$1,039,214
Discontinued liabilities:		
Notes payable	$ 204,263	$ 140,638
Current portion of long-term debt	126,485	136,546
Accounts payable	22,909	24,899
Other current liabilities	165,505	76,997
Long-term debt	258,569	303,301
Other long-term liabilities	32,679	29,416
Total liabilities of discontinued operations	$ 810,410	$ 711,797

The loss on disposal of discontinued operations, net of tax, was originally recorded as of March 31, 2002, and reported in Form 10-Q and has been adjusted to the current estimated loss at June 30, 2002, as follows:

	March 31, 2002	Adjustments	June 30, 2002
Estimated loss on sale of businesses	$(24,738)	$(46,895)	$ (71,633)
Direct costs of sale	(4,228)	(13,953)	(18,181)
Benefit plans curtailment loss	(12,365)	(1,057)	(13,422)
Pre-tax loss on disposal	(41,331)	(61,905)	(103,236)
Income tax benefit on loss on disposal	14,871	2,929	17,800
Net loss on disposal of discontinued operations	$(26,460)	$(58,976)	$ (85,436)

Since reporting an estimated net loss on disposal of discontinued operations at March 31, 2002, several events have occurred which required revisions to our prior estimates. These events included a charge for costs incurred from the failed transaction on the sale of Telmark, ongoing negotiations with potential buyers of businesses to be divested reflecting further impairment of value than originally estimated, changes in the estimate of direct transaction costs, and finally, the inclusion in discontinued operations of the Sunflower business and the Company's investment in CF Industries.

The above net loss on disposal of discontinued operations could be further adjusted (either increased or decreased) in future periods for changes experienced from the current estimate for net loss on disposal of discontinued operations.

Insurance

2.276

ALLIED WASTE INDUSTRIES, INC. (DEC)

(In thousands)	2002	2001
Total current liabilities	$1,449,793	$1,433,535
Long-term debt, less current portion	8,718,642	9,237,503
Deferred income taxes	509,910	418,836
Accrued closure, post-closure and environmental costs, less current portion	864,674	878,006
Other long-term obligations	449,901	624,390

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Self-Insurance

We are partially self-insured for general liability, automobile and workers' compensation insurance with varying loss thresholds up to $3 million and fully self-insured for employee group health claims. The self-insured portion of the liability for unpaid claims and associated expenses, including claims incurred but not reported, is determined using actuarial valuations provided by independent companies. We use a third party administrator to track and evaluate actual claims experience for consistency of data used in the annual actuarial valuation.

The following tables show the activity and balances related to accrued self-insurance for the year ended December 31, (in thousands):

	2002	2001
Balance at beginning of year	$ 88,081	$ 22,376
Expense incurred	249,523	229,629
Claims paid	(191,404)	(163,924)
Balance at end of year	$ 146,200	$ 88,081

Other Long-Term Obligations

At December 31, 2002 and 2001, respectively, other long-term obligations include the minority interest in consolidated subsidiaries of $4.6 million and $182.3 million, the non-current portion of non-recurring acquisition accruals of $145.9 million and $217.6 million, derivative liabilities for interest rate swap contracts of $125.7 million and $140.7 million, and other obligations of $84.1 million and $83.8 million. Additionally, the balance at December 31, 2002 includes net pension liability of $16.5 million and $73.1 million self-insurance obligation.

Warranties

2.277

TELLABS, INC. (DEC)

(In millions)	2002	2001
Total current liabilities	$257.3	$319.5
Accrued long-term restructuring charges	45.5	24.9
Other long-term liabilities	29.7	34.4
Deferred income taxes	—	21.4

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

10. Product Warranties

The Company adopted FASB Interpretation No. ("FIN") 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Others*, in the fourth quarter of 2002. Under this interpretation, product warranties are not subject to the initial recognition and measurement provisions of FIN 45, thus the Company has not modified its current practice of accounting for product warranties.

The Company offers warranties for all of its products. The specific terms and conditions of those warranties vary depending upon the product sold. The Company provides a basic limited warranty, including parts and labor, for all products for a period ranging from 1 to 5 years. Factors that enter into the Company's estimate of its warranty liability include the number of units shipped, historical and anticipated rates of warranty claims, and cost per claim. The Company periodically assesses the adequacy of its recorded warranty liabilities and adjusts the amounts as necessary. On the consolidated balance sheet, the short-term portion of the warranty

reserve is included in Other Current Liabilities, while the long-term portion is included in Other Long-Term Liabilities.

The Company's product warranty liabilities are as follows:

(In millions)	2002	2001	2000
Balance at beginning of year	$14.4	$11.4	$12.2
Net changes to product warranty liabilities based on historical and anticipated rates of warranty claims	(0.5)	3.0	(0.8)
Balance at end of year	$13.9	$14.4	$11.4
Balance Sheet Classification at End of Year			
Other current liabilities	$ 6.2	$ 6.7	$ 4.7
Other long-term liabilities	7.7	7.7	6.7
Total product warranty liabilities	$13.9	$14.4	$11.4

Litigation

2.278

NATIONAL SERVICE INDUSTRIES, INC. (AUG)

(In thousands)	2002	2001
Total current liabilities	$105,836	$98,648
Long-term debt, less current maturities	984	1,990
Deferred income taxes	7,853	32,431
Self-insurance accrual, less current portion	9,258	12,477
Litigation accrual (Note 6)	166,844	82,917
Other long-term liabilities	7,690	7,303
Commitments and contingencies (Note 6)		

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 6 (In Part): Commitments and Contingencies

Litigation

The Company is subject to various legal claims arising in the normal course of business out of the conduct of its current and prior businesses, including product liability claims. Based on information currently available, it is the opinion of management that the ultimate resolution of pending and threatened legal proceedings will not have a material adverse effect on the Company's financial condition or results of operations beyond its current estimates. However, in the event of unexpected future developments, it is possible that the ultimate resolution of such matters, if unfavorable, could have a material adverse effect on the Company's results of operations in a particular future period. The Company accrues for legal claims when payments associated with the claims become probable and can be reasonably estimated for financial statement purposes. While management believes that its accruals are appropriate based on information currently available, the actual costs of resolving pending and future legal claims against the Company may differ substantially from the amounts accrued.

Among the product liability claims to which the Company is subject are claims for personal injury or wrongful death arising from the installation and distribution of asbestos-containing insulation, primarily in the southeastern United States, by a previously divested business of the Company. Most claims against the Company seek both substantial compensatory damages and punitive damages. The Company believes that many of the claims against it are without merit. The Company believes its conduct with respect to asbestos-containing insulation was consistent with recognized safety standards at the relevant times, and the Company believes there is no basis for imposing punitive damages against it in connection with asbestos claims. In addition, the Company believes that it has substantial legal defenses against many of these claims, including that the Company did not manufacture any asbestos-containing building products, that the Company did not distribute or install products at certain sites where exposure is alleged, and that statutes of repose in some states bar the claims. However, there is no assurance that the Company will be successful in asserting defenses to these claims.

Prior to February 1, 2001, the Center for Claims Resolution (the "CCR") handled the processing and settlement of claims on behalf of the Company and retained local counsel for the defense of claims. Pursuant to a written agreement among CCR members, the Company was responsible for varying percentages of defense and liability payments on a claim-by-claim basis for each claim in which it was named in accordance with predetermined sharing formulae. Substantially all of the Company's portion of those payments was paid directly by the Company's insurers. Since February 1, 2001, the Company has retained trial counsel directly, rather than through the CCR, to defend asbestos-related claims against the Company and has engaged another outside consultant to provide claims processing and administration services for asbestos-related claims. The Company is more vigorously defending asbestos-related claims and will seek to dismiss without any settlement payment claims arising in jurisdictions or involving worksites where the Company did not distribute or install asbestos-containing products.

During the past two years, certain former members of the CCR have failed to make payments to the CCR, by reason of bankruptcy or otherwise, for their shares of certain settlement agreements the CCR had reached on behalf of its members with plaintiffs. Consequently, with respect to some settlement agreements, the CCR has been unable to make the full payments contemplated by those agreements. In some circumstances, the Company and other members and former members of the CCR have contributed additional funds to the CCR to permit it to make certain payments contemplated by the settlement agreements, though the Company does not believe it is liable for such additional funds. As of August 31, 2002, the Company has contributed approximately $5.8 million to the CCR for this purpose, and it may make further such payments in the future. Some plaintiffs who are parties to settlement agreements with the CCR that contemplate payments that the CCR has been unable to make have commenced litigation against the CCR, the Company, and other members and former members to recover amounts due under these settlement agreements. The Company believes that it should not be liable for settlement payments attributable to other members or former members of the CCR, and the Company has joined a joint defense group with other CCR members to defend these claims.

The Company believes that any amount it pays, including the $5.8 million it has already contributed to the CCR, on account of payments contemplated by settlement agreements entered into by the CCR on behalf of its members, should

be covered either by the Company's insurance or by surety bonds and collateral provided by those former members who failed to meet their obligations. There can be no assurance, however, that the Company can actually recover any of these amounts. Accordingly, no insurance or other recovery with respect to these amounts has been recorded as an asset in the Company's financial statements.

The amount of the Company's liability on account of payments contemplated by settlement agreements entered into by the CCR is uncertain. The Company has included in its accruals its estimate of the Company's potential liability in this respect, but the Company's ultimate liability for these matters could be greater than estimated if more CCR members or former members fail to meet their obligations or if the courts determine that the Company could be liable for settlement payments that were attributable to other CCR members.

Several significant companies that are traditional co-defendants in asbestos claims, both former members of the CCR and non-members, have sought protection under Chapter 11 of the federal bankruptcy code during the past two years. Litigation against such co-defendants generally is stayed or restricted as a result of their bankruptcy filings. The absence of these traditional defendants may increase the number of claims filed against other defendants, including the Company, and may increase the cost of resolving such claims. Due to the uncertainties surrounding the ultimate effect of these bankruptcies on remaining asbestos defendants, the effect on the amount of the Company's liabilities cannot be determined.

The claims activity for each of the years ended August 31 was as follows:

	2002	2001
Open claims, beginning of period	35,000	21,000
Served	24,300	30,000
Dismissed	(20,700)	(200)
Settled	(3,300)	(15,800)
	35,300	35,000
Settled in principle after February 1, 2001 but not finalized	(10,900)	(1,000)
Open claims pending, end of period	24,400	34,000
Average resolution indemnity cost per claim for the year ended August 31, 2002*	$ 530	$ 1,035

* Average resolution indemnity cost is based on indemnity costs for claims dismissed and settled of 24,000 and 16,000 for the years ended August 31, 2002 and 2001, respectively. Subsequent to August 31, 2002, a significant number of claims reflected as pending as of August 31, 2002 were settled in principle for an average indemnity cost substantially higher than the average indemnity cost presented in the above table. If these claims were included in the average resolution indemnity cost per claim for the year ended August 31, 2002, the cost would increase from $530 to $2,960 per claim. These settlements have been taken into account in establishing the Company's accruals for asbestos liabilities and related insurance receivable as of August 31, 2002.

As of August 31, 2002 and 2001, there were approximately 8,800 and 12,000 additional claims, respectively, that were, as part of CCR settlements, settled in principle prior to February 1, 2001 but not finalized.

As of August 31, 2002 and August 31, 2001, an estimated accrual of $208.1 million and $113.4 million, respectively, for asbestos-related liabilities, before consideration of insurance recoveries, has been reflected in the accompanying financial statements, primarily in long-term liabilities. At August 31, 2001, the amount of the accrual was based on the following: the Company's estimate of indemnity payments and defense costs associated with pending and future asbestos-related claims; settlements agreed to but not paid; the Company's expected payment on account of settlement obligations of defaulting CCR members; interest on settlement payments that are subject to ongoing dispute resolution with certain insurance providers; and other legal fees and expenses. During 2002, as part of its ongoing estimating process, consultation with outside experts, the nature of pending claims, the jurisdiction in which claims have been filed, and in light of its gained experience in administration of its defense strategy and recent settlement activity, the Company reviewed its asbestos claims liabilities and adjusted the balances in these accounts from its prior three year outlook to an estimate of the total probable liabilities from pending and expected future asbestos claims over an approximate fifty year period, which takes into consideration the life expectancy of individuals potentially exposed. The Company believes that a reasonable estimate of its expected future claims for approximately fifty years could require an increase in its liabilities ranging from approximately $94 million to $139 million. Additionally, the Company believes it has insurance coverage available to recover most of its asbestos-related costs; however, out-of-pocket costs associated with the range of liabilities could be from $17 million to $31 million, representing the costs that would be paid by the Company due primarily to the insolvency of certain foreign insurance carriers. Management does not believe that any amount in the range is more accurate than any other. Therefore, as of August 31, 2002, the Company increased its liabilities for asbestos related costs by approximately $94 million, the low end of the range and recorded an additional insurance recovery amount of $77 million. The Company's estimates of indemnity payments and defense costs associated with pending and future asbestos claims are based on the Company's estimate of the number of future asbestos-related claims and the type of disease, if any, alleged or expected to be alleged in such claims, assumptions regarding the timing and amounts of settlement payments, the status of ongoing litigation and settlement initiatives, and the advice of outside counsel with respect to the current state of the law related to asbestos claims. The ultimate liability for all pending and future claims cannot be determined with certainty due to the difficulty of forecasting the numerous variables that can affect the amount of liability. There are inherent uncertainties involved in estimating these amounts, and the Company's actual costs in future periods could differ materially from the Company's estimates due to changes in facts and circumstances after the date of each estimate.

The Company believes that it has insurance coverage available to recover most of its asbestos-related costs. With the exception of the Company's payments on account of settlement obligations of defaulting CCR members as discussed above, the Company has reached settlement agreements with substantially all of its relevant insurers providing for payment of substantially all asbestos-related claims (subject to retentions) up to the various policy limits. The timing and amount of future recoveries from insurance carriers will depend on the pace of claims review and processing by such carriers and on the resolution of any remaining disputes regarding coverage under such policies. In the event the Company's insurers dispute amounts billed to them or pay on an untimely basis, the Company takes all practicable steps

to secure payment, including alternative dispute resolution procedures and litigation to resolve the issues. The Company has initiated alternative dispute resolution proceedings with two insurers to resolve outstanding insurance policy interpretation issues, and, with respect to one of the insurers, to secure payment of past due amounts and to ensure that the insurer's future obligations will be met in a timely fashion. The Company believes its recorded receivables, which includes both billed amounts and estimates of future recoveries, from insurance carriers are collectible. The Company reached this conclusion after considering various factors including its prior insurance-related recoveries in respect of asbestos-related claims, existing insurance policies, settlement agreements with insurers, the apparent viability of its insurers, the advice of outside counsel with respect to the applicable insurance coverage law relating to terms and conditions of those policies, and a general assessment by the Company and its advisors of the financial condition of the relevant insurers. Accordingly, an estimated aggregate insurance recovery of $182.9 million and $95.2 million has been reflected in the accompanying financial statements as of August 31, 2002 and 2001, respectively, with respect to previously paid claims, pending and future claims and the other items included in the accrual of asbestos-related liabilities. Approximately $42.0 million and $28.6 million of the aggregate insurance recovery and $41.3 million and $30.5 million of the asbestos-related accrual have been classified as current assets and liabilities in the accompanying balance sheet as of August 31, 2002 and 2001, respectively. Approximately $8.5 million of insurance recovery is under alternative dispute resolution proceedings at August 31, 2002.

Management continues to monitor claims activity, the status of lawsuits (including settlement initiatives), legislative developments, and costs incurred in order to ascertain whether an adjustment to the existing accruals should be made to the extent that historical experience may differ significantly from the Company's underlying assumptions. As additional information becomes available, the Company will reassess its liability and revise its estimates as appropriate. Management currently believes that, based on the factors discussed in the preceding paragraphs and taking into account the accruals reflected as of August 31, 2002, the resolution of asbestos-related uncertainties and the incurrence of asbestos-related costs net of related insurance recoveries should not have a material adverse effect on the Company's long-term consolidated financial position or results of operations. However, as the Company's estimates are periodically re-evaluated, additional accruals to the liabilities reflected in the Company's financial statements may be necessary, and such accruals could be material to the results of the period in which they are recorded. Given the number and complexity of factors that affect the Company's liability and its available insurance, the actual liability and insurance recovery may differ substantially from the Company's estimates. No assurance can be given that the Company will not be subject to significant additional asbestos litigation and material additional liabilities. If actual liabilities significantly exceed the Company's estimates or if expected insurance recoveries become unavailable, due to additional insolvencies among the Company's primary or excess insurance carriers, disputes with carriers or otherwise, the Company's results of operations, liquidity and financial condition could be materially adversely affected.

The Company has been sued in four putative class actions and a case brought "on behalf of the general public" in California relating to the collection by National Linen Service of energy surcharges, environmental charges and, in two of the cases, sales taxes. The first case was filed in the Circuit Court of Barbour County, Alabama in May 2001 and was removed to the United States District Court for the Middle District of Alabama. The federal court denied the plaintiff's motion to remand the case to state court. The second case was filed in the Court of Common Pleas, Fifteenth Judicial Circuit, County of Horry, South Carolina in October 2001. That case was removed to the United States District Court for South Carolina, Florence Division. The South Carolina federal court also denied plaintiff's motion to remand. The third case was filed in Superior Court, Napa County, California in May 2002. This case alleges that National Linen Service and numerous other linen and uniform suppliers have violated Sections 17200 and 17500 of the California Business and Professions Code. The fourth case was filed in the United States District Court in the Southern District of Illinois in June 2002. This case alleges that National Linen Service and numerous other linen and uniform suppliers and the Textile Rental Service Association violated federal antitrust laws and state statutes in setting and charging the fees described above. As of October 21, 2002, no substantive discovery had occurred in any case. Based on information currently available, it is the opinion of management that the claims in these cases are without merit and that the ultimate resolution of these legal proceedings will not have a material adverse effect on the Company's financial condition or results of operations.

Additional Payments Related to Acquisitions

2.279

THE DIXIE GROUP, INC. (DEC)

(Dollars in thousands)	2002	2001
Total current liabilities	$ 78,745	$ 86,615
Long-term debt		
Senior indebtedness	75,408	85,798
Subordinated notes	30,952	35,714
Convertible subordinated debentures	29,737	32,237
Total long-term debt	136,097	153,749
Accrued purchase consideration	50,000	—
Other liabilities	16,529	14,960
Deferred income taxes	23,923	24,639

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars in thousands)

Note B (In Part): Business Combinations and Investment in Affiliate

On July 1, 2000, the Company acquired 90% of the capital stock of Fabrica International ("Fabrica"), a privately held California corporation. On September 8, 2000, the Company acquired the remaining 10% of the capital stock of Fabrica.

The Company acquired the stock of Fabrica for $9,246 cash. The agreement provides for the payment of contingent consideration of $50,000 in 2003 if Fabrica's cumulative gross sales for the period of April 1, 2000 through June 30, 2003 exceed certain levels. The sales level was reached in the Company's second quarter of fiscal 2002 and the Company

recorded additional goodwill and accrued purchase consideration of $50,000 which will become due in April 2003. The agreement also provides for an additional contingent amount of up to $2,500 to be paid in April 2005 if Fabrica's cumulative earnings before interest and taxes for the five-year period beginning January 1, 2000 exceed specified levels. The Company's investment in Fabrica secures the seller's right to the $50,000 contingency consideration. Any contingent amounts that may become payable under the agreement will be treated as an additional cost of the acquisition.

Deferred Credits

2.280

PRAXAIR, INC. (DEC)

(Millions of dollars)	2002	2001
Total current liabilities	$1,100	$1,194
Long-term debt	2,510	2,725
Other long-term liabilities	652	551
Deferred credits	635	607
Total liabilities	$4,897	$5,077

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 5 (In Part): Leases

In 1998 Praxair sold certain U.S. liquid storage equipment for $150 million and in 1999 sold certain U.S. distribution equipment for $80 million and simultaneously leased the equipment back. Each lease was for an initial two-year term which can be extended by three one-year renewal options and further provides that at each renewal date or at lease termination the company may purchase the equipment for $150 million and $80 million, respectively. At these dates, the company may also elect to sell the equipment on behalf of the lessors and has guaranteed proceeds to the lessors equal to $128 million for the liquid storage equipment and $68 million for the distribution equipment. The leases for the liquid storage and distribution equipment terminate in September 2003 and March 2004, respectively.

The leases have been treated as operating leases, as at inception and each renewal date the exercise of the purchase option was not reasonably assured. Gains of $89 million from the sale of the liquid storage equipment and of $63 million from the sale of the distribution equipment have been deferred subject to the final guaranteed proceeds to the lessors (see Note 20). If the Company elects to sell the equipment, these gains will be recognized in income to the extent that they exceed any guarantee payment. Management considers the probability of a guarantee payment in excess of either deferred gain to be remote. If the Company elects to purchase the equipment, the purchase price will be reduced by the deferred gain in determining the carrying value of the equipment.

Note 9 (In Part): Supplementary Balance Sheet Information

(Millions of dollars)	2002	2001
Deferred credits		
Deferred income taxes	$467	$442
Deferred gain on sale leaseback (Note 5)	152	152
Other	16	13
	$635	$607

Note 20 (In Part): Commitments and Contingencies

The following table sets forth Praxair's material commitments and contractual obligations excluding debt and leases as of December 31, 2002:

(Millions of dollars)

Expiring Through December 31	Unconditional Purchase Obligations	Construction Commitments	Standby Letters of Credit	Guarantees*
2003	$ 73	$187	$36	$148
2004	39	46	—	68
2005	31	1	—	1
2006	28	—	13	—
2007	25	—	—	—
Thereafter	146	—	—	—
	$342	$234	$49	$217

* Guarantees primarily include $196 million of residual value guarantees on operating leases as described in Note 5. Certain of Praxair's unconsolidated affiliates have debt on their balance sheets totaling approximately $110 million, all non-recourse to Praxair except for approximately $10 million. Praxair has no financing arrangements with closely held related parties.

2.281

QUALCOMM INCORPORATED (SEP)

(In thousands)	2002	2001
Total current liabilities	$ 674,986	$520,989
Unearned revenue	259,995	295,005
Long-term debt	94,288	235
Other liabilities	43,756	35,202
Total liabilities	$1,073,025	$851,431

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (In Part): The Company and Its Significant Accounting Policies

Revenue Recognition (In Part)

The Company derives revenue principally from royalties, from sales of integrated circuit products, from services and related hardware sales, from software development and related services, and from license fees for intellectual property. The timing of revenue recognition and the amount of revenue actually recognized in each case depends upon a variety of factors, including the specific terms of each arrangement and the nature of the Company's deliverables and obligations.

In December 1999, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin No. 101 [SAB 101], "Revenue Recognition in Financial Statements" which the Company adopted in the fourth quarter of fiscal 2001 and applied retroactively to the first quarter of fiscal 2001. The Company recorded a $147 million loss, net of taxes of $98 million, as the cumulative effect of the accounting change as of the beginning of fiscal 2001 to reflect the deferral of revenue and expenses related to future periods. The Company recognized $66 million and $95 million during fiscal 2002 and 2001, respectively, in income before income taxes and accounting changes related to revenue and expense that was recognized in prior years. The Company continues to monitor developments in Emerging Issues Task Force discussions of Issue 00-21. "Accounting for Revenue Arrangements with Multiple Deliverables" and Issue 02-G. "Recognition of Revenue from Licensing Arrangements on Intellectual Property," to determine what, if any, impact a final consensus may have on the Company's revenue recognition policy.

The Company licenses rights to use its intellectual property portfolio, which includes patent rights to use cdmaOne, CDMA2000, CDMA2000 1X, CDMA2000 1xEV-DO, TD-SCDMA and WCDMA technologies. Licensees typically pay a non-refundable license fee and on-going royalties on their sales of products incorporating the Company's intellectual property. License fees are generally recognized over the estimated period of future benefit to the average licensee, typically five to seven years. The Company generally recognizes royalty revenue as earned when reasonable estimates of such amounts can be made. Certain royalty revenues are accrued based on estimates prior to the reporting of such revenues by the licensees. Estimates of royalty revenues are based on analyses of historical royalty data by licensee, the relationship between the timing of the Company's sales of integrated circuits to its licensees and its licensees' sales of CDMA phones and infrastructure equipment, average sales price forecasts, and current market and economic trends. When the Company's licensees report royalties for which the Company accrued revenues based on estimates, the Company adjusts revenues for the period in which the reports are received.

Revenues from sales of the Company's CDMA-based integrated circuits are recognized at the time of shipment, or when title and risk of loss passes to the customer, if later. Revenues and expenses from sales of certain satellite and terrestrial-based two-way data messaging and position reporting hardware and related software products are recognized ratably over the shorter of the estimated useful life of the hardware product or the expected messaging service period, which is typically five years, as the messaging service is considered integral to the functionality of the hardware and software.

Revenues from providing services are recorded when earned. Revenues from long-term contracts are generally recognized using the percentage-of-completion method of accounting, based on costs incurred compared with total estimated costs. The percentage-of-completion method relies on estimates of total contract revenue and costs. Revenues and profit are subject to revisions as the contract progresses to completion. Revisions in profit estimates are charged or credited to income in the period in which the facts that give rise to the revision become known. If actual contract costs are greater than expected, reduction of contract profit would be required. Billings on uncompleted contracts in excess of incurred cost and accrued profits are classified as unearned revenue. Estimated contract losses are recognized when determined. If substantive uncertainty related to customer acceptance exists or the contract's duration is relatively short, the Company uses the completed-contract method.

Revenues from software license fees are recognized when all of the following criteria are met; the written agreement is executed; the software is delivered; the license fee is fixed and determinable; collectibility of the license fee is probable; and if applicable, when vendor-specific objective evidence exists to allocate the total license fee to elements of multiple-element arrangements, including post-contract customer support. When contracts contain multiple elements wherein vendor-specific objective evidence exists for all undelivered elements, the Company recognizes revenue for the delivered elements and defers revenue for the undelivered elements until the remaining obligations have been satisfied. If vandor-specific objective evidence does not exist for all undelivered elements, revenue for the delivered and undelivered elements is deferred until remaining obligations have been satisfied, or if the only undelivered element is post-contract customer support, revenue is recognized ratably over the support period. Significant judgments and estimates are made in connection with the recognition of software license revenue, including assessments of collectibility and the fair value of deliverable elements. The amount or timing of the Company's software license revenue may differ as a result of changes in these judgments or estimates.

Unearned revenue consists primarily of fees related to software products and other intellectual property for which delivery is not yet complete and to hardware products sales contracted with a continuing service obligation. Unearned revenue attributable to hardware product sales with a continuing service obligation is recognized ratably over the shorter of the estimated useful life of the hardware product or the expected service period, which is typically five years.

2.282

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

(In millions)	2002	2001
Total current liabilities	$ 980.8	$ 859.5
Postretirement and postemployment benefits other than pensions	128.1	138.7
Unearned revenues	134.8	54.1
Long-term debt	818.0	9.8
Other noncurrent liabilities	169.1	159.0
Total liabilities	$2,230.8	$1,221.1

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars in millions)

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

Revenues

Sales of products by North America Books and Home Entertainment and by U.S. Magazines are recorded as revenues when title passes, at the time of shipment, net of provisions for estimated returns and bad debts. Sales of our magazine subscriptions, less estimated cancellations, are deferred and recognized proportionately as revenues over the subscription period. Sales of magazine advertising, net of discounts and advertising agency commissions, are recorded as revenues at the time the advertisements are published. Sales of subscriptions to magazines published by other companies and music by QSP, Inc. are recorded as revenues at the time orders are submitted to the publisher, net of bad debts and remittances to magazine and music publishers.

RESERVES—USE OF THE TERM "RESERVE"

2.283 Prior to being superseded by the APB, the Committee on Terminology of the AICPA issued four terminology bulletins. In Accounting Terminology Bulletin No. 1, *Review and Resume*, 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 2-32 shows that the term *reserve* appears occasionally in the financial statements of the survey companies.

2.284

TABLE 2-32: USE OF TERM "RESERVE"

	Number of Companies			
	2002	**2001**	**2000**	**1999**
To describe deductions from assets for				
Reducing inventories to LIFO cost	23	33	20	33
Inventory obsolescence	19	15	N/C*	N/C*
Doubtful accounts	13	19	18	16
Accumulated depreciation	3	5	3	3
Other—described	9	6	16	19
To describe accruals for				
Estimated expenses relating to property abandonments or discontinued operations	26	25	10	17
Environmental costs	18	16	7	10
Insurance	13	18	12	15
Employee benefits or compensation	3	2	2	3
Other—described	20	16	17	10
Other—not described	7	1	4	1

* N/C = Not compiled. Line item was not included in table for year shown.

TITLE OF STOCKHOLDERS' EQUITY SECTION

2.285 Table 2-33 summarizes the titles used by the survey companies to identify the stockholders' equity section of the balance sheet.

2.286

TABLE 2-33: TITLE OF STOCKHOLDERS' EQUITY SECTION

	2002	**2001**	**2000**	**1999**
Stockholders' equity	299	292	286	284
Shareholders' equity	222	226	229	238
Shareowners' equity	20	21	25	25
Shareholders' investment	9	14	12	12
Common shareholders' equity	6	6	7	7
Common stockholders' equity	5	5	6	8
Term deficit or deficiency in title	30	22	N/C*	N/C*
Other or no title	9	14	35	26
Total Companies	**600**	**600**	**600**	**600**

* N/C = Not compiled. Line item was not included in table for year shown.

CAPITAL STRUCTURES

2.287 Effective for periods ending after December 15, 1997, SFAS No. 129, *Disclosure of Information About Capital Structure,* states the disclosure requirements for the capital structure of an entity.

2.288 Table 2-34 summarizes the capital structures disclosed on the balance sheets of the survey companies.

2.289

TABLE 2-34: CAPITAL STRUCTURES

	2002	2001	2000	1999
Common Stock With:				
No preferred stock	502	507	514	517
One class of preferred stock	81	80	71	72
Two classes of preferred stock	14	10	10	6
Three of more classes of preferred stock	3	3	5	5
Total Companies	**600**	**600**	**600**	**600**
Companies included above with two or more classes of common stock	70	59	66	64

COMMON STOCK

2.290 Table 2-35 summarizes the reporting bases of common stock. As in prior years, the majority of the survey companies show common stock at par value.

2.291

TABLE 2-35: COMMON STOCK

	2002	2001	2000	1999
Par value stock shown at:				
Par value	577	564	561	551
Amount in excess of par	21	29	10	11
Assigned per share amount	1	5	9	5
No par value stock shown at:				
Assigned per share amount	4	7	7	5
No assigned per share amount	57	61	57	67
Issues Outstanding	**660**	**666**	**644**	**639**

PREFERRED STOCK

2.292 Effective for periods ending after December 15, 1997, *SFAS No. 129* states reporting and disclosure requirements for preferred stock.

2.293 Table 2-36 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.

2.294

TABLE 2-36: PREFERRED STOCK

	Number of Companies			
	2002	**2001**	**2000**	**1999**
Par value stock shown at:				
Par value	42	39	45	45
Liquidation or redemption value	13	12	7	10
Assigned per share amount	3	4	5	4
Fair value at issuance date	2	4	3	1
Other	4	5	6	11
No par value stock shown at:				
Liquidation or redemption value	13	9	8	8
Assigned per share amount	8	7	5	6
Fair value at issuance date	1	1	1	—
No assigned per share amount	10	10	15	14
Number of Companies				
Preferred stock outstanding	93	89	88	90
No preferred stock outstanding	507	511	512	510
Total Companies	**600**	**600**	**600**	**600**

Preferred Stock Extended at Par Value

2.295

AGWAY INC. AND CONSOLIDATED SUBSIDIARIES (JUN)

(Thousands of dollars)	2002	2001
Shareholders' equity:		
Preferred stock, less amount held in Treasury	$32,057	$ 37,603
Common stock ($25 par—300,000 shares authorized; 173,404 and 173,323 shares issued, less amount held in Treasury)	2,413	2,445
Accumulated other comprehensive income (loss)	1,195	(61)
Retained earnings	28,437	129,343
Total shareholders' equity	$64,102	$169,330

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Thousands of dollars)

11. Preferred Stock

Values are whole numbers except where noted as (000s).

	Preferred Stock					
	Cumulative					
	6% Series A	8% Series B	8% Series B-1	7% Series C	Honorary Member Series HM	Dollar Amount in 000s
Par value	$ 100	$ 100	$ 100	$ 100	$ 25	
Shares authorized	350,000	250,000	140,000	150,000	80,000	
Shares outstanding:						
Balance June 1999	133,771	234,789	18,010	41,954	2,584	$42,917
Issued (redeemed), net	(10,451)	(2,044)	0	(19,702)	(100)	(3,222)
Balance June 2000	123,320	232,745	18,010	22,252	2,484	$39,695
Issued (redeemed), net	(10,475)	(2,047)	0	(8,371)	(116)	(2,092)
Balance June 2001	112,845	230,698	18,010	13,881	2,368	$37,603
Issued (redeemed), net	(6,573)	(26,687)	(16,897)	(5,272)	(93)	(5,546)
Balance June 2002	106,272	204,011	1,113	8,609	2,275	$32,057

	Preferred Stock				
	Cumulative				
	6% Series A	8% Series B	8% Series B-1	7% Series C	Honorary Member Series HM
Annual dividends per share:					
June 2000	$ 6.00	$ 8.00	$ 8.00	$ 7.00	$ 1.50
June 2001	$ 6.00	$ 8.00	$ 8.00	$ 7.00	$ 1.50
June 2002	$ 6.00	$ 8.00	$ 8.00	$ 7.00	$ 1.50
Shares held in Treasury (purchased at par value):					
June 2000	226,680	17,255	121,990	127,748	1,202
June 2001	237,155	19,302	121,990	136,119	1,331
June 2002	243,728	45,989	138,887	141,391	1,436

There are 10,000 shares of authorized preferred stock undesignated as to series, rate, and other attributes. The Series A preferred stock has priority with respect to the payment of dividends. The Series HM preferred stock may be issued only to former members of Agway and no more than one share of such stock may be issued to any one person. The preferred stock has no pre-emptive or conversion rights.

Agway had historically provided a market by repurchasing, at par, preferred stock as the holders elect to tender the securities for repurchase, subject to Board of Directors' approval. However, we were under no obligation to repurchase preferred stock when presented to us, retained the right to stop or suspend this practice at anytime, and could be required to stop or suspend this practice if the conditions of our primary credit agreement with a syndicated group of lenders were not satisfied. Effective June 14, 2002, we suspended this practice due to the financial condition of the Company at that time, and the uncertainty of the amount and timing of proceeds from our planned divestiture of certain business operations as further described in Notes 2 and 8.

2.296

COX COMMUNICATIONS, INC. (DEC)

(Thousands of dollars)	2002	2001
Shareholders' equity		
Series A preferred stock—liquidation preference of $22.1375 per share, $1 par value; 10,000,000 shares of preferred stock authorized; shares issued and outstanding: 4,836,372	$ 4,836	$ 4,836
Class A common stock, $1 par value; 671,000,000 shares authorized; shares issued: 598,076,894 and 578,493,107; shares outstanding: 592,567,757 and 572,994,707	598,077	578,493
Class C common stock, $1 par value; 62,000,000 shares authorized; shares issued and outstanding: 27,597,792	27,598	27,598
Additional paid-in capital	4,549,029	3,891,157
Retained earnings	4,638,422	4,912,461
Accumulated other comprehensive income	79,465	473,135
Class A common stock in treasury, at cost: 5,509,137 and 5,498,400 shares	(212,337)	(211,889)
Total shareholders' equity	$9,685,090	$9,675,791

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

14 (In Part): Shareholders' Equity

Cox is authorized to issue 10,000,000 shares of convertible preferred stock, 671,000,000 shares of Class A common stock and 62,000,000 shares of Class C common stock.

Convertible Preferred Stock

The holders of Series A convertible preferred stock are entitled to one vote per share on all matters upon which holders of Class A common stock are entitled to vote and pay dividends to the extent declared by Cox's Board of Directors. In addition, any time after October 1, 2028 or upon the occurrence of certain events, as defined, Cox may redeem the Series A convertible preferred stock at the original issue price of $22.14 per share, plus accrued and unpaid dividends. The Series A convertible preferred stock is convertible into registered shares of Class A common stock at the option of the holder, based upon a conversion formula specified in the agreement, only after October 1, 2003, a change in control of Cox or notification of liquidation. Also, these shares may automatically convert upon the occurrence of certain events, including the sale of substantially all of Cox's assets, as defined. Cox issued the Series A convertible preferred stock in October 1998 in conjunction with its acquisition of a cable system located in Las Vegas, Nevada. Cox expects to account for any appreciation realized upon conversion of the Series A convertible preferred stock as contingent purchase price in accordance with APB Opinion No. 16.

Preferred Stock Extended at Liquidating Value

2.297

ALLEN TELECOM INC. (DEC)

(Amounts in thousands)	2001	2002
Redeemable Convertible Preferred Stock, 1,000 shares at redemption value (liquidation preference of $50.00 per share)	$ —	$ 50,000
Stockholders' equity:		
Common stock, par value $1.00; authorized—50,000 shares; issued—2001-32,500; 2002-32,502; outstanding—2001-30,425; 2002-30,554	32,500	32,502
Paid-in capital	203,548	203,292
Retained earnings	69,676	67,322
Accumulated other comprehensive loss	(30,671)	(13,243)
Less: Treasury stock—common shares, at cost, 2001-2,075; 2002-1,948 shares	(15,440)	(14,612)
Unearned compensation	(1,256)	(1,007)
Total stockholders' equity	$258,357	$274,254

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4: Redeemable Convertible Preferred Stock

On March 20, 2002, the Company issued 1,000,000 shares of redeemable Series D 7.75% Convertible Preferred Stock ("Preferred Stock") which has a liquidation preference of $50.00 per share.

Dividends on the Preferred Stock may be paid in cash, common stock, or a combination thereof. Unpaid and/or undeclared dividends do not accumulate, but the number of common shares that the Preferred Stock holders are entitled to receive upon conversion of the Preferred Stock will automatically increase, as specified in the Company's Certificate of Incorporation. In 2002, all dividends were paid in cash.

Each share of Preferred Stock is convertible at the option of the holder at any time into shares of common stock of the Company, par value $1 per share, at an initial conversion rate of $7.70 per share (equivalent to a conversion rate of 6.4935 shares of common stock at a liquidation preference of $50.00), subject to adjustment under certain conditions, including the occurrence of certain change of control transactions. On or after February 20, 2005, the Company may, at its option as discussed below, cause all of the outstanding shares of Preferred Stock to be automatically converted into common stock at the then prevailing conversion ratio. The Company may exercise that conversion right if, for at least 20 trading days within any consecutive 30-day trading period (including the last trading day), the closing price of its common stock equals or exceeds 125% of the then prevailing conversion price of the Preferred Stock.

Subject to legal availability of funds, the shares of Preferred Stock are mandatorily redeemable by the Company for cash at their liquidation preference on or after February 15, 2014 (unless previously converted into common shares of the Company) and are not redeemable by the Company before that date.

The net proceeds from the issuance of $46,791,000, after deducting the underwriters discount and issuance costs, were used to repay a portion of the Company's outstanding

indebtedness under its domestic revolving credit facility. The underwriting discount and expenses of the offering, aggregating $3,209,000, were charged directly to retained earnings.

Preferred Stock Extended at Fair Value at Issuance Date Plus Accretion

2.298

MERISEL, INC. AND SUBSIDIARIES (DEC)

(In thousands, except share data)	2001	2002
Stockholders' equity:		
Convertible preferred stock, $.01 par value; authorized 1,000,000 shares; 150,000 shares issued and outstanding	$ 16,969	$ 18,368
Common stock, $.01 par value; authorized 150,000,000 shares; 8,030,844 shares issued and 7,842,644 shares outstanding at December 31, 2001; 8,026,375 shares issued and 7,619,095 shares outstanding at December 31, 2002		76
Additional paid-in capital	281,343	279,814
Accumulated deficit	(262,669)	(255,559)
Treasury stock	(326)	(840)
Accumulated other comprehensive loss		(109)
Total stockholders' equity	$ 35,395	$ 41,750

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

12. Preferred Stock

In June 2000, an affiliate of Stonington Partners, Inc., which owns approximately 65.6% of the Company's outstanding common stock, purchased 150,000 shares of convertible preferred stock (the "Convertible Preferred") issued by the Company for an aggregate purchase price of $15,000,000. The Convertible Preferred provides for an 8% annual dividend payable in additional shares of Convertible Preferred. Dividends are cumulative and will accrue from the original issue date whether or not declared by the Board of Directors. Cumulative accrued dividends amounted to $677,000, $1,969,000 and $3,368,000 as of December 31, 2000, 2001 and 2002, respectively.

At the option of the holder, the Convertible Preferred is convertible into the Company's common stock at a per share conversion price of $17.50. At the option of the Company, the Convertible Preferred can be converted into Common Stock when the average closing price of the Common Stock for any 20 consecutive trading days is at least $37.50. At the Company's option, on or after June 30, 2003, the Company may redeem outstanding shares of the Convertible Preferred initially at $105 per share and declining to $100 on or after June 30, 2008, plus accrued and unpaid dividends. In the event of a defined change of control, holders of the Convertible Preferred have the right to require the redemption of the Convertible Preferred at $101 per share plus accrued and unpaid dividends.

ADDITIONAL PAID-IN CAPITAL

2.299 Table 2-37 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.

2.300

TABLE 2-37: ADDITIONAL PAID-IN CAPITAL—CAPTION TITLE

	2002	2001	2000	1999
Additional paid-in capital	305	293	281	270
Capital in excess of par or stated value	113	118	123	130
Paid-in capital	57	56	59	56
Additional capital, or other capital	23	28	27	23
Capital surplus	17	17	20	28
Paid-in surplus	—	2	1	—
Other captions	14	13	11	15
	529	**527**	**522**	**522**
No additional paid-in capital account	71	73	78	78
Total Companies	**600**	**600**	**600**	**600**

RETAINED EARNINGS

2.301 Table 2-38 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.

2.302

TABLE 2-38: RETAINED EARNINGS—CAPTION TITLE

	2002	2001	2000	1999
Retained earnings	457	471	482	481
Retained earnings with additional words	4	6	4	5
Earnings with additional words	24	22	27	32
Income with additional words	9	10	10	9
Earned surplus	—	1	2	1
Retained earnings (deficit)	36	31	26	31
Accumulated deficit	68	56	49	41
Other	2	3	—	—
Total Companies	**600**	**600**	**600**	**600**

ACCUMULATED OTHER COMPREHENSIVE INCOME

2.303 SFAS No. 130, *Reporting Comprehensive Income,* requires that a separate caption for accumulated other comprehensive income be presented in the equity section of a balance sheet. Accumulated balances, by component, included in accumulated other comprehensive income must be disclosed either in the equity section of the balance sheet, or in a statement of changes of stockholders' equity, or in notes to the financial statements.

2.304 Table 2-39 summarizes the captions used to describe comprehensive income in the stockholders' equity section of the balance sheet.

2.305 Table 2-40 shows where accumulated component balances are presented.

2.306 Examples showing the disclosure of accumulated balances for other comprehensive income items follow.

2.307

TABLE 2-39: ACCUMULATED OTHER COMPREHENSIVE INCOME—BALANCE SHEET CAPTION

	2002	2001	2000	1999
Accumulated other comprehensive loss	304	262	155	120
Accumulated other comprehensive income (loss)	116	91	120	108
Accumulated other comprehensive income	91	131	144	176
Accumulated other non-owner changes in equity	5	5	3	6
Other captions	10	13	16	16
	526	**502**	**438**	**426**
Accumulated balance by component presented	49	51	67	77
	575	**553**	**505**	**503**
No accumulated other comprehensive income	25	47	95	97
Total Companies	**600**	**600**	**600**	**600**
	Number of Companies			
Accumulated Balances by Component Presented				
Cumulative translation adjustments	35	44	93	N/C*
Minimum pension liability adjustments	31	21	31	N/C*
Unrealized losses/gains on certain investments	25	26	38	N/C*
Changes in fair value of derivatives	19	15	1	N/C*

* N/C = Not compiled. Line item was not included in the table for the year shown.

2.308

TABLE 2-40: ACCUMULATED OTHER COMPREHENSIVE INCOME—PRESENTATION OF COMPONENT BALANCES

	2002	2001	2000	1999
Notes to financial statements	215	186	128	94
Statement of changes in stockholders' equity	191	194	219	334*
Stockholders' equity section of the balance sheet	49	51	60	77
Statement of comprehensive income	7	4	1	1
Component balances not presented	113	118	97	N/C**
	575	**553**	**505**	**506**
No accumulated other comprehensive income	25	47	95	94***
Total Companies	**600**	**600**	**600**	**600**

* As compiled in 1999, this amount includes presentations that combined separate component balances. In 2002, 2001 and 2000, these presentations were compiled as "Component balances not presented."

** N/C = Not compiled. Line item was not included in the table for the year shown.

*** Of the 97 survey companies that did not present accumulated other comprehensive income as a balance sheet caption in 1999 (Table 2-39 above), 3 survey companies did present accumulated other comprehensive income elsewhere in the annual report to stockholders.

Notes to Financial Statements

2.309

APPLE COMPUTER, INC. (SEP)

(In millions)	2002	2001
Shareholders' equity:		
Common stock, no par value: 900,000,000 shares authorized; 358,958,989 and 350,921,661 shares issued and outstanding, respectively	$1,826	$1,693
Acquisition-related deferred stock compensation	(7)	(11)
Retained earnings	2,325	2,260
Accumulated other comprehensive income (loss)	(49)	(22)
Total shareholders' equity	$4,095	$3,920

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Comprehensive Income

Comprehensive income consists of two components, net income and other comprehensive income. Other comprehensive income refers to revenue, expenses, gains and losses that under generally accepted accounting principles are recorded as an element of shareholders' equity but are excluded from net income. The Company's other

comprehensive income is comprised of foreign currency translation adjustments from those subsidiaries not using the U.S. dollar as their functional currency, from unrealized gains and losses on marketable securities categorized as available-for-sale, and from net deferred gains and losses on certain derivative instruments accounted for as cash flow hedges.

Note 7 (In Part): Shareholders' Equity

Comprehensive Income

The following table summarizes the components of accumulated other comprehensive income, net of taxes, (in millions):

	2002	2001	2000
Unrealized gains on available-for-sale securities	$ 13	$ 30	$297
Unrealized gains (losses) on derivative investments	(11)	4	—
Cumulative translation adjustments	(51)	(56)	(53)
Accumulated other comprehensive income (loss)	$(49)	$(22)	$244

The following table summarizes activity in other comprehensive income related to available-for-sale securities, net of taxes (in millions):

	2002	2001	2000
Change in fair value of available-for-sale securities	$(49)	$(183)	$ 427
Less: adjustment for net (gains) losses realized and included in net income	32	(84)	(272)
Change in unrealized gain on available-for-sale securities	$(17)	$(267)	$ 155

The tax effect related to the change in unrealized gain on available-for-sale securities was $10 million, $157 million, $(91) million for fiscal 2002, 2001, and 2000, respectively. The tax effect on the reclassification adjustment for net gains included in net income was $10 million, $35 million and $94 million for fiscal 2002, 2001, and 2000, respectively.

The following table summarizes activity in other comprehensive income related to derivatives, net of taxes, held by the Company (in millions):

	2002	2001
Cumulative effect of adopting SFAS No. 133	$ —	$ 12
Changes in fair value of derivatives	4	45
Less: adjustment for net gains realized and included in net income	(19)	(53)
Change in unrealized gain on derivatives	$(15)	$ 4

The tax effect related to the cumulative effect of adopting SFAS No. 133 was $(5) as of September 29, 2001. The tax effect related to the changes in fair value of derivatives was $(2) million and $(19) million for fiscal 2002 and 2001, respectively. The tax effect related to derivative gains reclassified from OCI was $8 million and $23 million for fiscal 2002 and 2001, respectively.

2.310

MEREDITH CORPORATION AND SUBSIDIARIES (JUN)

(In thousands except share data)	2002	2001
Shareholders' equity:		
Series preferred stock, par value $1 per share Authorized 5,000,000 shares; none issued	$ —	$ —
Common stock, par value $1 per share Authorized 80,000,000 shares; issued and outstanding—39,256,126 shares in 2002 (excluding 28,553,908 shares held in treasury) and 39,247,701 shares in 2001 (excluding 27,823,898 held in treasury)	39,256	39,248
Class B stock, par value $1 per share, convertible to common stock Authorized 15,000,000 shares; issued and outstanding—10,319,765 in 2002 and 10,544,174 in 2001	10,320	10,544
Retained earnings	462,057	402,393
Accumulated other comprehensive loss	(2,310)	(1,967)
Unearned compensation	(1,606)	(2,310)
Total shareholders' equity	$507,717	$447,908

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

13. Other Comprehensive Income

Comprehensive income is defined as the change in equity during a period from transactions and other events and circumstances from nonowner sources. Comprehensive income includes net earnings as well as items of other comprehensive income.

The following table summarizes the items of other comprehensive income (loss) and the accumulated other comprehensive income (loss) balances:

(In thousands)	Foreign Currency Translation Adjustments	Minimum Pension Liability Adjustments	Interest Rate Swaps	Accumulated Other Comprehensive Loss
Balance at June 30, 1999	$(380)	$(245)	$ —	$ (625)
Current-year adjustments, pre-tax	(427)	175	—	(252)
Tax benefit (expense)	170	(69)	—	101
Other comprehensive (loss) income	(257)	106	—	(151)
Balance at June 30, 2000	$(637)	$(139)	$ —	$ (776)
Current-year adjustments, pre-tax	(166)	14	(5,849)	(6,001)
Tax benefit (expense)	55	(9)	2,281	2,327
Other comprehensive (loss) income	(111)	5	(3,568)	(3,674)
Cumulative effect of change in accounting principle (net of taxes)	—	—	2,483	2,483
Balance at June 30, 2001	$(748)	$(134)	$(1,085)	$(1,967)
Current-year adjustments, pre-tax	23	(354)	(231)	(562)
Tax benefit (expense)	(9)	138	90	219
Other comprehensive (loss) income	14	(216)	(141)	(343)
Balance at June 30, 2002	$(734)	$(350)	$(1,226)	$(2,310)

Statement of Changes in Stockholders' Equity

2.311

RYDER SYSTEM, INC. AND SUBSIDIARIES (DEC)

Consolidated Statements of Shareholders' Equity

					Accumulated Other Comprehensive Loss			
(Dollars in thousands, except share amounts)	Preferred Stock	Common Stock	Retained Earnings	Deferred Compensation	Currency Translation Adjustments	Minimum Pension Liability	Unrealized Loss	Total
Balance at January 1,2000	$—	$513,083	$714,544	$ —	$(22,722)	$ —	$ —	$1,204,905
Components of comprehensive income:								
Net earnings	—	—	89,032	—	—	—	—	89,032
Foreign currency translation adjustments	—	—	—	—	(12,986)	—	—	(12,986)
Total comprehensive income								76,046
Common stock dividends declared—$0.60 per share	—	—	(35,774)	—	—	—	—	(35,774)
Common stock issued under employee stock option and stock purchase plans (649,528 shares)	—	10,957	—	(4,315)	—	—	—	6,642
Tax benefit from employee stock options	—	392	—	—	—	—	—	392
Amortization of restricted stock	—	—	—	497	—	—	—	497
Balance at December 31, 2000	$—	$524,432	$767,802	$(3,818)	$(35,708)	$ —	$ —	$1,252,708

(continued)

(Dollars in thousands, except share amounts)	Preferred Stock	Common Stock	Retained Earnings	Deferred Compensation	Accumulated Other Comprehensive Loss: Currency Translation Adjustments	Minimum Pension Liability	Unrealized Loss	Total
Balance at December 31, 2000	$ —	$524,432	$767,802	$(3,818)	$(35,708)	$ —	$ —	$1,252,708
Components of comprehensive income:								
Net earnings	—	—	18,678	—	—	—	—	18,678
Foreign currency translation adjustments	—	—	—	—	(14,862)	—	—	(14,862)
Additional minimum pension liability adjustment, net of tax	—	—	—	—	—	(1,245)	—	(1,245)
Total comprehensive income								2,571
Common stock dividends declared—$0.60 per share	—	—	(36,248)	—	—	—	—	(36,248)
Common stock issued under employee stock option and stock purchase plans (779,919 shares)	—	12,444	—	(2,825)	—	—	—	9,619
Tax benefit from employee stock options	—	680	—	—	—	—	—	680
Amortization of restricted stock	—	—	—	1,339	—	—	—	1,339
Balance at December 31, 2001	$ —	$537,556	$750,232	$(5,304)	$(50,570)	$ (1,245)	$ —	$1,230,669
Components of comprehensive loss:								
Net earnings	—	—	93,666	—	—	—	—	93,666
Foreign currency translation adjustments	—	—	—	—	9,255	—	—	9,255
Additional minimum pension liability adjustment, net of tax	—	—	—	—	—	(227,573)	—	(227,573)
Unrealized loss related to derivatives accounted for as hedges	—	—	—	—	—	—	(493)	(493)
Total comprehensive loss								(125,145)
Common stock dividends declared—$0.60 per share	—	—	(37,137)	—	—	—	—	(37,137)
Common stock issued under employee stock option and stock purchase plans (1,667,127 shares)	—	34,675	—	497	—	—	—	35,172
Tax benefit from employee stock options	—	3,272	—	—	—	—	—	3,272
Amortization of restricted stock	—	—	—	1,384	—	—	—	1,384
Balance at December 31, 2002	$ —	$575,503	$806,761	$(3,423)	$(41,315)	$(228,818)	$(493)	$1,108,215

2.312

UNITED STATES STEEL CORPORATION (DEC)

Statement of Stockholders' Equity

	Dollars in Millions			Shares in Thousands		
(In millions, except share data)	2002	2001	2000	2002	2001	2000
Common stock:						
Balance at beginning of year	$ 89	$ —	$ —	89,198	—	—
Common stock issued:						
Public offering	11	—	—	10,925	—	—
Employee stock plans	1	—	—	1,397	—	—
Dividend reinvestment plan	1	—	—	965	—	—
Separation	—	89	—	—	89,198	—
Balance at end of year	$ 102	$ 89	$ —	102,485	89,198	—

(continued)

	Dollars in Millions			Shares in Thousands		
(In millions, except share data)	2002	2001	2000	2002	2001	2000
Additional paid-in capital:						
Balance at beginning of year	$2,475	$ —	$ —			
Common stock issued	214	—	—			
Common stock issued in Separation	—	2,475	—			
Balance at end of year	$2,689	$ 2,475	$ —			
				Comprehensive Income		
				2002	2001	2000
Retained earnings:						
Balance at beginning of year	$ —	$ —	$ —			
Net income	61	—	—	$ 61		
Dividends on common stock (per share $.20)	(19)	—	—			
Balance at end of year	$ 42	$ —	$ —			
Marathon net investment:						
Balance at beginning of year	$ —	$ 1,952	$2,076			
Net loss	—	(218)	(21)		$(218)	$(21)
Repurchase of 6.50% preferred stock	—	—	(12)			
Common stock issued	—	8	6			
Dividends on preferred stock	—	(8)	(8)			
Dividends on common stock (per share $.55 in 2001 and $1.00 in 2000)	—	(49)	(89)			
Excess redemption value over carrying value of preferred securities	—	(14)	—			
Preferred stock retained by Marathon in Separation	—	(120)	—			
Capital contributions by Marathon	—	1,013	—			
Transfer to common stockholders' equity at Separation	—	(2,564)	—			
Balance at end of year	$ —	$ —	$1,952			
Deferred compensation:						
Balance at beginning of year	$ (9)	$ (3)	$ —			
Changes during year, net of taxes	6	(6)	(3)			
Balance at end of year	$ (3)	$ (9)	$ (3)			
Accumulated other comprehensive loss:						
Minimum pension liability adjustments:						
Balance at beginning of year	$ (20)	$ (4)	$ (7)			
Changes during year, net of taxes[(a)]	(756)	(16)	3	(756)	(16)	3
Balance at end of year	(776)	(20)	(4)			
Foreign currency translation adjustments:						
Balance at beginning of year	$ (29)	$ (26)	$ (13)			
Changes during year, net of taxes[(a)]	2	(3)	(13)	2	(3)	(13)
Balance at end of year	(27)	(29)	(26)			
Total balances at end of year	$ (803)	$ (49)	$ (30)			
Total comprehensive loss				$ (693)	$(237)	$(31)
Total stockholders' equity	$2,027	$ 2,506	$1,919			

[(a)] Related income tax (provision) benefit:			
Minimum pension liability adjustments	$ 475	$ 9	$ (1)
Foreign currency translation adjustments	—	—	(5)

Equity Section of Balance Sheet

2.313

BRUNSWICK CORPORATION (DEC)

(Dollars in millions, except per share data)	2002	2001
Common shareholders' equity		
Common stock; authorized: 200,000,000 shares, $0.75 par value; issued: 102,538,000 shares	$ 76.9	$ 76.9
Additional paid-in capital	308.9	316.2
Retained earnings	1,112.7	1,079.4
Treasury stock, at cost: 12,377,000 and 14,739,000 shares	(228.7)	(289.8)
Unamortized ESOP expense and other	(22.2)	(27.1)
Accumulated other comprehensive loss:		
Foreign currency translation	(9.9)	(20.0)
Minimum pension liability	(136.5)	(20.8)
Unrealized investment gains (losses)	2.7	(1.7)
Unrealized losses on derivatives	(2.1)	(2.2)
Total accumulated other comprehensive loss	(145.8)	(44.7)
Common shareholders' equity	$1,101.8	$1,110.9

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Significant Accounting Policies

Comprehensive Income

Accumulated other comprehensive income includes minimum pension liability adjustments, currency translation adjustments, and unrealized derivative and investment gains and losses. The net effect of these items reduced Shareholders' equity on a cumulative basis by $145.8 million in 2002 and $44.7 million in 2001. The $101.1 million change from 2001 to 2002 is primarily due to the Company recording a minimum pension liability adjustment of $115.7 million in 2002. The tax effect included in accumulated other comprehensive income was $93.0 million, $28.6 million, and $14.3 million for the years ended December 31, 2002, 2001 and 2000, respectively. Refer to Note 13, Pension and Other Postretirement Benefits, for further discussion on the recognition of the additional minimum pension liability adjustment.

2.314

GENERAL MOTORS CORPORATION AND SUBSIDIARIES (DEC)

(Dollars in millions)	2002	2001
Stockholders' equity (Note 17)		
$1 2/3 par value common stock (outstanding, 560,447,797 and 558,439,976 shares)	$ 936	$ 932
Class H common stock (outstanding, 958,284,272 and 877,386,595 shares)	96	88
Capital surplus (principally additional paid-in capital)	21,583	21,519
Retained earnings	10,031	9,463
Subtotal	32,646	32,002
Accumulated foreign currency translation adjustments	(2,784)	(2,919)
Net unrealized losses on derivatives	(205)	(307)
Net unrealized gains on securities	372	512
Minimum pension liability adjustment	(23,215)	(9,581)
Accumulated other comprehensive loss	(25,832)	(12,295)
Total stockholders' equity	$ 6,814	$ 19,707

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 17 (In Part): Stockholders' Equity

Other Comprehensive Income

The changes in the components of other comprehensive income (loss) are reported net of income taxes, as follows (dollars in millions):

	2002			2001			2000		
	Pre-Tax Amount	Tax Exp. (Credit)	Net Amount	Pre-Tax Amount	Tax Exp. (Credit)	Net Amount	Pre-Tax Amount	Tax Exp. (Credit)	Net Amount
Foreign currency translation adjustments	$ 117	$ (18)	$ 135	$ (565)	$ (148)	$ (417)	$ (741)	$(272)	$(469)
Unrealized (loss) gain on securities:									
Unrealized holding (loss) gain	(664)	(232)	(432)	(41)	(26)	(15)	(481)	(179)	(302)
Reclassification adjustment	448	156	292	(81)	(27)	(54)	(175)	(62)	(113)
Net unrealized (loss) gain	(216)	(76)	(140)	(122)	(53)	(69)	(656)	(241)	(415)
Minimum pension liability adjustment	(21,771)	(8,137)	(13,634)	(15,320)	(5,784)	(9,536)	118	42	76
Net unrealized gain (loss) on derivatives	151	49	102	(387)	(80)	(307)	—	—	—
Other comprehensive (loss) income	$(21,719)	$(8,182)	$(13,537)	$(16,394)	$(6,065)	$(10,329)	$(1,279)	$(471)	$(808)

TREASURY STOCK

2.315 APB Opinion No. 6, *Status of Accounting Research Bulletins,* discusses the balance sheet presentation of treasury stock. As shown in Table 2-41, the prevalent balance sheet presentation of treasury stock is to show the cost of treasury stock as a reduction of stockholders' equity.

2.316 Examples of treasury stock presentations follow.

2.317

TABLE 2-41: TREASURY STOCK—BALANCE SHEET PRESENTATION

	2002	2001	2000	1999
Common Stock				
Cost of treasury stock shown as stockholders' equity deduction	365	362	372	370
Par or stated value of treasury stock deducted from issued stock of the same class	16	19	23	13
Cost of treasury stock deducted from stock of the same class	14	10	12	14
Other	1	6	3	4
Total Presentations	**396**	**397**	**410**	**401**
Preferred Stock				
Par or stated value of treasury stock deducted from issued stock of the same class	2	1	1	3
Cost of treasury stock shown as stockholders' equity deduction	1	2	3	2
Other	2	2	2	3
Total Presentations	**5**	**5**	**6**	**8**
Number of Companies				
Disclosing treasury stock	397	396	410	400
Not disclosing treasury stock	203	204	190	200
Total Companies	**600**	**600**	**600**	**600**

Cost of Treasury Stock Shown as Reduction of Stockholders' Equity

2.318

FIRST DATA CORPORATION (DEC)

(In millions)	2002	2001
Stockholders' equity:		
Common stock, $.01 par value; authorized 2,000.0 shares, issued 897.9 shares (2002 and 2001)	$ 9.0	$ 9.0
Additional paid-in capital	2,525.4	2,411.1
Paid-in capital	2,534.4	2,420.1
Retained earnings	5,362.6	4,365.2
Accumulated other comprehensive income	(197.6)	(143.3)
Less treasury stock at cost, 145.1 (2002) and 136.8 shares (2001)	(3,543.1)	(3,122.1)
Total stockholders' equity	$ 4,156.3	$ 3,519.9

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Treasury Stock

The Company records treasury stock purchases under the cost method whereby the entire cost of the acquired stock is recorded as treasury stock. The FIFO method is used on the subsequent reissuance of shares and any resulting gains or losses are credited or charged to retained earnings.

Note 13 (In Part): Stockholders' Equity

Other Stockholders' Equity Transactions (In Part)

The following table presents stock repurchase programs authorized by the Board of Directors from 1999 through 2002, disclosing total shares purchased under each program and the associated cost:

	2002		2001		2000	
(In millions)	Shares	Cost	Shares	Cost	Shares	Cost
$750 million, authorized July 1999	—	—	—	—	12.1	$ 265.1
$1 billion, authorized May 2000	—	—	5.9	$163.5	36.2	836.5
$500 million, authorized December 2000	—	—	16.8	500.0	—	—
$700 million, authorized September 2001	14.1	$512.8	6.1	187.2	—	—
$500 million, authorized May 2002	1.1	38.3	—	—	—	—
	15.2	$551.1	28.8	$850.7	48.3	$1,101.6

Additionally, the Company purchased $298.0 million, $467.8 million and $408.2 million of treasury stock in 2002, 2001 and 2000, respectively, for issuance upon the exercise of stock options and share issuances under the Company's employee stock purchase program.

2.319

INTERGRAPH CORPORATION AND SUBSIDIARIES (DEC)

(In thousands, except share and per share amounts)	2002	2001
Shareholders' equity		
Common stock, par value $.10 per share—100,000,000 shares authorized; 57,361,362 shares issued	$ 5,736	$ 5,736
Additional paid-in capital	206,888	210,748
Retained earnings	586,020	208,268
Accumulated other comprehensive loss	(659)	(20,603)
	797,985	404,149
Less—cost of treasury shares (11,198,767 at December 31, 2002, and 7,539,419 at December 31, 2001)	(176,275)	(108,936)
Total shareholders' equity	$ 621,710	$ 295,213

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (In Part): Significant Accounting Policies

Treasury Stock

Treasury stock is accounted for by the cost method. Treasury stock activity for the three-year period ended December 31, 2002, (consisting of stock option exercises, purchases of stock by employees under the Company's stock purchase plan, and the purchase of shares for the treasury) is presented in the consolidated statements of shareholders' equity.

During 2002, the Company's Board of Directors (the "Board") increased the funding for the existing stock repurchase plan from $30 million to $175 million. The plan may be suspended at any time and terminates on December 31, 2004. During 2002, the Company purchased approximately 4.7 million shares of its outstanding common stock. During 2001, the Company purchased approximately 195,000 shares. Total expenditures during 2002 and 2001 under this plan were approximately $83.6 million and $1.9 million, respectively.

Par Value of Treasury Stock Deducted From Issued Stock

2.320

THE TORO COMPANY (OCT)

(Dollars in thousands, except per share data)	2002	2001
Stockholders' equity:		
Preferred stock, par value $1.00, authorized 1,000,000 voting and 850,000 non-voting shares, none issued and outstanding	$ —	$ —
Common stock, par value $1.00, authorized 35,000,000 shares, issued and outstanding 12,171,237 shares as of October 31, 2002 (net of 1,336,818 treasury shares) and 12,266,045 shares as of October 31, 2001 (net of 1,242,010 treasury shares)	12,171	12,266
Additional paid-in capital	23,364	29,048
Retained earnings	342,358	313,067
Accumulated comprehensive loss	(12,603)	(12,988)
Total stockholders' equity	$365,290	$341,393

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8 (In Part): Stockholders' Equity

Stock Repurchase Program

The company's Board of Directors has authorized the cumulative repurchase of up to 1,000,000 shares of the company's common stock. During fiscal 2002, Toro paid $24,155,000 to repurchase 450,320 shares. As of October 31, 2002, 449,146 shares remained authorized for repurchase.

OTHER ACCOUNTS SHOWN IN STOCKHOLDERS' EQUITY SECTION

2.321 Many of the survey companies present accounts other than Capital Stock, Additional Paid-In Capital, Retained Earnings, Accumulated Other Comprehensive Income, 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, guarantees of ESOP debt, unearned or deferred compensation related to employee stock award plans, and amounts owed to a company by employees for loans to buy company stock.

2.322 Table 2-42 shows the number of survey company balance sheets presenting other stockholders' equity accounts. Cumulative translation adjustments, unrealized losses/gains on certain investments, and a minimum pension liability adjustments are all *other comprehensive income* items which are included in Table 2-39 under "Accumulated Balances by Component Presented."

2.323 233 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.

2.324 Examples showing the presentation of other stockholders' equity accounts follow.

2.325

TABLE 2-42: OTHER STOCKHOLDERS' EQUITY ACCOUNTS

	Number of Companies			
	2002	**2001**	**2000**	**1999**
Unearned compensation.......	169	151	145	116
Guarantees of ESOP debt.....	32	32	37	41
Receivables from sale of stock..................................	25	25	22	10
Employee benefit trusts.........	20	20	25	23
Warrants................................	17	20	19	N/C*

* N/C = Not compiled. Line item was not included in table for year shown.

Unearned Compensation Relating to Stock Award Plans

2.326

COLGATE-PALMOLIVE COMPANY (DEC)

(Dollars in millions except per share amounts)	2002	2001
Shareholders' equity		
Preferred stock	$ 323.0	$ 341.3
Common stock, $1 par value (1,000,000,000 shares authorized, 732,853,180 shares issued)	732.9	732.9
Additional paid-in capital	1,133.9	1,168.7
Retained earnings	6,518.5	5,643.6
Accumulated other comprehensive income	(1,865.6)	(1,491.2)
	6,842.7	6,395.3
Unearned compensation	(340.1)	(345.4)
Treasury stock, at cost	(6,152.3)	(5,203.5)
Total shareholders' equity	$ 350.3	$ 846.4

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars in millions)

2 (In Part): Summary of Significant Accounting Policies

Stock-Based Compensation

Stock-based compensation plans, more fully described in Note 8, are accounted for under the provisions of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations. The value of restricted stock awards, based on market prices, is amortized over the restriction period. No compensation expense has been recognized for stock option grants as all such grants had an exercise price not less than fair market value on the date of grant. The following illustrates the effect on net income and earnings per share if the Company had applied the fair value method of SFAS No. 123, "Accounting for Stock-Based Compensation":

	2002	2001	2000
Net income, as reported	$1,288.3	$1,146.6	$1,063.8
Deduct: pro forma stock option compensation expense, net of tax	39.5	44.9	57.7
Pro forma net income	$1,248.8	$1,101.7	$1,006.1
Earnings per share:			
Basic—as reported	$ 2.33	$ 2.02	$ 1.81
Basic—pro forma	2.26	1.94	1.71
Diluted—as reported	2.19	1.89	1.70
Diluted—pro forma	2.12	1.81	1.60

Pro forma stock option compensation expense above is the estimated fair value of options granted amortized over the vesting period. The weighted average estimated fair value of stock options granted in 2002, 2001 and 2000 was $9.50, $9.37 and $10.95, respectively. Fair value is estimated using the Black-Scholes option pricing model with the following assumptions: option term until exercise ranging from 2 to 8 years, volatility ranging from 21% to 41%, risk-free interest rate ranging from 1.7% to 6.2% and an expected dividend yield ranging from 2.0% to 2.5%. Options issued under the reload feature, as described in Note 8, are treated as newly issued options in the model.

8 (In Part): Capital Stock and Stock Compensation Plans

Incentive Stock Plan

The Company has a plan that provides for grants of restricted stock awards for officers and other executives of the Company and its major subsidiaries. A committee of independent members of the Board of Directors administers the plan. The awarded shares are made in common stock and vest at the end of the restriction period, generally between three and five years. During 2002 and 2001, 549,000 and 511,000 shares, respectively, were awarded to employees in accordance with the provisions of the plan. The Company recognized compensation expense for the plan of $29.5, $26.6 and $23.6 for the years ended December 31, 2002, 2001 and 2000, respectively. As of December 31, 2002, there were 2,252,000 restricted shares awarded but not vested.

2.327

COLLINS INDUSTRIES, INC. AND SUBSIDIARIES (OCT)

	2002	2001
Shareholders' investment:		
Preferred stock, $.10 par value		
Authorized—750,000 shares		
Outstanding—No shares outstanding		
Capital stock, $.10 par value		
Authorized—3,000,000 shares		
Outstanding—No shares outstanding		
Common stock, $.10 par value		
Authorized—17,000,000 shares		
Issued and outstanding—7,115,629 shares in 2002 and 7,291,755 shares in 2001	$ 711,563	$ 729,175
Paid-in capital	17,110,446	17,612,508
Deferred compensation	(1,267,992)	(945,981)
Accumulated other comprehensive income (loss), net	(244,918)	—
Retained earnings	11,226,943	10,334,668
Total shareholders' investment	$ 27,536,042	$ 27,730,370

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5 (In Part): Capital Stock

Stock-Based Compensation Plans (In Part)

The Company has two shareholder-approved stock plans, the 1997 Omnibus Incentive Plan (the "1997 Plan") and 1995 Stock Option Plan (the "1995 Plan"). Under the 1997 Plan, directors, officers and key employees may be granted stock options, restricted stock and other stock-based awards. A total of 2,000,000 shares may be granted under the 1997 Plan.

In fiscal 2002, the Company issued 202,500 shares of common stock under the 1997 Plan in the form of restricted stock awards. These shares were issued as an incentive to retain key employees, officers and directors and will vest in fiscal 2005. In fiscal 2001, the Company issued 142,000 shares of common stock in the form of restricted stock awards. These shares will vest in fiscal 2004. In fiscal 2000, the Company issued 119,000 shares of common stock in the form of restricted stock awards. Of these shares, 2,000 vested in fiscal 2002 and 117,000 will vest in fiscal 2003. Upon issuance of restricted stock, unearned compensation, equivalent to the excess of the market price of the shares awarded over the price paid by the recipient at the date of grant, is charged to equity and amortized against income over the related vesting period. At October 31, 2002, options for 737,500 shares were outstanding under the 1997 Plan. Under the 1995 Plan, a total of 1,000,000 shares of the Company's common stock were available for grant to officers, directors and key employees. As of October 31, 2002, all of these shares had been granted and options for 112,300 shares were outstanding under the 1995 Plan.

Guarantees of ESOP Debt

2.328

CVS CORPORATION (DEC)

(In millions, except shares and per share amounts)	2002	2001
Total current liabilities	$3,105.9	$3,065.1
Long-term debt	1,076.3	810.4
Other long-term liabilities	266.1	193.9
Commitments and contingencies		
Shareholders' equity:		
Preferred stock, $0.01 par value: authorized 120,619 shares; no shares issued or outstanding	—	—
Preference stock, series one ESOP convertible, par value $1.00: authorized 50,000,000 shares; issued and outstanding 4,685,000 shares at December 28, 2002 and 4,887,000 shares at December 29, 2001	250.4	261.2
Common stock, par value $0.01: authorized 1,000,000,000 shares; issued 409,286,000 shares at December 28, 2002 and 408,532,000 shares at December 29, 2001	4.1	4.1
Treasury stock, at cost: 16,215,000 shares at December 28, 2002 and 17,645,000 shares at December 29, 2001	(469.5)	(510.8)
Guaranteed ESOP obligation	(194.4)	(219.9)
Capital surplus	1,546.6	1,539.6
Retained earnings	4,104.4	3,492.7
Accumulated other comprehensive loss	(44.6)	—
Total shareholders' equity	$5,197.0	$4,566.9

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3 (In Part): Borrowing and Credit Agreements

Following is a summary of the Company's borrowings as of the respective balance sheet dates:

(In millions)	2002	2001
Commercial paper	$ 4.8	$ 235.8
5.5% senior notes due 2004	300.0	300.0
5.625% senior notes due 2006	300.0	300.0
3.875% senior notes due 2007	300.0	—
8.52% ESOP notes due 2008[1]	194.4	219.9
Mortgage notes payable	13.0	15.9
Capital lease obligations	0.9	1.0
	1,113.1	1,072.6
Less:		
Short-term debt	(4.8)	(235.8)
Current portion of long-term debt	(32.0)	(26.4)
	$1,076.3	$ 810.4

[1] See Note 5 for further information about the Company's ESOP Plan.

5. Employee Stock Ownership Plan

The Company sponsors a defined contribution Employee Stock Ownership Plan (the "ESOP") that covers full-time employees with at least one year of service.

In 1989, the ESOP Trust issued and sold $357.5 million of 20-year, 8.52% notes due December 31, 2008 (the "ESOP Notes"). The proceeds from the ESOP Notes were used to purchase 6.7 million shares of Series One ESOP Convertible Preference Stock (the "ESOP Preference Stock") from the Company. Since the ESOP Notes are guaranteed by the Company, the outstanding balance is reflected as long-term debt and a corresponding guaranteed ESOP obligation is reflected in shareholders' equity in the accompanying consolidated balance sheets.

Each share of ESOP Preference Stock has a guaranteed minimum liquidation value of $53.45, is convertible into 2.314 shares of common stock and is entitled to receive an annual dividend of $3.90 per share. The ESOP Trust uses the dividends received and contributions from the Company to repay the ESOP Notes. As the ESOP Notes are repaid, ESOP Preference Stock is allocated to participants based on: (i) the ratio of each year's debt service payment to total current and future debt service payments multiplied by (ii) the number of unallocated shares of ESOP Preference Stock in the plan. As of December 28, 2002, 4.7 million shares of ESOP Preference Stock were outstanding, of which 2.5 million shares were allocated to participants and the remaining 2.2 million shares were held in the ESOP Trust for future allocations.

Annual ESOP expense recognized is equal to (i) the interest incurred on the ESOP Notes plus (ii) the higher of (a) the principal repayments or (b) the cost of the shares allocated, less (iii) the dividends paid. Similarly, the guaranteed ESOP obligation is reduced by the higher of (i) the principal payments or (ii) the cost of shares allocated.

Following is a summary of the ESOP activity for the respective years:

(In millions)	2002	2001	2000
ESOP expense recognized	$26.0	$22.1	$18.8
Dividends paid	18.3	19.1	19.5
Cash contributions	26.0	22.1	18.8
Interest payments	18.7	20.5	21.9
ESOP shares allocated	0.4	0.4	0.3

Receivables From Sale of Stock

2.329

UNOCAL CORPORATION (DEC)

(Millions of dollars)	2002	2001
Common stock ($1 par value, shares authorized: 750,000,000 [a])	$ 269	$ 255
Capital in excess of par value	962	551
Unearned portion of restricted stock issued	(20)	(29)
Retained earnings	3,021	2,888
Accumulated other comprehensive income (loss)	(486)	(88)
Notes receivable—key employees	(37)	(42)
Treasury stock—at cost[b]	(411)	(411)
Total stockholders' equity	$3,298	$3,124

[a] Number of shares outstanding	257,980,454	243,998,088
[b] Number of shares held	10,622,784	10,622,784

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 25—Loans to Certain Officers and Key Employees

In March 2000, the Company entered into loan agreements with ten of its officers pursuant to the Company's 2000 Executive Stock Purchase Program (the "Program"). The Program was approved by the Board of Directors of the Company and by the Company's stockholders at the Annual Stockholders meeting in May 2000. The loans were granted to the officers to enable them to purchase shares of Company stock in the open market. The loans, which except under certain limited circumstances are full recourse to the officers, mature on March 16, 2008, and bear interest at the rate of 6.8 percent per annum. The balance of the loans under this Program, including accrued interest, totaled $35 million, both at December 31, 2002 and December 31, 2001, and was reflected as a reduction to stockholders' equity on the consolidated balance sheet. During 2002, accrued interest of $2 million was offset by payments from the officers of $1 million in principal and $1 million in interest.

The Company's Pure subsidiary also had a loan program for certain of its officers and key employees. At December 31, 2002, loans under this program totaled $2 million and were also reflected as a reduction to stockholders' equity on the consolidated balance sheet. At December 31, 2001, loans under this program totaled $7 million. This decrease of $5 million primarily reflects loan repayments by certain former officers and key employees of Pure that departed after Unocal purchased the minority interests share remaining in Pure. Most of the remaining $2 million balance will be repaid in early 2003.

Employee Benefit Trust

2.330

KB HOME (NOV)

(In thousands, except shares)	2002	2001
Stockholders' equity:		
Preferred stock—$1.00 par value; authorized, 10,000,000 shares: none outstanding		
Common stock—$1.00 par value; authorized, 100,000,000 shares; 53,422,339 and 51,825,270 shares outstanding at November 30, 2002 and 2001, respectively	$ 53,422	$ 51,825
Paid-in capital	508,448	458,089
Retained earnings	1,103,387	801,408
Accumulated other comprehensive income	8,895	(3,084)
Deferred compensation	(8,978)	(10,444)
Grantor stock ownership trust, at cost: 7,900,140 shares and 8,142,831 shares at November 30, 2002 and 2001, respectively	(171,702)	(176,976)
Treasury stock, at cost: 5,448,100 and 1,448,100 shares at November 30, 2002 and 2001, respectively	(219,121)	(28,337)
Total stockholders' equity	$1,274,351	$1,092,481

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 12 (In Part): Employee Benefit and Stock Plans

In connection with a share repurchase program, on August 27, 1999, the Company established a grantor stock ownership trust (the "Trust") into which certain shares repurchased in 2000 and 1999 were transferred. The Trust, administered by an independent trustee, holds and distributes the shares of common stock acquired for the purpose of funding certain employee compensation and employee benefit obligations of the Company under its existing stock option, 401(k) and other employee benefit plans. The existence of the Trust has no impact on the amount of benefits or compensation that is paid under these plans.

For financial reporting purposes, the Trust is consolidated with the Company. Any dividend transactions between the Company and the Trust are eliminated. Acquired shares held by the Trust remain valued at the market price at the date of purchase and are shown as a reduction to stockholders' equity in the consolidated balance sheet. The difference between the Trust share value and the fair market value on the date shares are released from the Trust, for the benefit of employees, is included in additional paid-in capital. Common stock held in the Trust is not considered outstanding in the computation of earnings per share. The Trust held 7,900,140, 8,142,831 and 8,782,252 shares of common stock at November 30, 2002, 2001 and 2000, respectively. The trustee votes shares held by the Trust in accordance with voting directions from eligible employees, as specified in a trust agreement with the trustee.

Common Stock Warrants

2.331

MERRIMAC INDUSTRIES, INC. (DEC)

	2002	2001
Stockholders' equity:		
Preferred stock, par value $.01 per share: Authorized: 1,000,000 shares No shares issued		
Common stock, par value $.01 per share: Authorized: 20,000,000 shares Issued: 3,201,069 shares in 2002 and 2,859,249 shares in 2001	$ 32,011	$ 28,593
Common stock warrants	837,200	837,200
Additional paid-in capital	17,841,970	14,327,586
Retained earnings	7,395,978	9,531,445
Accumulated other comprehensive loss	(263,193)	(327,066)
	25,843,966	24,397,758
Less treasury stock, at cost—82,100 shares in 2002 and 208,904 shares in 2001	(573,866)	(1,760,131)
Less loan to officer-stockholder	(568,000)	(584,000)
Total stockholders' equity	$24,702,100	$22,053,627

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. Private Placements of Common Stock and Warrants to Purchase Common Stock

On April 7, 2000, the Company entered into a stock purchase and exclusivity agreement with Ericsson Microelectronics, A.B. ("Ericsson") and Ericsson Holding International, B.V. ("EHI") pursuant to which the Company sold to EHI 375,000 shares of Common Stock, representing approximately 17.5% of the Company's outstanding Common Stock after giving effect to the sale, for an aggregate purchase price of $3,375,000. The stock purchase and exclusivity agreement also provides that the Company will design, develop and produce exclusively for Ericsson certain Multi-Mix® products that incorporate active RF power transistors for use in wireless basestation applications, television transmitters and certain other applications that are intended for Bluetooth transceivers. The Company also agreed that it will generally be the priority supplier for such products.

In connection with EHI's purchase of the Company's Common Stock, the Company and EHI also entered into a registration rights agreement which provides EHI with two demand registrations at any time following April 7, 2002.

On October 26, 2000, the Company entered into subscription agreements for common stock and three-year warrants to purchase shares of Common Stock ("Warrants") with a group of investors led by Adam Smith Investment Partners, LP. and certain of its affiliates (the "Adam Smith Investors"), EHI, and three members of the board of directors of the Company (the "Director Investors"). The Company sold to the investors units at a price of $12.80 per unit, each unit consisting of one share of Common Stock and one Warrant with an exercise price of $21.25, which expire on October 26, 2003 ("Units"). The Adam Smith Investors purchased 240,000 Units, EHI purchased 100,000 Units and the Director Investors purchased 20,000 Units for an aggregate purchase price of $4,608,000. The Common Stock portion of the Units represented an aggregate of approximately 14% of the outstanding Common Stock of the Company after giving effect to the sales. The Warrants contain certain anti-dilution provisions.

On October 1, 2002, EHI completed the sale of its microelectronics business (excluding optosemiconductors and power modules, but including the RF power business) to Infineon Technologies AG ("Infineon"). As part of this transaction, EHI transferred to Infineon 475,000 shares of the Company and the right to acquire 119,380 shares of the Company's common stock pursuant to the Warrants, and EHI assigned to Infineon its rights in the following agreements between EHI and the Company: (i) the Stock Purchase and Exclusivity Letter Agreement, dated April 7, 2000, as amended by the letter agreement dated February 1, 2002; (ii) the Registration Rights Agreement, dated April 7, 2000; (iii) the Subscription Agreement, dated as of October 26, 2000; and (iv) the Registration Rights Agreement, dated October 26, 2000 (collectively, the "Agreements"). The Company also agreed to make certain modifications to the Agreements and the Warrants. These changes are reflected in the Modification Agreement, dated as of September 27, 2002, between the Company and Infineon.

The Warrants were valued using the Black-Scholes option valuation model with a resulting allocation of the aggregate proceeds from the Units attributable to the Warrants of $837,200, net of issue costs. The following assumptions were utilized to value the Warrants: price per share of common stock of $15.25; expected life of three years; expected volatility of 40%; a risk free interest rate of 6%; an expected yield of 0.0%; and a liquidity discount of 33%.

In connection with the purchase by EHI and the Adam Smith Investors of the Company's Common Stock and Warrants, the Company, EHI and the Adam Smith Investors also entered into registration rights agreements which provide EHI and the Adam Smith Investors each with two demand registrations at any time following October 26, 2002.

On February 28, 2002, the Company sold to DuPont Electronic Technologies 528,413 shares of Common Stock, representing approximately 16.6% of the Company's outstanding Common Stock after giving effect to the sale, for an aggregate purchase price of $5,284,000. The Company and DuPont Electronic Technologies have also agreed to work together to better understand the dynamics of the markets for high-frequency electronic components and modules. David B. Miller, Vice President and General Manager of DuPont Electronic Technologies, was appointed to the Company's Board of Directors. As a result of this sale, certain contractual anti-dilution provisions affected both the Warrant exercise price and the number of shares subject to the Warrants. As a result of this sale, pursuant to the anti-dilution provisions of the Warrants issued in October 2000, the exercise price of the Warrants was reduced to $17.80 and the number of shares subject to the Warrants was increased to 429,775.

In connection with DuPont's purchase of the Company's Common Stock, the Company and DuPont also entered into a registration rights agreement which provides DuPont with two demand registrations at any time following February 28, 2004 and the right to register shares on Form S-3 up to twice per year at anytime after February 28, 2004.

Stockholder Rights

2.332

INTERSTATE BAKERIES CORPORATION (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

10. Stockholder Rights Plan

In May 2000, the Company's board of directors adopted a stockholder rights plan which provided that a dividend of one preferred stock purchase right was declared for each share of the Company's common stock outstanding and any common shares issued thereafter. The rights are not exercisable until ten business days following either 1) a public announcement that a person or group acquired 15% or more of the Company's common stock (provided such threshold is not exceeded solely as a result of the purchase of stock by the Company and corresponding reduction in the number of shares outstanding) or 2) the announcement of a tender offer which could result in a person or group acquiring 15% or more of the Company's common stock.

Each right, if exercisable, will entitle its holder to purchase one one-thousandth of a share of the Company's Series A Junior Participating Preferred Stock at an exercise price of $80.00, subject to adjustment. If a person or group acquires

15% or more of the Company's outstanding common stock, the holder of each right not owned by the acquiring party will be entitled to purchase shares of the Company's common stock (or in certain cases, preferred stock, cash or other property) having a market value of twice the exercise price of the right. In addition, after a person or group has become an acquiring person, if the Company is acquired in a merger or other business combination or 50% or more of its consolidated assets or earning power are sold, each right will entitle its holder to purchase at the exercise price of the right, a number of the acquiring party's common shares valued at twice the exercise price of the right.

The board of directors may redeem the rights at any time before they become exercisable for $.001 per right and, if not exercised or redeemed, the rights will expire on May 25, 2010.

Section 3: Income Statement

INCOME STATEMENT TITLE

3.01 Table 3-1 summarizes the key words 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.

3.02

TABLE 3-1: INCOME STATEMENT TITLE

	2002	2001	2000	1999
Operations	250	230	198	186
Income	242	259	284	296
Earnings	98	102	108	114
Other	10	9	10	4
Total Companies	**600**	**600**	**600**	**600**

INCOME STATEMENT FORMAT

3.03 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.

3.04 Effective for fiscal years beginning after December 15, 1997, Statement of Financial Accounting Standards (SFAS) No. 130, *Reporting Comprehensive Income,* 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.

3.05 Examples of financial statement reporting comprehensive income and its components are presented in section 4.

3.06 Occasionally the survey companies disclosed reclassifications of income statement amounts. Examples of such reclassifications follow.

3.07

TABLE 3-2: INCOME STATEMENT FORMAT

	2002	2001	2000	1999
Single-Step Form				
Income tax shown as separate last item	156	153	134	166
Income tax listed among operating items	—	—	—	—
Multi-Step Form				
Costs deducted from sales to show gross margin	223	227	225	218
Costs and expenses deducted from sales to show operating income	221	220	241	216
Total Companies	**600**	**600**	**600**	**600**

Reclassification

3.08

HEALTH NET, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Reclassifications (In Part)

Certain amounts in the 2001 and 2000 consolidated financial statements and notes to the consolidated financial statements have been reclassified to conform to the 2002 presentation as a result of changes in our organizational structure. The reclassifications have no effect on total revenues, total expenses, net earnings or stockholders' equity as previously reported.

The reclassifications impact our consolidated statements of operations in the following ways:

- We have redefined our two reportable segments—Health Plan Services and Government Contracts;
- Operations from our specialty companies, including our behavioral health, dental and vision subsidiaries, are now included in Health Plan Services reportable segment;
- Revenues from our employer services group subsidiary are now included in other income. These revenues had previously been included in revenues from our Government Contracts/Specialty Services reportable segment;
- Other income is now reported separately from net investment income;
- Sales incentives and broker commissions are shown as "Selling expenses," which are separated from general and administrative (G&A) expenses; and
- G&A expenses for Government Contracts are included in Government Contract costs.

3.09

VALERO ENERGY CORPORATION AND SUBSIDIARIES (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Reclassifications

Certain previously reported amounts have been reclassified to conform to the 2002 presentation as described in Note 27.

27 (In Part): Reclassifications to 2001 and 2000 Consolidated Financial Statements

Certain amounts in the 2001 and 2000 consolidated financial statements, as set forth in the table below, were reclassified to conform to the 2002 presentation (in millions):

• • • • • •

	2001	Reclassification	As Revised
Income statement			
Cost of sales (Cost of sales and operating expenses in 2001)	$13,684.0	$(938.8)	$12,745.2
Refining operating expenses	—	845.5	845.5
Retail selling expenses	—	5.8	5.8
Administrative expenses (Selling and administrative expenses in 2001)	165.2	(12.5)	152.7
Depreciation and amortization expense (Depreciation expense in 2001)	137.7	100.0	237.7

	2000	Reclassification	As Revised
Income statement			
Cost of sales (Cost of sales and operating expenses in 2000)	$13,817.5	$(740.6)	$13,076.9
Refining operating expenses	—	682.7	682.7
Retail selling expenses	—	2.5	2.5
Administrative expenses (Selling and administrative expenses in 2000)	130.5	(6.4)	124.1
Depreciation and amortization expense (Depreciation expense in 2000)	112.1	61.8	173.9

The income statement reclassifications principally reflect the separate presentation of amounts previously included in cost of sales and operating expenses. Refining operating expenses and retail selling expenses have been separately presented, consistent with Valero's 2002 segment disclosures, and amortization expense has been combined with depreciation expense.

REVENUES AND GAINS

3.10 Paragraphs 78 and 82 of Financial Accounting Standards Board (FASB) Statement of Financial Accounting Concepts (SFAC) No. 6, *Elements of Financial Statements,* 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.

3.11 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).

3.12 Examples of revenues and gains follow.

3.13

TABLE 3-3: REVENUE CAPTION TITLE

	2002	2001	2000	1999
Net Sales				
Net sales	283	293	312	325
Net sales and operating revenues	11	8	13	8
Net sales combined with other items	3	4	—	2
Sales				
Sales	83	86	79	82
Sales and operating revenues	10	8	11	15
Sales and/or services	7	14	16	N/C*
Sales combined with other items	3	4	11	15
Other Captions				
Revenue	198	180	145	140
Shipments, rentals, fees, etc	2	3	13	13
Total Companies	**600**	**600**	**600**	**600**

* N/C = Not compiled. Line item was not included in the table for the year shown.

3.14

TABLE 3-4: GAINS

	Number of Companies			
	2002	2001	2000	1999
Interest	350	339	333	349
Sale of assets	187	182	94	158
Equity in earnings of investees	106	98	94	88
Dividends	66	58	57	62
Liability accrual reduced	63	46	34	27
Foreign currency transactions	45	42	42	44
Change in fair value of derivatives	25	28	2	N/C*
Royalties	23	26	26	26
Litigation settlements	20	11	16	8
Rentals	17	14	13	12
Insurance recoveries	16	16	15	10

* N/C = Not compiled. Line item was not included in the table for the year shown.

REVENUES

3.15

INTERNATIONAL BUSINESS MACHINES CORPORATION AND SUBSIDIARY COMPANIES (DEC)

(Dollars in millions)	2002	2001	2000
Revenue:			
Global services	$36,360	$34,956	$33,152
Hardware	27,456	30,593	34,470
Software	13,074	12,939	12,598
Global financing	3,232	3,426	3,465
Enterprise investments/other	1,064	1,153	1,404
Total revenue	81,186	83,067	85,089
Cost:			
Global services	26,812	25,355	24,309
Hardware	20,020	21,231	24,207
Software	2,043	2,265	2,283
Global financing	1,416	1,693	1,965
Enterprise investments/other	611	634	747
Total cost	50,902	51,178	53,511
Gross profit	$30,284	$31,889	$31,578

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A (In Part): Significant Accounting Policies

Revenue

The company recognizes revenue when it is realized or realizable and earned. The company considers revenue realized or realizable and earned when it has persuasive evidence of an arrangement, the product has been shipped or the services have been provided to the customer, the sales price is fixed or determinable and collectibility is reasonably assured. The company reduces revenue for estimated customer returns and other allowances. In addition to the aforementioned general policy, the following are the specific revenue recognition policies for each major category of revenue and for multiple-element arrangements.

Services

The terms of services contracts generally range from less than one year to ten years. Revenue from time and material services contracts is recognized as the services are provided. Revenue from Strategic Outsourcing Services contracts in which IBM manages the customer's data center reflects the extent of actual services delivered in the period, based upon objective measures of output in accordance with the terms of the contract.

Revenue from Business Consulting Services (BCS) contracts that require IBM to design, develop, manufacture or modify complex information technology systems to a buyer's specifications, and to provide services related to the performance of such contracts, is recognized using the percentage of completion (POC) method of accounting. In using the POC method, the company records revenue by reference to the costs incurred to date and the estimated costs remaining to fulfill the contracts.

Provisions for losses on services contracts are recognized during the period in which the loss first becomes apparent. Revenue from maintenance is recognized over the contractual period or as the services are performed.

In some of the company's services contracts, the company bills the customer prior to performing the services. This situation gives rise to deferred income of $2.6 billion and $2.4 billion at December 31, 2002 and 2001, respectively, reported as Deferred income in the Consolidated Statement of Financial Position. In other services contracts, the company performs the services prior to billing the customer. This situation gives rise to unbilled accounts receivable of $1.3 billion at both December 31, 2002 and 2001, recorded as Notes and accounts receivable—trade in the Consolidated Statement of Financial Position. In these circumstances, billings usually occur shortly after the company performs the services and can range up to six months later. Unbilled receivables are expected to be billed and collected generally within four months, rarely exceeding nine months.

Hardware

Revenue from hardware sales or sales-type leases is recognized when the product is shipped to the customer and when there are no unfulfilled company obligations that affect the customer's final acceptance of the arrangement. Any cost of these obligations is accrued when the corresponding revenue is recognized. Revenue from rentals and operating leases is recognized on a straight-line basis over the term of the rental or lease.

Software

Revenue from one-time charge licensed software is recognized at the inception of the license term. Revenue from monthly license charge arrangements is recognized on a subscription basis over the period in which the enterprise is using the program. Revenue from maintenance, unspecified upgrades and technical support is recognized over the period such items are delivered. See "Multiple-Element Arrangements" below for further information.

Financing

Finance income attributable to sales-type leases, direct financing leases and loans is recognized at level rates of return over the term of the leases or loans. Operating lease income is recognized on a straight-line basis over the term of the lease.

Multiple-Element Arrangements

The company enters into transactions that include multiple-element arrangements, which may include any combination of services, hardware, software and/or financing. When some elements are delivered prior to others in an arrangement and all of the following criteria are met, revenue for the delivered element is recognized upon delivery of such item. Otherwise, revenue is deferred until the delivery of the last element.

- Vendor-specific objective evidence (VSOE) of fair value of the undelivered elements.
- The functionality of the delivered elements is not dependent on the undelivered elements.
- Delivery of the delivered element represents the culmination of the earnings process.

VSOE is the price charged by the company to an external customer for the same element when such element is sold separately.

3.16

KELLOGG COMPANY AND SUBSIDIARIES (DEC)

(Millions)	2002	2001	2000
Net sales	$8,304.1	$7,548.4	$6,086.7
Cost of goods sold	4,569.0	4,211.4	3,401.7
Selling, general, and administrative expense	2,227.0	2,135.8	1,608.7
Restructuring charges	—	33.3	86.5
Operating profit	$1,508.1	$1,167.9	$ 989.8

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (In Part): Accounting Policies

Revenue Recognition and Measurement

The Company recognizes sales upon delivery of its products to customers net of applicable provisions for discounts, returns, and allowances.

Beginning January 1, 2002, the Company has applied the consensus reached by the Emerging Issues Task Force (EITF) of the FASB in Issue No. 01–09 "Accounting for Consideration Given by a Vendor to a Customer or a Reseller of the Vendor's Products." Under this consensus, generally, cash consideration is classified as a reduction of revenue, unless specific criteria are met regarding goods or services that the vendor may receive in return for this consideration. Non-cash consideration is classified as a cost of sales.

As a result of applying this consensus, the Company has reclassified promotional payments to its customers and the cost of consumer coupons and other cash redemption offers from selling, general, and administrative expense (SGA) to net sales. The Company has reclassified the cost of promotional package inserts and other non-cash consideration from SGA to cost of goods sold. Prior-period financial statements have been reclassified to comply with this guidance.

3.17

ROBERT HALF INTERNATIONAL INC. (DEC)

(In thousands)	2002	2001	2000
Net service revenues	$1,904,951	$2,452,850	$2,699,319
Direct costs of services, consisting of payroll, payroll taxes and insurance costs for temporary and risk consulting employees	1,190,216	1,436,272	1,538,556
Gross margin	$ 714,735	$1,016,578	$1,160,763

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Revenue Recognition

Temporary and consultant staffing services revenues are recognized when the services are rendered by the Company's temporary employees. Permanent placement staffing revenues are recognized when employment candidates accept offers of permanent employment. Allowances are established to estimate losses due to placed candidates not remaining employed for the Company's guarantee period, typically 90 days. Risk consulting and internal audit services revenues are recognized as services are provided. Reimbursements, including those relating to travel and out-of-pocket expenses, are included in revenues, and equivalent amounts of reimbursable expenses are included in direct costs of services.

3.18

ROCKWELL AUTOMATION, INC. (SEP)

(In millions)	2002	2001	2000
Sales	$ 3,909	$ 4,285	$ 4,661
Cost of sales	(2,674)	(3,037)	(3,107)
Gross profit	$ 1,235	$ 1,248	$ 1,554

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Revenue Recognition

Sales are generally recorded when all of the following have occurred: an agreement of sale exists, product delivery and acceptance has occurred or services have been rendered, pricing is fixed or determinable, and collection is reasonably assured. Management is required to make judgments about whether pricing is fixed or determinable and whether or not collectibility is reasonably assured.

The Securities and Exchange Commission's (SEC) Staff Accounting Bulletin (SAB) No. 101, *Revenue Recognition in Financial Statements,* provides guidance on the SEC staff's views on application of generally accepted accounting principles to selected revenue recognition issues. The Company's revenue recognition policy is in accordance with generally accepted accounting principles and SAB No. 101.

The Company records accruals for sales rebates to distributors at the time of shipment based upon historical experience. Changes in such allowances may be required if future rebates differ from historical experience.

In accordance with Emerging Issues Task Force (EITF) Issue No. 00–10, *Accounting for Shipping and Handling Fees and Costs,* shipping and handling costs billed to customers are included in sales and the related costs are included in cost of sales in the Consolidated Statement of Operations.

GAINS

Interest

3.19

THE LUBRIZOL CORPORATION (DEC)

(In thousands of dollars)	2002	2001	2000
Net sales	$1,980,289	$1,839,244	$1,771,317
Royalties and other revenues	3,578	5,400	4,463
Total revenues	1,983,867	1,844,644	1,775,780
Cost of sales	1,416,255	1,335,461	1,278,187
Selling and administrative expenses	196,940	177,431	167,999
Research, testing and development expenses	168,303	158,473	150,805
Total cost and expenses	1,781,498	1,671,365	1,596,991
Special (charges) credits			4,484
Gain from litigation settlement			19,395
Other expense—net	(5,380)	(15,076)	(14,062)
Interest income	6,697	6,787	8,611
Interest expense	(23,298)	(25,041)	(26,869)
Income before income taxes and cumulative effect of change in accounting principle	$ 180,388	$ 139,949	$ 170,348

Sale of Assets

3.20

INGRAM MICRO INC. (DEC)

(Dollars in 000s)	2002	2001	2000
Net sales	$22,459,265	$25,186,933	$30,715,149
Cost of sales	21,227,627	23,857,034	29,158,851
Gross profit	1,231,638	1,329,899	1,556,298
Operating expenses:			
Selling, general and administrative	1,110,295	1,172,665	1,202,861
Reorganization costs	71,135	41,411	—
Special items	—	22,893	—
	1,181,430	1,236,969	1,202,861
Income from operations	50,208	92,930	353,437
Other expense (income):			
Interest income	(11,870)	(16,256)	(8,527)
Interest expense	32,702	55,624	88,726
Losses on sales of receivables	9,363	20,332	13,351
Net foreign exchange loss	8,736	5,204	3,322
Gain on sale of available-for-sale securities	(6,535)	—	(111,458)
Other	8,814	12,091	5,514
	41,210	76,995	(9,072)
Income before income taxes, extraordinary item and cumulative effect of adoption of a new accounting standard	$ 8,998	$ 15,935	$ 362,509

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars in 000s)

Note 2 (In Part): Significant Accounting Policies

Investments in Available-for-Sale Securities (In Part)

The Company classified its existing marketable equity securities as available-for-sale in accordance with the provisions of Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities." These securities were carried at fair market value, with unrealized gains and losses reported in stockholders' equity as a component of accumulated other comprehensive income (loss). Realized gains or losses on securities sold were based on the specific identification method.

In December 1998, the Company purchased 2,972,400 shares of common stock of SOFTBANK Corp. ("Softbank"), Japan's largest distributor of software, peripherals and networking products, for approximately $50,262. During December 1999, the Company sold 1,040,400 shares or approximately 35% of its original investment in Softbank common stock for approximately $230,109, resulting in a pre-tax gain of approximately $201,318, net of expenses. In January 2000, the Company sold an additional 445,800 shares or approximately 15% of its original holdings in Softbank common stock for approximately $119,228, resulting in a pre-tax gain

of approximately $111,458, net of expenses. In March 2002, the Company sold its remaining 1,486,200 shares or approximately 50% of its original investment in Softbank common stock for approximately $31,840, resulting in a pre-tax gain of approximately $6,535, net of expenses. The realized gains, net of expenses, associated with the sales of Softbank common stock in March 2002, January 2000 and December 1999 totaled $4,117, $69,327 and $125,220, respectively, net of deferred income taxes of $2,418, $42,131 and $76,098, respectively. The Company used the net proceeds from the sales primarily to repay existing indebtedness.

3.21

METRO-GOLDWYN-MAYER INC. (DEC)

(In thousands)	2002	2001	2000
Revenues	$1,654,102	$1,387,531	$1,237,447
Expenses:			
Operating	1,062,956	766,330	771,811
Selling, general and administrative	671,817	585,255	339,458
Severance and related recoveries	—	—	(3,715)
Depreciation and non-film amortization	20,467	32,952	28,648
Total expenses	1,755,240	1,384,537	1,136,202
Operating income (loss)	(101,138)	2,994	101,245
Other income (expense):			
Gain on sale of equity interest in cable channel	32,514	—	—
Equity in net earnings (losses) of affiliates	13,561	(2,421)	1,953
Interest expense, net of amounts capitalized	(79,929)	(51,494)	(51,425)
Interest and other income, net	7,432	9,478	12,706
Total other expenses	(26,422)	(44,437)	(36,766)
Income (loss) from operations before provision for income taxes	$ (127,560)	$ (41,443)	$ 64,479

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4 (In Part): Investments In and Advances to Affiliates

Investments are summarized as follows (in thousands):

	2002	2001
Domestic cable channels	$595,457	$822,502
Foreign cable channels	15,697	15,351
Joint ventures	8,828	7,039
Others	150	150
	$620,132	$845,042

Domestic Cable Channels

On April 2, 2001, the Company invested $825,000,000 in cash for a 20 percent interest in two general partnerships which own and operate the American Movie Classics, the Independent Film Channel and WE: Women's Entertainment (formerly Romance Classics) and, until recently, Bravo, cable channels, collectively referred to as the "Cable Channels." These partnerships were wholly-owned by Rainbow Media Holdings, Inc. ("Rainbow Media"), a 74 percent subsidiary of Cablevision Systems Corporation ("Cablevision"). The proceeds of the $825,000,000 investment were used as follows: (i) $365,000,000 was used to repay bank debt of the partnerships; (ii) $295,500,000 was used to repay intercompany loans from Cablevision and its affiliates; and (iii) $164,500,000 was added to the working capital of the partnerships. The Company financed the investment through the sale of equity securities (see Note 8), which provided aggregate net proceeds of approximately $635,600,000, and borrowings under the Company's credit facilities. Based upon certain assumptions that management of the Company believes are reasonable, the Company's determination of the difference between the Company's original cost basis in their investment in the Cable Channels and the Company's share of the underlying equity in net assets (referred to as "intangible assets") was approximately $762,000,000 (after amortization of goodwill and the sale of the Bravo cable channel discussed below, the difference between our cost basis and our share of the underlying equity in net assets is approximately $530 million).

On December 5, 2002, the Company and Cablevision, together with an affiliate of Cablevision, sold their ownership interests in the Bravo cable channel ("Bravo") to an affiliate of the National Broadcasting Company ("NBC") for $1.25 billion. The proceeds were divided between Cablevision and the Company in accordance with their 80 percent and 20 percent ownership interests in Bravo. The Company received $250,000,000 in cash from an affiliate of NBC for its interest in Bravo, and recorded a gain of $32,514,000 on the sale.

Equity in Earnings of Investee

3.22

AMERON INTERNATIONAL CORPORATION (NOV)

(Dollars in thousands)	2002	2001	2000
Sales	$ 539,473	$ 551,396	$ 550,661
Cost of sales	(397,590)	(413,312)	(410,869)
Gross profit	141,883	138,084	139,792
Selling, general and administrative expenses	(105,898)	(101,828)	(113,844)
Equity in earnings of joint ventures	9,170	7,994	12,664
Other income, net	4,194	4,554	7,425
Income before interest and income taxes	49,349	48,804	46,037
Interest expense, net	(6,836)	(10,213)	(12,244)
Income before income taxes	$ 42,513	$ 38,591	$ 33,793

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Equity Method of Accounting

Investments in joint ventures or affiliates ("joint ventures") over which the Company has significant influence are accounted for under the equity method of accounting, whereby the investment is carried at the cost of acquisition, plus the Company's equity in undistributed earnings or losses since acquisition. Reserves are provided when management determines that a portion of the investment or earnings may not be realizable.

Note 5. Joint Ventures

Investments, advances and equity in undistributed earnings of joint ventures were as follows at November 30:

(In thousands)	2002	2001
Investments—equity method	$18,419	$18,272
Investments—cost method	508	508
	$18,927	$18,780

The Company's investments which were accounted for by the equity method are summarized below:

Products	Joint Ventures	Ownership Interest
Concrete pipe	Ameron Saudi Arabia, Ltd. ("ASAL")	30%
Steel products	TAMCO	50%
Fiberglass pipe	Bondstrand, Ltd.	40%
Coatings	Oasis-Ameron, Ltd.	40%

Investments in joint ventures and the amount of undistributed earnings were as follows:

(In thousands)	Concrete Pipe	Steel Products	Fiberglass Pipe	Coatings	Total
Cost	$ —	$ 8,482	$2,182	$1,054	$11,718
Comprehensive loss from joint venture		(2,672)			(2,672)
Accumulated equity in undistributed earnings, net of reserves	—	7,130	1,602	641	9,373
Investment, November 30, 2002	$ —	$12,940	$3,784	$1,695	$18,419
Dividends received in 2002	$3,310	$ 3,465	$2,263	$ —	$ 9,038
Cost	$ —	$ 8,482	$2,182	$1,054	$11,718
Comprehensive loss from joint venture		(2,687)			(2,687)
Accumulated equity in undistributed earnings, net of reserves	—	6,998	1,602	641	9,241
Investment, November 30, 2001	$ —	$12,793	$3,784	$1,695	$18,272
Dividends received in 2001	$3,325	$ 2,585	$2,070	$ 320	$ 8,300

During 1998, the Company recorded an impairment charge of $10,505,000 to adjust its net investment in ASAL to zero.

The Company has provided for income taxes on the undistributed earnings of its joint ventures, to the extent such earnings have been included in the consolidated statements of income.

The Company's investments in ASAL, Bondstrand, Ltd. and Oasis-Ameron, Ltd. were recorded based on audited financial statements as of December 31, 2001, and unaudited financial statements as of September 30, 2002. The investment in TAMCO was recorded based on audited financial statements as of November 30, 2002.

Summarized and combined financial information for joint ventures follows:

Financial Condition

(In thousands)	2002	2001
Current assets	$168,345	$173,466
Noncurrent assets	73,563	74,431
	$241,908	$247,897
Current liabilities	$105,862	$101,307
Noncurrent liabilities	20,496	15,540
Stockholders equity	115,550	131,050
	$241,908	$247,897

Results of Operations

(In thousands)	2002	2001	2000
Net sales	$208,361	$219,864	$244,118
Gross profit	47,382	51,968	69,263
Net income	21,937	24,525	32,101

In 2001, TAMCO entered into a swap agreement intended to hedge expected cash flows related to the purchase of natural gas used in its manufacturing process. The Company has recognized $2,672,000 and $2,687,000 in accumulated other comprehensive loss at November 30, 2002 and 2001, respectively, which represents its proportionate share of amounts recognized by TAMCO to record the fair value of the swap agreement.

The amount of investments and accumulated equity in the undistributed earnings net of reserves in the Middle Eastern joint ventures was $5,479,000 at November 30, 2002 and 2001.

Sales to joint ventures totaled $4,848,000 in 2002, $7,747,000 in 2001 and $7,487,000 in 2000.

The Company has 25% ownership in Amercoat Mexicana, which has been accounted for by the cost method since the Company does not have the ability to exert significant influence over the investee's operating and financing activities.

The Company guaranteed a $1,707,000 bank credit facility for Bondstrand, Ltd. at November 30, 2002.

Liability Accruals Reduced

3.23

DANAHER CORPORATION (DEC)

(In thousands)	2002	2001	2000
Sales	$4,577,232	$3,782,444	$3,777,777
Cost of sales	2,791,175	2,338,027	2,315,731
Selling, general and administrative expenses	1,091,208	872,680	909,897
Restructuring expenses	(6,273)	69,726	—
Total operating expenses	3,876,110	3,280,433	3,225,628
Operating profit	701,122	502,011	552,149
Interest expense, net	43,654	25,747	29,225
Earnings before income taxes	$ 657,468	$ 476,264	$ 522,924

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3) Restructuring Charge

In the fourth quarter of 2001, the Company recorded a restructuring charge of $69.7 million ($43.5 million after tax, or $0.29 per share). During the fourth quarter of 2001, management determined that it would restructure certain of its product lines, principally its drill chuck, Power Quality and industrial controls divisions, to improve financial performance. The primary objective of the restructuring plan was to reduce operating costs by consolidating, eliminating and/or downsizing existing operating locations. No significant product lines were discontinued. Severance costs for the termination of approximately 1,100 employees approximated $49 million. These employees, included all classes of employees, including hourly direct, indirect salaried and management personnel, at the affected facilities. Approximately $16 million of the charge was to impair assets associated with the closure of 16 manufacturing and distribution facilities in North America and Europe. The assets impaired were principally equipment and leasehold improvements associated with the 16 facilities to be closed. The remainder of the charge was for other exit costs including lease termination costs. Approximately $25.5 million of the $69.7 million charge related to our Tools and Components segments and approximately $44.2 million of the charge related to our Process/Environmental Controls segment.

Due to minor changes to the original restructuring plan and to costs incurred being less than estimated, in December 2002, the Company adjusted its restructuring reserves accrued as part of the fourth quarter 2001 restructuring charge by approximately $6.3 million ($4.1 million after tax, or $0.03 per share).

In conjunction with the closing of the facilities, approximately $4 million of inventory was written off as unusable in future operating locations. This inventory consisted principally of component parts and raw materials, which were either redundant to inventory at the facilities being merged and/or were not economically feasible to relocate since the inventory was purchased to operate on equipment and tooling which was not being relocated. The inventory write-off was included in cost of sales in the fourth quarter of 2001 and was not part of the restructuring charge.

The table below presents a rollforward of the activity in the restructuring accrual.

(In thousands, except headcount)	Headcount Reductions	Employee Separation Costs	Impairment of Facility Assets	Lease Termination and Other Restructuring Costs	Total
Total restructuring charge	1,120	$ 49,000	$ 15,700	$ 5,000	$ 69,700
Amounts expended/recognized in 2001	(67)	(3,300)	(15,035)	—	(18,335)
Balance at December 31, 2001	1,053	45,700	665	5,000	51,365
Amounts expended in 2002	(934)	(31,118)	(665)	(2,367)	(34,150)
Amounts reversed in 2002	—	(6,273)	—	—	(6,273)
Balance at December 31, 2002	119	$ 8,309	$ —	$ 2,633	$ 10,942

Foreign Currency Transactions

3.24

NEWMONT MINING CORPORATION (DEC)

(In thousands)	2002	2001	2000
Sales and other income			
Sales—gold	$2,566,833	$1,666,108	$1,819,005
Sales—base metals, net	55,321	—	—
Royalties	35,718	598	619
Gain (loss) on marketable securities of Lihir	47,298	—	(23,863)
Dividends, interest, foreign currency exchange and other income	39,837	7,387	9,662
	$2,745,007	$1,674,093	$1,805,423

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Foreign Currency

The functional currency for the majority of the Company's operations, including the Australian operations, is the U.S. dollar. The functional currency of the Canadian operations is the Canadian dollar. All assets and liabilities recorded in functional currencies other than U.S. dollars are translated at current exchange rates. The resulting adjustments are charged or credited directly to Accumulated other comprehensive income (loss) in Stockholders' equity. Revenues and expenses in foreign currencies are translated at the weighted average exchange rates for the period. All realized and unrealized transaction gains and losses are included in income in Dividends, interest, foreign currency exchange and other income.

Note 18. Dividends, Interest, Foreign Currency Exchange and Other Income

(In thousand)	2002	2001	2000
Interest income	$14,139	$2,976	$10,542
Foreign currency exchange gain (loss), net	14,020	(5,088)	(6,100)
Gain on sale of exploration properties	5,900	3,098	1,021
Other	5,778	6,401	4,199
Total	$39,837	$7,387	$ 9,662

Change in Fair Value of Derivatives

3.25

FMC CORPORATION (DEC)

(In millions)	2002	2001	2000
Revenue	$1,852.9	$1,943.0	$2,050.3
Costs and expenses			
Cost of sales or services	1,359.9	1,417.3	1,469.4
Selling, general and administrative expenses	224.1	243.3	231.3
Research and development expenses	82.0	99.8	97.8
Asset impairments	—	323.1	10.1
Restructuring and other charges	30.1	280.4	35.2
Total costs and expenses	1,696.1	2,363.9	1,843.8
Income (loss) from continuing operations before equity in earnings of affiliates, minority interests, interest income and expense, income taxes and cumulative effect of change in accounting principle	$ 156.8	$ (420.9)	$ 206.5

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (In Part): Principal Accounting Policies and Related Financial Information

Derivative Financial Instruments (In Part)

FMC mitigates certain financial exposures, including currency risk and energy purchase exposures, through a controlled program of risk management that includes the use of derivative financial instruments. The company enters into foreign exchange contracts, including forward and purchased option contracts, to reduce the effects of fluctuating foreign currency exchange rates.

FMC adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," ("SFAS No. 133") and SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities," an amendment of SFAS No. 133, on January 1, 2001 (collectively the "Statements"). These Statements establish accounting and reporting standards that require every derivative instrument to be recorded on the consolidated balance sheet as either an asset or a liability measured at its fair value. SFAS No. 133 requires the transition adjustment resulting from adopting these Statements to be reported in net income or accumulated other comprehensive income, as appropriate, as the cumulative effect of a change in accounting principle. Accordingly, on January 1, 2001, the company recorded the fair value of all outstanding derivative instruments as assets or liabilities on the consolidated balance sheet. The transition adjustment was a $0.9 million after tax loss to earnings and $16.4 million after-tax gain to accumulated other comprehensive income. The loss was recorded as a cumulative effect of a change in accounting principle.

In accordance with the provisions of SFAS No. 133, as amended, the company recognizes all derivatives on the balance sheet at fair value. On the date the derivative instrument is entered into, the company generally designates the derivative as a hedge of a forecasted transaction (cash flow hedge) or of the variability of cash flows to be received or paid related to a recognized asset or liability. Changes in the fair value of a derivative that is designated as and meets all the required criteria for a cash flow hedge are recorded in accumulated other comprehensive income or loss and reclassified into earnings as the underlying hedged item affects earnings. Changes in the fair value of a derivative that is not designated as a hedge are recorded immediately in earnings.

For periods prior to 2001, gains and losses on foreign currency hedges of existing assets and liabilities are included in the carrying amounts of those assets or liabilities and were ultimately recognized in income when those carrying amounts were converted. Gains and losses related to foreign currency hedges of firm commitments also were deferred and included in the basis of the transaction when it was complete. Gains and losses on unhedged foreign currency transactions are included in income as part of cost of sales or services. Gains and losses on derivative financial instruments that protect the company from exposure in a particular currency, but do not currently have a designated underlying transaction, are also included in income. If a hedged item matured, was sold, extinguished, or terminated, or was related to an anticipated transaction that is no longer likely to take place, the derivative financial instrument related to the hedged item was closed out and the related gain or loss is included in income as part of cost of sales or services. Also, FMC purchased exchange-traded contracts to manage exposure to fluctuating energy prices used in the company's manufacturing processes. Gains and losses on these contracts are included as adjustments to cost of sales or service when the contracts are settled.

FMC formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes relating all derivatives that are designated cash flow hedges to specific forecasted transactions. The company also formally assesses, both at the inception of the hedge and on an ongoing basis, whether each derivative is highly effective in offsetting changes in fair values or cash flows of the hedged item. If it is determined that a derivative is not highly effective as a hedge, or if a derivative ceases to be a highly effective hedge, the company will discontinue hedge accounting with respect to that derivative prospectively. The gains and losses reported for the ineffective portion of its cash flow hedges were minimal for 2002 and 2001.

Note 15 (In Part): Financial Instruments and Risk Management

Derivative Financial Instruments (In Part)

The company conducts its business in many foreign countries, exposing earnings, cash flows, and the company's financial position to a series of foreign currency risks. The majority of these risks originate through foreign currency transactions. The company is also exposed to risks in energy costs due to fluctuations in energy prices.

FMC's policy is to minimize its cash flow exposure to adverse changes in currency, energy prices and exchange rates. This is accomplished through a controlled program of risk management that includes the use of derivative financial instruments. The company's objective is to maintain economically balanced currency risk management strategies and energy risk management strategies that provide adequate protection from significant fluctuations in the currency and energy markets.

The company enters into foreign exchange contracts, including forwards and purchased option contracts, to reduce the cash flow exposure of foreign currency fluctuations associated with monetary assets and liabilities and highly anticipated transactions. The company also enters into forward contracts in an effort to mitigate changes in energy costs.

Hedge ineffectiveness and the portions of derivative gains and losses excluded from assessments of hedge effectiveness related to the company's outstanding cash flow hedges and which were recorded to earnings for the year ended December 31, 2001, were less than $0.1 million. Changes in fair value of derivatives qualifying as cash flow hedges are recorded in accumulated other comprehensive income. At December 31, 2002 and 2001 the net deferred after-tax hedging loss in accumulated other comprehensive income was $2.8 million and $16.6 million, respectively. Approximately $2.1 million of the 2002 losses are expected to be realized in earnings over the next twelve months ending December 31, 2003, as the underlying hedging transactions are realized. At various times subsequent to December 31, 2003 the company expects losses from cash flow hedge transactions to total, in the aggregate, approximately $0.7 million. The company recognized its derivative gains and losses in the cost of sales or services line of the Consolidated Statements of Income.

The company continues to hold certain forward contracts that have not been designated as hedging instruments. Contracts used to hedge the exposure to foreign currency fluctuations associated with certain monetary assets and liabilities are not designated as hedging instruments, and changes in the fair value of these items are recorded in earnings. The net gain recorded in earnings for contracts not designated as hedging instruments in 2002 and 2001 were $9.0 million and $1.2 million, respectively.

Fair values relating to derivative financial instruments reflect the estimated amounts that the company would receive or pay to terminate the contracts at the reporting date based on quoted market prices of comparable contracts as of December 31, 2002 and 2001. At December 31, 2002 and 2001, derivative financial instruments consisted primarily of foreign exchange forward contracts and energy forward contracts.

Royalties

3.26

QUANTUM CORPORATION (MAR)

(In thousands)	2002	2001	2000
Product revenue	$ 878,476	$1,183,845	$1,232,442
Royalty revenue	209,316	221,973	186,429
Total revenue	1,087,792	1,405,818	1,418,871
Cost of revenue	701,902	782,782	769,981
Gross margin	$ 385,890	$ 623,036	$ 648,890

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Revenue Recognition (In Part)

Royalty revenue is recognized based on the licensee's sales that incorporate technology licensed from Quantum. Revenue from separately priced extended warranty and product service contracts is deferred and recognized as revenue ratably over the contract period.

Litigation Settlements

3.27

XILINX, INC. (MAR)

(In thousands)	2002	2001	2000
Net revenues	$1,015,579	$1,659,358	$1,020,993
Costs and expenses:			
Cost of revenues	557,884	679,402	384,038
Research and development	204,752	213,195	123,584
Sales, general and administrative	228,759	274,093	186,619
Amortization of goodwill and other intangibles	42,998	17,915	—
Impairment loss on intangible assets and equipment	25,336	—	—
Write-off of acquired in-process research and development	—	90,700	4,560
Total operating costs and expenses	1,059,729	1,275,305	698,801
Operating income (loss)	(44,150)	384,053	322,192
Capital gain from merger of United Silicon Inc. with United Microelectronics Corp	—	—	674,728
Write-down of the United Microelectronics Corp investment	(191,852)	(362,124)	—
Altera lawsuit settlement	19,400	—	—
Interest income and other, net	23,705	39,339	27,361
Interest expense	(57)	(165)	(9)
Income (loss) before provision for (benefit from) taxes on income and equity in income of joint venture	$ (192,954)	$ 61,103	$1,024,272

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 13 (In Part): Contingencies

On July 18, 2001, the Company settled all of its outstanding patent litigation with Altera Corporation (Altera), under which Altera paid the Company $20 million and both parties exchanged limited patent licenses and executed agreements not to sue under any patent for at least five years. During the second quarter of fiscal 2002 we recorded a lawsuit settlement of $19.4 million, net of settlement costs of $0.6 million.

Rentals

3.28

THE ROWE COMPANIES (NOV)

(In thousands)	2002	2001	2000
Net shipments	$334,610	$325,438	$362,935
Cost of shipments	219,299	220,125	239,282
Gross profit	115,311	105,313	123,653
Selling and administrative expenses	104,310	111,079	105,948
Retail restructuring and other charges	2,351	—	—
Operating income (loss)	8,650	(5,766)	17,705
Interest expense	(5,980)	(4,862)	(4,267)
Other income, net (Note 9)	1,519	1,572	1,415
Earnings (loss) from continuing operations before taxes	$ 4,189	$ (9,056)	$ 14,853

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 9 (In Part): Commitments and Contingencies

Operating Leases (In Part)

The Company is obligated under long-term real estate leases for offices, warehouses, showrooms and retail locations expiring at various dates through 2018 with certain renewal options. Certain of the lease agreements for store locations have, in addition to base rental, contingent rentals based on sales volume and payments based on a pro-rata distribution of the expenses associated with common areas. Rental payments charged to expense were $16,686,000 in 2002, $16,287,000 in 2001 and $13,211,000 in 2000.

The Company is a lessor of its investment properties primarily under long-term operating leases. The lease arrangements have initial terms of three to twelve years and some contain provisions to increase the monthly rentals at specific intervals. Rental income, net of commissions, was $1,947,000 in 2002, $1,902,000 in 2001 and $1,570,000 in 2000 and is included in other income in the accompanying Consolidated Statements of Operations and Comprehensive Income (Loss). Since June 2000, investment properties include the Company's former manufacturing facility located in Salem, Virginia.

Minimum lease commitments at December 1, 2002, under long-term operating leases are as follows:

	Lease Expense	Lease Income
2003	$13,261,000	$1,773,000
2004	12,296,000	1,294,000
2005	10,048,000	480,000
2006	6,897,000	328,000
2007	4,949,000	232,000
Thereafter	11,356,000	21,000
	$58,807,000	$4,128,000

Insurance Recoveries

3.29

ROUGE INDUSTRIES, INC. (DEC)

(Amounts in thousands)	2002	2001	2000
Sales			
Unaffiliated customers	$1,120,368	$ 908,541	$1,070,031
Affiliates	6,633	15,005	29,780
Total sales	1,127,001	923,546	1,099,811
Costs and expenses			
Costs of goods sold (excludes depreciation and amortization shown below)	1,162,187	1,067,673	1,183,215
Depreciation and amortization	24,783	25,992	56,711
Selling and administrative expenses	17,066	20,612	26,699
Total costs and expenses	1,204,036	1,114,277	1,266,625
Operating loss	(77,035)	(190,731)	(166,814)
Interest income	36	437	949
Interest expense	(10,442)	(8,815)	(5,240)
Insurance recovery	31,383	81,533	91,006
Other—net	(5,981)	(2,087)	(1,905)
Loss before income taxes and equity in unconsolidated subsidiaries	$ (62,039)	$ (119,663)	$ (82,004)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 11—Insurance Claims

Powerhouse Explosion

On February 1, 1999, an explosion and fire at the Powerhouse resulted in the interruption of the supply of electricity, process and heating steam, turbo air, mill water and other utilities to virtually all of the facilities of Rouge Steel. The loss of power resulted in a 93-day shutdown of Rouge Steel's steel making facilities. The Powerhouse is owned 60% by Rouge Steel and 40% by Ford. Ford was responsible for the day-to-day management, operation and maintenance of the Powerhouse.

The Company's insurance program relating to the Powerhouse provided coverage for damage to property destroyed, interruption of business operations, including profit recovery, and expenditures incurred to minimize the period and total cost of disruption.

During 2000, the Company received cash proceeds representing a partial settlement with its insurers regarding Rouge Steel first-party property damage and business interruption costs through March 31, 2000. The partial settlement covered all of the first-party property damage and substantially all aspects of the business interruption claim, including profit on lost sales, operating inefficiencies caused by the loss and costs to mitigate the claim.

During 2001, the Company received cash proceeds representing final settlement with its insurers regarding Rouge Steel's insurable first-party and Powerhouse property damage and business interruption costs. As a result of the settlement, the Company recorded $81,533,000 of insurance

recoveries in 2001, of which $63,151,000 represents gain on the net book value of the Powerhouse property destroyed. Total recoveries and final proceeds of the claim amount to $343,253,000.

Based on current engineering information and applicable legal requirements, the Company has evaluated the amount and probability of certain ancillary costs relating to the explosion, principally cleanup, demolition and abatement activities. As a result of these obligations with respect to its share of expenditures required to mitigate safety and environmental risks associated with the final disposition of the Powerhouse, in 2001, the Company recorded an accrual of $14,600,000 for these anticipated costs. Through December 31, 2002, the Company has incurred approximately $9,200,000 of expenditures for the Powerhouse cleanup and demolition.

Double Eagle Fire

On December 15, 2001, a major fire at Double Eagle halted production. The Company and its joint venture partner, United States Steel Corporation, rebuilt Double Eagle and returned the facility to production in September 2002.

The Company's insurance program provides coverage for damage to property destroyed, interruption of business operations and expenditures incurred to minimize the period and total cost of disruption to operations. The Company evaluates its potential insurance recoveries in two areas:

1. Damage to Double Eagle property as a result of the fire—Non-capitalizable costs for repairs are being expensed as incurred, with related estimated insurance recoveries recorded as they are considered to be probable, up to the amount of the actual costs incurred. Capitalizable costs are being capitalized as incurred. Gains from proceeds relating to capitalizable repair costs will be recorded when the claim is settled.
2. Rouge Steel business interruption costs—Costs to coat steel at toll processors are expensed as incurred, with related estimated insurance recoveries recorded as they are considered to be probable.

Pursuant to the accounting methodology described above, during 2002, the Company recorded insurance recoveries with respect to the Double Eagle fire of $31,383,000. At December 31, 2002, the Company had a deferred insurance recovery liability with respect to the Double Eagle fire of $13,900,000, which represents advances from insurers in excess of recoverable costs recorded. The deferred insurance recovery was recorded in connection with capitalized repair costs and will be recognized in income when the claim is settled. Recoverable costs are net of a deductible of $7,500,000 and reserves of $3,400,000 at December 31, 2002. Advances from the insurance carriers total $33,300,000 through December 31, 2002. Additional advances of $10,049,000 were received through February 3, 2003.

Nonrecurring Gain

3.30

CENTURYTEL, INC. (DEC)

(Dollars in thousands)	2002	2001	2000
Operating revenues			
Telephone	$1,733,592	$1,505,733	$1,253,969
Other	238,404	173,771	148,388
Total operating revenues	1,971,996	1,679,504	1,402,357
Operating expenses			
Cost of sales and operating expenses (exclusive of depreciation and amortization)	973,689	826,948	671,992
Corporate overhead costs allocable to discontinued operations	11,275	20,213	21,411
Depreciation and amortization	411,626	407,038	322,817
Total operating expenses	1,396,590	1,254,199	1,016,220
Operating income	575,406	425,305	386,137
Other income (expense)			
Nonrecurring gains and losses, net	3,709	33,043	—
Interest expense	(221,845)	(225,523)	(183,302)
Other income and expense	(63,814)	32	4.936
Total other income (expense)	(281,950)	(192,448)	(178,366)
Income from continuing operations before income tax expense	$ 293,456	$ 232,857	$ 207,771

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

13) Nonrecurring Gains and Losses, Net

In the second quarter of 2002, the Company recorded a pretax gain of $3.7 million from the sale of a PCS license.

In the second quarter of 2001, the Company recorded a pre-tax gain (reflected in discontinued operations) of approximately $185.1 million ($117.7 million after-tax; $.83 per diluted share) due to the sale of 30 PCS licenses to Leap Wireless International, Inc. (Leap). In conjunction with the sale of the licenses to Leap, the Company also recorded a pre-tax charge (reflected in discontinued operations) of $18.2 million ($11.6 million after-tax; $.08 per share) due to the write down in the value of certain non-operating assets.

In the third quarter of 2001, the Company recorded a pretax gain on the sale of its remaining common shares of Illuminet Holdings,Inc. aggregating $54.6 million ($35.5 million after-tax; $.25 per diluted share). The Company also recorded a pre-tax gain of $4.0 million ($2.6 million after-tax; $.02 per diluted share) on the sale of certain other assets. Additionally in 2001, the Company recorded pre-tax charges of $25.5 million ($16.6 million after-tax; $.12 per diluted share) due to the write-down in the value of certain non-operating investments in which the Company owns a minority interest.

In the first quarter of 2000 the Company recorded a pretax gain (reflected in discontinued operations) aggregating

$9.9 million ($5.2 million after tax) due to the sale of its remaining Alaska cellular operations.

In the third quarter of 2000 the Company recorded a pretax gain (reflected in discontinued operations) aggregating $10.7 million ($6.4 million after tax) due to the sale of its minority interest in a non-strategic cellular partnership.

EXPENSES AND LOSSES

3.31 Paragraphs 80 and 83 of FASB *SFAC 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 of distributions to owners.

3.32 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 2-30), 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).

3.33 Examples of expenses and losses follow.

3.34

TABLE 3-5: EXPENSES—COST OF GOODS SOLD CAPTIONS

	2002	2001	2000	1999
Single Amount				
Cost of sales	222	230	233	247
Cost of goods sold	89	93	95	104
Cost of products sold	73	83	93	97
Cost of revenues	33	35	30	27
Elements of cost	6	7	9	12
Other captions	110	99	84	69
	533	**547**	**544**	**556**
More than one amount	67	53	56	44
Total Companies	**600**	**600**	**600**	**600**

3.35

TABLE 3-6: EXPENSES—OTHER THAN COST OF GOODS SOLD

	Number of Companies			
	2002	**2001**	**2000**	**1999**
Selling, general and administrative	340	340	336	339
Selling and administrative	114	117	121	136
General and/or administrative	99	98	96	99
Selling	43	40	39	35
Interest	567	565	577	574
Research, development, engineering, etc	284	289	300	307
Advertising	191	184	164	151
Provision for doubtful accounts	64	66	35	32
Shipping	61	51	28	N/C*
Taxes other than income taxes	20	26	26	20
Exploration, dry holes, abandonments	17	14	20	14
Maintenance and repairs	9	9	10	12

* N/C = Not compiled. Line item was not included in the table for the year shown.

3.36

TABLE 3-7: LOSSES

	Number of Companies			
	2002	**2001**	**2000**	**1999**
Restructuring of operations	263	285	154	160
Write-down of assets	214	232	159	152
Intangible asset amortization	214	188	139	144
Sale of assets	96	71	40	49
Foreign currency transactions	91	84	68	70
Equity in losses of investees	74	60	44	38
Minority interests	62	55	48	41
Litigation settlements	43	38	23	21
Change in fair value of derivatives	42	48	6	N/C*
Sale of receivables	31	31	23	20
Merger costs	25	29	28	30
Environmental cleanup	24	20	14	16
Royalties	20	11	6	8
Purchased R&D	19	21	20	20
Start-up costs	6	14	6	N/C*
Distributions on preferred securities of subsidiary trust	6	4	10	12

* N/C = Not compiled. Line item was not included in the table for the year shown.

EXPENSES

Cost of Goods Sold

3.37

ELECTRONIC ARTS AND SUBSIDIARIES (MAR)

(In thousands)	2002	2001	2000
Net revenues	$1,724,675	$1,322,273	$1,420,011
Cost of goods sold	807,611	652,242	704,702
Gross profit	$ 917,064	$ 670,031	$ 715,309

3.38

NEXTEL COMMUNICATIONS, INC. AND SUBSIDIARIES (DEC)

(In millions)	2002	2001	2000
Operating revenues			
Service revenues	$8,186	$ 7,221	$5,297
Handset and accessory revenues	535	468	417
	8,721	7,689	5,714
Operating expenses			
Cost of service (exclusive of depreciation included below)	1,469	1,499	1,071
Cost of handset and accessory revenues	1,047	1,370	1,101
Selling, general and administrative	3,039	3,020	2,278
Restructuring and impairment charges	35	1,769	—
Depreciation	1,541	1,508	1,063
Amortization	54	238	202
Operating income (loss)	$1,536	$(1,715)	$ (1)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Customer Related Direct Costs

We recognize the costs of handset revenues over the expected customer relationship period of 3.5 years for domestic costs and periods of up to 4 years for international costs in amounts equivalent to the revenues recognized from handset sales. We recognize the costs of activation over the expected customer relationship period of 3.5 years in amounts equivalent to the revenues recognized from activation fees. Handset costs in excess of the revenue generated from handset sales are expensed at the time of sale and other customer related costs such as commissions and activation and fulfillment costs are expensed as incurred, as these amounts currently exceed the minimum contractual revenues. Minimum contractual revenues are currently limited to the revenue generated from handset sales and activation fees as our history of enforcing cancellation fee provisions for contracts with terminating customers is insufficient.

Research and Development

3.39

THE BOEING COMPANY (DEC)

(Dollars in millions)	2002	2001	2000
Sales and other operating revenues	$54,069	$58,198	$51,321
Cost of products and services	45,499	48,778	43,712
	8,570	9,420	7,609
Income/(loss) from operating investments, net	(128)	93	64
General and administrative expense	2,534	2,389	2,335
Research and development expense	1,639	1,936	1,441
In-process research and development expense			557
Gain on dispositions, net	44	21	34
Share-based plans expense	447	378	316
Impact of September 11, 2001, charges/(recoveries)	(2)	935	
Earnings from operations	$ 3,868	$ 3,896	$ 3,058

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Research and Development

Research and development costs are expensed as incurred unless the costs are related to a contractual arrangement. Costs that are incurred pursuant to a contractual arrangement are recorded as inventory costs and charged to cost of products and services under contract accounting.

3.40

TERADYNE, INC. (DEC)

(In thousands)	2002	2001	2000
Net revenue:			
Products	$ 992,127	$1,233,728	$2,828,892
Services	230,109	206,853	215,054
Total net revenue	1,222,236	1,440,581	3,043,946
Expenses:			
Cost of products	829,172	1,016,236	1,468,885
Cost of services	160,395	145,496	138,489
Total cost of sales	989,567	1,161,732	1,607,374
Engineering and development	293,922	287,318	348,024
Selling and administrative	290,376	270,084	377,783
Restructuring and other charges	204,176	74,292	—
	1,778,041	1,793,426	2,333,181
(Loss) income from operations	$ (555,805)	$ (352,845)	$ 710,765

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

B (In Part): Accounting Policies

Engineering and Development Costs

Teradyne's products are highly technical in nature and require a large and continuing engineering and development effort. Software development costs incurred prior to the establishment of technological feasibility are charged to expense. Software development costs incurred subsequent to the establishment of technological feasibility are capitalized until the product is available for release to customers. To date, the period between achieving technological feasibility and general availability of the product has been short and software development costs eligible for capitalization have not been material. Engineering and development costs are expensed as incurred.

Advertising

3.41

CDW COMPUTER CENTERS, INC. (DEC)

(In thousands)	2002	2001	2000
Net sales	$4,264,579	$3,961,545	$3,842,452
Cost of sales	3,700,744	3,434,510	3,352,609
Gross profit	563,835	527,035	489,843
Selling and administrative expenses	261,611	253,328	217,756
Net advertising expense	4,046	5,509	12,479
Income from operations	$ 298,178	$ 268,198	$ 259,608

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 (In Part): Summary of Significant Accounting Policies

Advertising

Advertising costs are charged to expense in the period incurred. Cooperative reimbursements from vendors, which are earned and available, are recorded in the period the related advertising expenditure is incurred. The following table summarizes advertising costs and cooperative reimbursements for the years ended December 31, 2002, 2001 and 2000, respectively (in thousands):

	2002	2001	2000
Gross advertising expenses	$ 89,079	$ 87,352	$ 91,296
Less cooperative reimbursements	(85,033)	(81,843)	(78,817)
Net advertising expenses	$ 4,046	$ 5,509	$ 12,479

Provision for Doubtful Accounts

3.42

CIENA CORPORATION (OCT)

(In thousands)	2000	2001	2002
Revenue	$858,750	$ 1,603,229	$ 361,155
Excess and obsolete inventory costs	15,022	68,411	286,475
Cost of goods sold	462,371	836,138	309,559
Gross profit (loss)	381,357	698,680	(234,879)
Operating expenses:			
Research and development (exclusive of $0, $17,783, and $15,672 deferred stock compensation costs)	125,434	235,831	239,619
Selling and marketing (exclusive of $0, $8,378 and $3,560 deferred stock compensation costs)	90,922	146,949	130,276
General and administrative (exclusive of $40, $15,206 and $1,092 deferred stock compensation costs)	33,960	57,865	50,820
Settlement of accrued contract obligation	(8,538)	—	—
Deferred stock compensation costs	40	41,367	20,324
Amortization of goodwill	3,197	177,786	—
Amortization of intangible assets	438	4,413	8,972
In-process research and development	—	45,900	—
Restructuring costs	—	15,439	225,429
Goodwill impairment	—	1,719,426	557,286
Pirelli litigation	—	—	1,792
Provision for doubtful accounts	28,010	(6,579)	14,813
Total operating expenses	273,463	2,438,397	1,249,331
Income (loss) from operations	$107,894	$(1,739,717)	$(1,484,210)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5) Accounts Receivable

As of October 31, 2002, the trade accounts receivable included three customers who each accounted for 19.3%, 15.0%, and 12.8% of the trade accounts receivable, respectively. As of October 31, 2001, the trade accounts receivable included three customers who each accounted for 38%, 18%, and 15% of the trade accounts receivable, respectively.

CIENA performs ongoing credit evaluations of its customers and generally has not required collateral or other forms of security from its customers. CIENA maintains an allowance for potential losses on a specific identification basis. CIENA's allowance for doubtful accounts as of October 31, 2002 and October 31, 2001 was $9.5 million and $1.5 million, respectively. CIENA expected to realize approximately $8.9 million of the gross outstanding accounts receivable balance of $36.9 million due from iaxis Limited as of October 31, 2000. In fiscal 2001, CIENA received payment for approximately $15.4 million of the gross outstanding accounts receivable balance due from iaxis Limited primarily through the Company's sales agreement with Dynegy. Accordingly, CIENA recognized a reduction in the provision for doubtful accounts of $6.6 million during fiscal year 2001. CIENA recorded a provision for doubtful accounts of approximately $14.8 million during fiscal 2002. This provision relates to the estimated losses of $18.1 million from three customers, each of whom filed for bankruptcy protection during fiscal 2002, offset by a payment of $3.3 million of the gross outstanding accounts receivable balance due from iaxis Limited through the Company's sales agreement with Dynegy.

The following table summarizes the activity in the Company's allowance for doubtful accounts (in thousands):

	Balance at Beginning of Period	Provisions	Deductions	Balance at End of Period
2000	$ 1,703	$28,010	$ 132	$29,581
2001	29,581	(6,579)	21,511	1,491
2002	$ 1,491	$14,813	$ 6,831	$ 9,473

Shipping

3.43

KERR-MCGEE CORPORATION (DEC)

(Millions of dollars)	2002	2001	2000
Sales	$3,700	$3,566	$4,063
Costs and expenses			
Costs and operating expenses	1,550	1,309	1,265
Selling, general and administrative expenses	313	228	197
Shipping and handling expenses	125	111	98
Depreciation and depletion	774	713	678
Asset impairment	828	76	—
Exploration, including dry holes and amortization of undeveloped leases	273	210	169
Taxes, other than income taxes	104	114	122
Provision for environmental remediation and restoration, net of reimbursements	80	82	90
Purchased in-process research and development	—	—	32
Interest and debt expense	275	195	208
Total costs and expenses	4,322	3,038	2,859
	$ (622)	$ 528	$1,204

NOTES TO FINANCIAL STATEMENTS

1 (In Part): The Company and Significant Accounting Policies

Shipping and Handling Fees and Costs

All amounts billed to a customer in a sales transaction related to shipping and handling represent revenues earned and are reported as revenue, and the costs incurred by the company for shipping and handling are reported as an expense.

LOSSES

Restructuring of Operations

3.44

JABIL CIRCUIT, INC. AND SUBSIDIARIES (AUG)

(In thousands)	2002	2001	2000
Net revenue	$3,545,466	$4,330,655	$3,558,321
Cost of revenue	3,210,875	3,936,589	3,199,972
Gross profit	334,591	394,066	358,349
Operating expenses:			
Selling, general and administrative	203,845	184,112	132,717.
Research and development	7,864	6,448	4,839
Amortization of intangibles	15,113	5,820	2,724
Acquisitions and merger-related charges	7,576	6,558	5,153
Restructuring and other charges (Note 13)	52,143	27,366	—
Operating income	$ 48,050	$ 163,762	$ 212,916

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

13. Restructuring

During the third quarter of fiscal 2001, the Company implemented a restructuring program to reduce its cost structure due to the global economic downturn. This restructuring program includes reductions in workforce, re-sizing of facilities and the transition of certain facilities into new customer development sites.

During fiscal year 2001, the Company charged $27.4 million of restructuring related costs against earnings. These restructuring charges included employee severance and benefit costs of approximately $8.9 million, costs related to lease commitments of approximately $5.6 million, fixed asset write-offs of approximately $11.5 million and other restructuring costs, primarily related to professional fees incurred in connection with the restructuring activities.

The employee severance and benefit costs related to the elimination of approximately 3,700 regular employees, the majority of which were engaged in direct manufacturing activities in various manufacturing facilities around the world. Lease commitments consist primarily of future lease payments subsequent to abandonment as a result of the resizing of facilities and the transition of certain facilities into new customer development sites. Fixed asset write-offs consist primarily of the leasehold improvements in the facilities that are subject to restructuring.

The table below sets forth the significant components and activity in the restructuring program during fiscal 2001, the inception of the first restructuring program (in thousands):

	Restructuring Related Charges	Non-Cash Charges	Cash Payments	Balance at August 31, 2001
Employee severance and termination benefits	$ 8,903	$ —	$ (7,931)	$ 972
Lease costs	5,622	—	(1,735)	3,887
Fixed asset impairment	11,465	(11,465)	—	—
Other	1,376	—	(715)	661
Total	$27,366	$ (11,465)	$ (10,381)	$5,520

The macroeconomic conditions facing the Company, and the electronic manufacturing services ("EMS") industry as a whole, continued to deteriorate during fiscal 2002, resulting in additional restructuring programs being implemented during fiscal 2002. These restructuring programs include reductions in workforce, re-sizing of facilities and the closure of facilities.

During fiscal 2002, the Company charged $52.1 million of restructuring related costs against earnings. These restructuring charges included employee severance and benefit costs of approximately $32.1 million, costs related to lease commitments of approximately $10.6 million, fixed asset impairments of approximately $7.2 million and other restructuring related costs of approximately $2.2 million.

The employee severance and benefit costs included in the Company's restructuring related costs are related to the elimination of approximately 2,800 employees, the majority of which were engaged in direct and indirect manufacturing activities in various manufacturing facilities around the world. Lease commitments consist primarily of future lease payments for facilities vacated because of the consolidation of facilities. The fixed asset impairment charge primarily results from a decision made to vacate several smaller facilities in the United States, Europe and Asia due to current macroeconomic conditions.

The table below sets forth the significant components and activity in the restructuring programs during fiscal year 2002 (in thousands):

	Balance at August 31, 2001	Restructuring Related Charges	Non-Cash Charge	Cash Payments	Balance at August 31, 2002
Employee severance and termination benefits	$ 972	$32,156	$ —	$ (20,210)	$12,918
Lease costs	3,887	10,578	—	(6,930)	7,535
Fixed asset impairment	—	7,189	(7,189)	—	—
Other	661	2,220	—	(1,956)	925
Total	$5,520	$52,143	$ (7,189)	$ (29,096)	$21,378

As of August 31, 2002, total liabilities of $21.4 million related to these restructuring activities are expected to be paid out within the next twelve months.

3.45

TRIBUNE COMPANY AND SUBSIDIARIES (DEC)

(In thousands of dollars)	2002	2001	2000
Operating revenues			
Publishing			
Advertising	$2,948,399	$2,947,318	$2,737,714
Circulation	669,471	662,377	531,265
Other	245,909	234,254	174,516
Total	3,863,779	3,843,949	3,443,495
Broadcasting and entertainment	1,443,950	1,349,935	1,465,553
Interactive	76,699	59,482	41,782
Total operating revenues	5,384,428	5,253,366	4,950,830
Operating expenses			
Cost of sales (exclusive of items shown below)	2,576,282	2,705,153	2,381,509
Selling, general and administrative	1,309,107	1,304,118	1,165,683
Depreciation	212,879	200,829	191,465
Amortization of intangible assets	10,375	241,037	179,162
Restructuring charges (Note 3)	27,253	151,892	—
Total operating expenses	4,135,896	4,603,029	3,917,819
Operating profit	$1,248,532	$ 650,337	$1,033,011

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3. Restructuring Charges

In the first quarter of 2002, the Company recorded pretax restructuring charges of $27.3 million ($16.7 million after-tax) for various cost reduction initiatives. Approximately 300 full-time equivalent employee positions have been eliminated as a result of these initiatives. Pretax restructuring charges of $24.8 million were recorded at the publishing segment, $1.1 million at the broadcasting and entertainment segment, $0.2 million at the interactive segment and $1.2 million at corporate during 2002. These restructuring charges, consisting primarily of compensation expense, are presented as a separate line item in the consolidated statements of income. As a result of these cost reduction initiatives, the Company expects annual pretax savings, principally in compensation expense, of approximately $20 million. The Company began to realize the savings in the second quarter of 2002.

A summary of the significant components of the pretax restructuring charges for the year ended Dec. 29, 2002, is as follows (in millions):

	Publishing	Broadcasting	Interactive	Corporate	Total
Severance costs	$18.0	$0.8	$0.2	$0.4	$19.4
Enhanced early retirement pension costs	2.2	—	—	—	2.2
Asset disposals	3.0	0.3	—	0.2	3.5
Lease termination costs	1.6	—	—	0.6	2.2
Total	$24.8	$1.1	$0.2	$1.2	$27.3

During the 2001 second quarter, the Company announced a voluntary retirement program ("VRP"), which was offered to approximately 1,400 employees who met certain eligibility requirements. In addition, various other workforce reduction

initiatives were implemented throughout the Company beginning in the second quarter. Approximately 1,700 full-time equivalent employee positions were eliminated as a result of the various initiatives. In 2001, the Company recorded pretax restructuring charges of $151.9 million ($92.6 million after-tax) for these initiatives. Pretax restructuring charges of $140.4 million were recorded at the publishing segment, $6.6 million at the broadcasting and entertainment segment, $2.9 million at the interactive segment and $2.0 million at corporate in 2001. These charges are presented as a separate line item in the consolidated statements of income. As a result of the VRP and other cost reduction initiatives, the Company expects annual pretax savings, principally in compensation expense, of approximately $60 million. Savings began in the fourth quarter of 2001 and were fully realized in fiscal year 2002.

A summary of the significant components of the pretax restructuring charges for the year ended Dec. 30, 2001, is as follows (in millions):

	Publishing	Broadcasting	Interactive	Corporate	Total
Severance costs	$ 27.1	$2.5	$1.5	$0.4	$ 31.5
Enhanced early retirement pension costs	77.4	1.5	0.6	—	79.5
Enhanced retiree medical benefit costs	12.1	0.1	—	—	12.2
Asset disposals	7.0	1.4	0.5	0.4	9.3
Lease termination costs	7.3	—	—	—	7.3
Other costs	9.5	1.1	0.3	1.2	12.1
Total	$140.4	$6.6	$2.9	$2.0	$151.9

Accruals for the restructuring charges are included in "other current liabilities" on the consolidated balance sheets and amounted to $11.1 million and $21.0 million at Dec. 29, 2002 and Dec. 30, 2001, respectively. The accruals primarily consist of costs related to severance and lease termination costs.

A summary of the activity with respect to the restructuring accruals is as follows (in millions):

Restructuring accrual at Dec. 31, 2000	$ —
Restructuring charges[(1)]	50.9
Payments	(29.9)
Restructuring accrual at Dec. 30, 2001	$ 21.0
Restructuring charges[(1)]	21.6
Payments	(31.5)
Restructuring accrual at Dec. 29, 2002	$ 11.1

[(1)] Represents severance, lease termination and other costs included in the restructuring accrual.

Write-Down of Assets

3.46

THE INTERPUBLIC GROUP OF COMPANIES, INC. AND ITS SUBSIDIARIES (DEC)

(Amounts in millions)	2002	2001	2000
Revenue	$6,203.6	$6,791.2	$7,182.7
Operating expenses:			
Salaries and related expenses	3,549.0	3,809.2	4,056.4
Office and general expenses	2,096.6	2,103.8	1,986.6
Amortization of intangible assets	13.0	173.1	144.4
Restructuring and other merger-related costs	12.1	645.6	177.7
Long-lived asset impairment and other charges	127.1	303.1	—
Total operating expenses	5,797.8	7,034.8	6,365.1
Operating income (loss)	405.8	(243.6)	817.6
Other income (expense):			
Interest expense	(145.6)	(164.6)	(126.3)
Interest income	29.8	41.8	57.5
Other income	15.1	13.7	42.6
Investment impairment	(39.7)	(210.8)	—
Total other income (expense)	(140.4)	(319.9)	(26.2)
Income (loss) before provision for (benefit of) income taxes	$ 265.4	$ (563.5)	$ 791.4

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Long-Lived Assets (In Part)

Long-lived assets consist primarily of property and equipment and intangible assets.

Property and Equipment

Property and equipment are reviewed for impairment whenever events or circumstances indicate their carrying value may not be recoverable. When such events or circumstances arise, an estimate of the future undiscounted cash flows produced by the asset, or the appropriate grouping of assets, is compared to the asset's carrying value to determine if an impairment exists pursuant to the requirements of SFAS 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144"). If the asset is determined to be impaired, the impairment loss is measured based on the excess of its carrying value over its fair value. Assets to be disposed of are reported at the lower of its carrying value or net realizable value. Effective January 1, 2002, the Company adopted SFAS 144. The adoption of this statement did not have a material impact on the Company's financial position or results of operations. See Note 5 for a description of impairment charges recognized during the third quarter of 2002.

Intangible Assets

Goodwill is the excess of cost of an acquired entity over the amounts assigned to assets acquired and liabilities assumed in a business combination. Effective January 1, 2002, with the adoption of SFAS 142, "Goodwill and Other Intangible Assets" ("SFAS 142"), goodwill is no longer amortized. Prior to January 1, 2002, goodwill was amortized on a straight-line basis, over periods not exceeding 40 years. Beginning January 1, 2002, goodwill is tested for impairment annually, and will be tested for impairment between annual tests if an event occurs or circumstances change that would indicate the carrying amount may be impaired. Impairment testing for goodwill is done at a reporting unit level. Reporting units are one level below the business segment level, but can be combined when reporting units within the same segment have similar economic characteristics. The vast majority of goodwill relates to and is assigned directly to a specific reporting unit. An impairment loss would generally be recognized when the carrying amount of the reporting unit's net assets exceeds the estimated fair value of the reporting unit. The estimated fair value of a reporting unit is determined using a discounted cash flow analysis. The Company completed its assessment of any potential impairment upon adoption of this standard. Additionally, in connection with its annual assessment the Company determined that, other than the impairment charges discussed in Note 5, no impairments had occurred. Prior to January 1, 2002, goodwill was tested for impairment in a manner consistent with the method used to test property and equipment and intangible assets with a definite life. During the first quarter of 2002, the Company performed the required impairment test of goodwill and determined that there was no impairment required to be recognized upon adoption.

Other intangible assets include, principally, customer lists, trade names, customer relationships and other intangible assets acquired from an independent party. Effective January 1, 2002, with the adoption of SFAS 142, intangible assets with an indefinite life, namely certain trade names, are not amortized. Intangible assets with a definite life are amortized on a straight-line basis with estimated useful lives generally ranging from 7 to 40 years. Indefinite-lived intangible assets will be tested for impairment annually, and will be tested for impairment between annual tests if an event occurs or circumstances change that would indicate that the carrying amount may be impaired. Intangible assets with a definite life are tested for impairment whenever events or circumstances indicate that a carrying amount of an asset (asset group) may not be recoverable. An impairment loss would be recognized when the carrying amount of an asset exceeds the estimated undiscounted cash flows used in determining the fair value of the asset. The amount of the impairment loss to be recorded is calculated by the excess of the assets carrying value over its fair value. Fair value is generally determined using a discounted cash flow analysis.

Note 5 (In Part): Long-Lived Asset Impairment and Other Charges

2002 Impairment

Octagon Motorsports (OMS), within SEG, owns and leases certain racing circuit facilities that are used for automobile, motorcycle and go-cart racing, primarily in the United Kingdom. Beginning in the second quarter of 2002 and continuing in subsequent quarters, certain of the Octagon businesses experienced significant operational difficulties, including significantly lower than anticipated attendance at the marquee British Grand Prix race in July 2002. These events and a change in management at OMS in the third quarter of 2002 led the Company to begin assessing its long-term strategy for OMS.

In accordance with the provisions of SFAS 142, the Company prepared a discounted cash flow analysis which indicated that the book value of OMS significantly exceeded its estimated fair value and that a goodwill impairment had occurred. In addition, as a result of the goodwill analysis, the Company assessed whether there had been an impairment of the Company's long-lived assets in accordance with SFAS 144. The Company concluded that the book value of certain asset groupings at OMS was significantly higher than their expected future cash flows and that an impairment had occurred. Accordingly, the Company has recognized a non-cash impairment loss and related charge of $127.1 ($89.7, net of tax) in 2002. The charges included $82.1 of goodwill impairment, $33.0 of fixed assets and capital expenditure write-offs, and $12.0 to record the fair value of an associated put option.

In addition, OMS is contractually required to upgrade and improve certain of its existing facilities over the next two years. As of December 31, 2002, these capital expenditure commitments amount to approximately $30.0 and are expected to be impaired as incurred based on current cash flow analyses for the relevant asset groupings.

In the fourth quarter of 2002, management determined that its original operating plans were no longer feasible and decided to explore options to exit some or all of these businesses. The remaining book value of long-lived assets relating to OMS is approximately $70 at December 31, 2002, and this amount, as well as other substantial contractual

obligations, may not be fully recoverable depending upon the exist strategy ultimately followed.

Note 6 (In Part): Other Income (Expense)

Investment Impairment

During 2002, the Company recorded $39.7 of investment impairment primarily related to certain investments of Octagon, the Company's sports marketing business within SEG. The impairment charges adjusted the carrying value of investments to the estimated market value where an other than temporary impairment had occurred.

3.47

NEWMONT MINING CORPORATION (DEC)

(In thousands)	2002	2001	2000
Sales and other income			
Sales—gold	$2,566,833	$1,666,108	$1,819,005
Sales—base metals, net	55,321	—	—
Royalties	35,718	598	619
Gain (loss) on marketable securities of Lihir	47,298	—	(23,863)
Dividends, interest, foreign currency exchange and other income	39,837	7,387	9,662
	2,745,007	1,674,093	1,805,423
Costs and expenses			
Costs applicable to sales—gold	1,536,326	1,092,825	1,065,853
Costs applicable to sales—base metals	35,622	—	—
Depreciation, depletion and amortization	505,598	301,563	320,697
Exploration and research	88,886	55,528	77,377
General and administrative	115,252	61,153	63,657
Interest, net of capitalized interest of $5,226, $10,633 and $5,534, respectively	129,565	98,080	106,120
Expenses for acquisition settlement	—	—	42,181
Write-down of assets	48,091	57,816	75,913
Merger and restructuring	—	60,510	6,897
Other	29,536	11,466	34,606
	2,488,876	1,738,941	1,793,301
Operating income (loss)	$ 256,131	$ (64,848)	$ 12,122

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Asset Impairment

The Company reviews and evaluates its long-lived assets for impairment when events or changes in circumstances indicate that the related carrying amounts may not be recoverable. An impairment is considered to exist if total estimated future cash flows on an undiscounted basis are less than the carrying amount of the asset. An impairment loss is measured and recorded based on discounted estimated future cash flows. Future cash flows include estimates of recoverable ounces, gold prices (considering current and historical prices, price trends and related factors), production levels, capital and reclamation costs, all based on detailed engineering life-of-mine plans. The term "recoverable ounces" refers to the estimated amount of gold that will be obtained from proven and probable reserves after taking into account losses during ore processing and treatment. In estimating future cash flows, assets are grouped at the lowest level for which there are identifiable cash flows that are largely independent of cash flows from other asset groups. Generally, all assets at a particular operation are used together to generate cash flow. Assumptions underlying future cash flow estimates are subject to risks and uncertainties.

In August 2001, the FASB issued SFAS No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets," which established a single accounting model, based on the framework of SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," for long-lived assets to be disposed of by sale. The statement was adopted on January 1, 2002, and there was no impact upon adoption.

Recent Accounting Pronouncements (In Part)

In August 2001, the FASB issued SFAS No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets,"

which established a single accounting model, based on the framework of SFAS No. 121 "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," for long-lived assets to be disposed of by sale. The statement was adopted January 1, 2002 and there was no impact in the Company's financial position or results of operations upon adoption.

Note 20 (In Part): Write-Down of Assets

In 2002, the Company reduced the carrying value of certain assets by $48.1 million pre-tax, with the majority of the write-down relating to the reduction of inventories to lower of average cost or net realizable value. The write-downs related to Nevada ($37.0 million), Minahasa ($4.6 million), Newmont Australia ($2.4 million), Wiluna ($1.6 million), Kori Kollo ($1.0 million), the Ity property ($0.8 million) and other operations ($0.7 million). In Nevada, ore stockpile inventory was reduced by $32 million as a result of both net realizable value analysis and a comprehensive physical survey of all stockpiles, while leach pad, mill in-process and finished goods inventories were reduced by $2.9 million, $1.7 million and $0.4 million, respectively. At the Minahasa mine the leach pad inventory, finished goods inventory and materials and supply inventories were reduced by $0.2 million, $2.0 million and $2.4 million, respectively. At Newmont Australia, $2.4 million in undeveloped mineral interests was written down. Ore stockpile inventory was reduced $1.1 million and mill in-process inventory was reduced by $0.4 million at the Wiluna mine. At Kori Kollo, the write-down reduced materials and supply inventories by $0.5 million and fixed assets were abandoned with a net historical cost of $0.5 million. Reductions of inventories at other operations totaled $0.7 million. Finally, the Ity mine was sold in the first quarter of 2002, with the future estimated royalty payments recorded as a receivable at fair value. In the fourth quarter of 2002, the Company determined that future royalty payments were uncertain due to political unrest in the region of Africa where the operations are located and a loss of $0.8 million was recorded.

Intangible Asset Amortization

3.48

AMAZON.COM, INC. (DEC)

(In thousands)	2002	2001	2000
Net sales	$3,932,936	$3,122,433	$2,761,983
Cost of sales	2,940,318	2,323,875	2,106,206
Gross profit	992,618	798,558	655,777
Operating expenses:			
Fulfillment	392,467	374,250	414,509
Marketing	125,383	138,283	179,980
Technology and content	215,617	241,165	269,326
General and administrative	79,049	89,862	108,962
Stock-based compensation	68,927	4,637	24,797
Amortization of goodwill and other intangibles	5,478	181,033	321,772
Restructuring-related and other	41,573	181,585	200,311
Total operating expenses	928,494	1,210,815	1,519,657
Income (loss) from operations	$ 64,124	$ (412,257)	$ (863,880)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Accounting Changes (In Part)

Effective July 1, 2001, the Company adopted certain provisions of Financial Accounting Standards Board ("FASB") Statement of Financial Accounting Standards ("SFAS") No. 141, "Business Combinations," and effective January 1, 2002, the Company adopted the full provisions of SFAS No. 141 and SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 141 requires business combinations initiated after June 30, 2001 to be accounted for using the purchase method of accounting, and broadens the criteria for recording intangible assets apart from goodwill. The Company evaluated its goodwill and intangibles acquired prior to June 30, 2001 using the criteria of SFAS No. 141, which resulted in $25 million of other intangibles (comprised entirely of assembled workforce intangibles) being subsumed into goodwill at January 1, 2002. SFAS No. 142 requires that purchased goodwill and certain indefinite-lived intangibles no longer be amortized, but instead be tested for impairment at least annually. The company evaluated its intangible assets and determined that all such assets have determinable lives.

SFAS No. 142 prescribes a two-phase process for impairment testing of goodwill. The first phase screens for impairment; while the second phase (if necessary) measures the impairment. The Company completed its first phase impairment analysis during the first quarter of 2002 and found no instances of impairment of its recorded goodwill; accordingly, the second testing phase was not necessary. No subsequent indicators of impairment have been noted by the Company.

In accordance with Accounting Principles Board ("APB") Opinion No. 20, "Accounting Changes," the effect of these accounting changes is reflected prospectively. Supplemental comparative disclosure, as if the change had been retroactively applied, is as follows (in thousands, except per share data):

	2002	2001	2000
Net loss:			
Reported net loss	$(149,132)	$(567,277)	$(1,411,273)
Goodwill amortization[1]	—	172,159	310,679
Inventory costing change[2]	(801)	380	421
Adjusted net loss	$(149,933)	$(394,738)	$(1,100,173)
Basic and diluted loss per share:			
Reported loss per share	$ (0.39)	$ (1.56)	$ (4.02)
Goodwill amortization[1]	—	0.48	0.88
Inventory costing change[2]	(0.01)	—	—
Adjusted basic and diluted loss per share	$ (0.40)	$ (1.08)	$ (3.14)

[1] Includes $54 million and $69 million, or $0.15 and $0.20 per share, for 2001 and 2000, respectively, related to amortization of other intangibles that are classified as goodwill effective January 1, 2002.
[2] The inventory costing change in 2000 reflects the cumulative adjustment through that date.

Goodwill and Other Intangibles

Other intangibles consist of the following (in thousands):

	December 31, 2002			December 31, 2001		
	Gross Carrying Amount	Accumulated Amortization	Other Intangibles, Net	Gross Carrying Amount	Accumulated Amortization	Other Intangibles, Net
Contract-based	$16,584	$(14,414)	$2,170	$ 16,584	$ (11,170)	$ 5,414
Marketing-related	5,617	(5,010)	607	5,617	(3,793)	1,824
Technology-based	4,386	(4,331)	55	4,386	(3,808)	578
Customer-related	2,021	(1,393)	628	2,021	(899)	1,122
Assembled workforce[1]	—	—	—	193,271	(167,827)	25,444
Other intangibles	$28,608	$(25,148)	$3,460	$221,879	$(187,497)	$34,382

[1] As of January 1, 2002, in accordance with SFAS No. 142, the Company reclassified its assembled workforce intangibles into goodwill.

At December 31, 2002 and 2001, goodwill was $71 million and $45 million, respectively, stated net of accumulated amortization of $740 million (of which $168 million of accumulated amortization was reclassified with the adoption of SFAS No. 141 on January 1, 2002) and $572 million, respectively. During 2002, no goodwill or other intangibles were acquired, impaired, or disposed, and consistent with SFAS No. 142, no goodwill amortization was recorded.

The net carrying amount of intangible assets at December 31, 2002 is scheduled to be fully amortized by the end of 2004. Amortization expense for the net carrying amount of intangible assets at December 31, 2002 is estimated to be $3 million in 2003, and less than $1 million in 2004.

3.49

THE SCOTTS COMPANY (SEP)

(In millions)	2002	2001	2000
Net sales	$1,760.6	$1,695.8	$1,656.2
Cost of sales	1,124.0	1,092.1	1,052.4
Restructuring and other charges	1.7	7.3	
Gross profit	634.9	596.4	603.8
Gross commission earned from marketing agreement	39.6	39.1	39.2
Contribution expenses under marketing agreement	23.4	18.3	9.9
Net commission earned from marketing agreement	16.2	20.8	29.3
Operating expenses:			
Advertising	82.2	89.1	89.0
Selling, general and administrative	329.6	324.1	312.8
Restructuring and other charges	6.4	68.4	
Amortization of goodwill and other intangibles	5.7	27.7	27.1
Other income, net	(12.0)	(8.5)	(6.0)
Income from operations	$ 239.2	$ 116.4	$ 210.2

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 6. Goodwill and Other Intangible Assets, Net

Effective October 1, 2001, Scotts adopted Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets." In accordance with this standard, goodwill and certain other intangible assets, primarily tradenames, have been classified as indefinite-lived assets no longer subject to amortization. Indefinite-lived assets are subject to impairment testing upon adoption of SFAS No. 142 and at least annually thereafter. The initial impairment analysis was completed in the second quarter of fiscal 2002, taking into account additional guidance provided by EITF 02-07, "Unit of Measure for Testing Impairment of Indefinite-Lived Intangible Assets." The value of all indefinite-lived tradenames as of October 1, 2001 was determined using a "royalty savings" methodology that was employed when the businesses associated with these tradenames were acquired but using updated estimates of sales and profitability. As a result, a pre-tax impairment loss of $29.8 million was recorded for the writedown of the value of the tradenames in our International Consumer businesses in Germany, France and the United Kingdom. This transitional impairment charge was recorded as a cumulative effect of accounting change, net of tax, as of October 1, 2001. After completing this initial valuation and impairment of tradenames, an initial assessment for goodwill impairment was performed. It was determined that a goodwill impairment charge was not required.

Intangible assets include patents, tradenames and other intangible assets which are valued at acquisition through independent appraisals where material, or through other valuation techniques. Patents, trademarks and other intangible assets are being amortized on a straight-line basis over periods varying from 7 to 40 years. The useful lives of intangible assets still subject to amortization were not revised as a result of the adoption of SFAS No. 142.

Management assesses the recoverability of goodwill, tradenames and other intangible assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable from its discounted future cash flows. Goodwill and unamortizable intangible assets are reviewed for impairment at least annually. If it is determined that an impairment has occurred, an impairment loss is recognized for the amount by which the carrying of the asset exceeds its estimated fair value.

The following table presents goodwill and intangible assets as of the end of each period presented. The September 30, 2002 balances reflect the impairment charge recorded as of October 1, 2001.

($ millions)	Weighted Average Life	2002 Gross Carrying Amount	2002 Accumulated Amortization	2002 Net Carrying Amount	2001 Gross Carrying Amount	2001 Accumulated Amortization	2001 Net Carrying Amount
Amortized intangible assets:							
Technology	21	$61.9	$(18.8)	$ 43.1	$61.9	$(15.8)	$ 46.1
Customer accounts	7	33.2	(3.5)	29.7	24.1	(2.5)	21.6
Tradenames	16	11.3	(2.3)	9.0	11.3	(1.6)	9.7
Other	36	50.6	(34.0)	16.6	47.2	(32.6)	14.6
Total amortized intangible assets, net				98.4			92.0
Unamortized intangible assets:							
Tradenames				312.7			336.8
Other				3.1			3.2
Total intangible assets, net				414.2			432.0
Goodwill				377.5			339.1
Total goodwill and intangible assets, net				$791.7			$771.1

The changes to the net carrying value of goodwill by segment for the fiscal year ended September 30, 2002 are as follows (in millions):

	N.A. Consumer	Scotts LawnService®	Global Professional	International Consumer	Total
Balance as of September 30, 2001	$181.0	$25.8	$50.4	$81.9	$339.1
Increases due to acquisitions		42.7			42.7
Decreases	(3.6)			(5.5)	(9.1)
Other (reclassifications and cumulative translation)	0.9		2.1	1.8	4.8
Balance as of September 30, 2002	$178.3	$68.5	$52.5	$78.2	$377.5

The North American Consumer segment goodwill reduction of $3.6 million is a result of adjustments made to purchase accounting reserves in fiscal 2002. The $5.5 million reduction in International Consumer goodwill is due to proceeds received in fiscal 2002 for a legal settlement related to a previous acquisition.

• • • • • •

The total amortization expense for the years ended September 30, 2002, 2001 and 2000 was $5.7 million, $27.7 million and $27.1 million, respectively.

Estimated amortization expense for the existing amortizable intangible assets for the years ended September 30, is as follows:

($ millions)	
2003	$7.5
2004	7.5
2005	7.4
2006	7.4
2007	7.4

Sale of Assets

3.50

HONEYWELL INTERNATIONAL INC. (DEC)

(Dollars in millions)	2002	2001	2000
Net sales	$22,274	$23,652	$25,023
Costs, expenses and other			
Cost of goods sold	17,615	20,125	18,673
Selling, general and administrative expenses	2,757	3,064	3,134
(Gain) loss on sale of non-strategic businesses	124	—	(112)
Asbestos related litigation charges, net of insurance	1,548	159	7
Business impairment charges	877	145	410
Equity in (income) loss of affiliated companies	(42)	193	89
Other (income) expense	(4)	(17)	(57)
Interest and other financial charges	344	405	481
	23,219	24,074	22,625
Income (loss) before taxes	$ (945)	$ (422)	$ 2,398

NOTES TO FINANCIAL STATEMENTS
(Dollars in millions)

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

Recent Accounting Pronouncements (In Part)

In June 2002, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" (SFAS No. 146), the provisions of which are effective for any exit or disposal activities initiated by us after December 31, 2002. SFAS No. 146 provides guidance on the recognition and measurement of liabilities associated with exit or disposal activities and requires that such liabilities be recognized when incurred. The adoption of the provisions of SFAS No. 146 will impact the measurement and timing of costs associated with any exit and disposal activities initiated after December 31, 2002.

Note 4. Gain (Loss) on Sale of Non-Strategic Businesses

In 2002, we sold the following businesses:

	Pretax Gain (Loss)	After-Tax Gain (Loss)
Automation and Control Solutions—Consumer Products	$(131)	$(10)
Specialty Materials—Advanced Circuits	(83)	18
Specialty Materials—Pharmaceutical Fine Chemicals (PFC)	(35)	108
Transportation and Power Systems—Bendix Commercial Vehicle Systems (BCVS)	125	79
	$(124)	$195

We realized proceeds of approximately $435 million in cash and investment securities on the sale of these businesses in 2002. Our Advanced Circuits and PFC businesses had a higher deductible tax basis than book basis which resulted in an after-tax gain. The divestitures of these businesses reduced net sales and increased segment profit in 2002 compared with 2001 by approximately $500 and $31 million, respectively.

In 2000, as a result of a government mandate in connection with the merger of AlliedSignal and the former Honeywell, we sold the TCAS product line of the former Honeywell. We received approximately $215 million in cash resulting in a pretax gain of $112 million. The TCAS product line had annual sales of approximately $100 million.

Foreign Currency Transactions

3.51

BAUSCH & LOMB INCORPORATED (DEC)

(Dollar amounts in millions)	2002	2001	2000
Net sales	$1,816.7	$1,665.5	$1,718.7
Costs and expenses			
Cost of products sold	797.1	763.7	746.9
Selling, administrative and general	692.5	671.9	627.5
Research and development	128.4	122.0	121.5
Purchased in-process research and development	—	—	23.8
Restructuring charges and asset write-offs	49.0	21.2	33.7
Other expense	—	—	23.4
	1,667.0	1,578.8	1,576.8
Operating income	149.7	86.7	141.9
Other (income) expense			
Interest and investment income	(44.9)	(48.4)	(52.3)
Interest expense	53.9	58.3	68.5
Loss (gain) from foreign currency, net	3.7	(8.2)	(11.4)
Other income, net	—	—	(23.6)
	12.7	1.7	(18.8)
Income from continuing operations before income taxes and minority interest	$ 137.0	$ 85.0	$ 160.7

NOTES TO FINANCIAL STATEMENTS
(Dollar amounts in millions)

Note 1 (In Part): Accounting Policies

Foreign Currency

For most subsidiaries outside the U.S., the local currency is the functional currency, and translation adjustments are accumulated as a component of other comprehensive income. The accumulated income (expense) balances of currency translation adjustments, net of taxes, were $16.8, $(40.1) and $(26.6) at the end of 2002, 2001 and 2000, respectively.

For subsidiaries that operate in U.S. dollars and one subsidiary whose economic environment is highly inflationary, the U.S. dollar is the functional currency, and gains and losses that result from remeasurement are included in income. The risk related to this latter subsidiary is not considered material to the company's consolidated financial statements. The

effects from foreign currency translation were gains of $4.6 and $1.1 in 2002 and 2001, respectively, and a loss of $1.7 in 2000.

The company hedges certain foreign currency transactions, firm commitments and net assets of certain non-U.S. subsidiaries by entering into forward exchange contracts. Gains and losses associated with currency rate changes on forward contracts hedging foreign currency transactions are recorded in income. The effects of foreign currency transactions, including related hedging activities, were a loss of $8.3 in 2002 and gains of $7.1 and $13.1 in 2001 and 2000, respectively.

Equity in Losses of Investee

3.52

KNIGHT-RIDDER, INC. (DEC)

(In thousands)	2002	2001	2000
Operating revenue			
Advertising			
Retail	$1,098,644	$1,073,789	$1,104,766
General	300,622	297,033	336,613
Classified	807,676	883,600	1,066,457
Total	2,206,942	2,254,422	2,507,836
Circulation	487,732	512,309	523,856
Other	146,920	133,478	180,075
Total operating revenue	2,841,594	2,900,209	3,211,767
Operating costs			
Labor and employee benefits	1,124,484	1,177,554	1,220,221
Newsprint, ink and supplements	353,331	440,782	460,463
Other operating costs	633,722	635,545	674,714
Depreciation and amortization	124,695	184,573	187,597
Total operating costs	2,236,232	2,438,454	2,542,995
Operating income	605,362	461,755	668,772
Other income (expense)			
Interest expense	(74,969)	(100,833)	(116,652)
Interest expense capitalized	718	1,961	2,230
Interest income	381	938	1,553
Equity in earnings (losses) of unconsolidated companies and joint ventures	(62,262)	(16,095)	(8,506)
Minority interests in earnings of consolidated subsidiaries	(11,103)	(9,675)	(12,814)
Other, net	(9,457)	(30,652)	(9,293)
Total	(156,692)	(154,356)	(143,482)
Income before income taxes and cumulative effect of change in accounting principle of unconsolidated company	$ 448,670	$ 307,399	$ 525,290

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Investments (In Part)

Investments in entities in which Knight Ridder has an equity interest of at least 20% but not more than 50% are accounted for under the equity method. Knight Ridder also accounts for its 13.5% investment in Ponderay Newsprint Company under the equity method since the company exercises significant influence, as defined by the Accounting Principles Board (APB) 18, over the operating and fiscal policies of Ponderay. The company records its share of earnings as income and

increases the investment by the equivalent amount. Dividends and losses are recorded as a reduction in the investment.

The investment caption "Equity in unconsolidated companies and joint ventures" in the Consolidated Balance Sheet represents the company's equity in the net assets of Detroit Newspapers; Seattle Times Company and subsidiaries; Newspapers First, a company responsible for the sales and servicing of general, retail and classified advertising accounts for a group of newspapers; SP Newsprint Co. and Ponderay Newsprint Company, two newsprint mill partnerships; InfiNet Company, a joint venture that provides Web-hosting services; CareerBuilder, LLC, a company in the business of providing recruitment services through the Internet; Classified Ventures, LLC, an online classified listings service; and Newscom, LLC, a company that provides online access to news wires, features, graphics and photographic content to the media.

The company owns a 50% equity interest in Detroit Newspapers (DN), a joint operating agency between Detroit Free Press, Inc., a wholly owned subsidiary of Knight Ridder, and The Detroit News, Inc., a wholly-owned subsidiary of Gannett Co., Inc. In 1989, business operations of the Detroit Free Press and The Detroit News were transferred to DN under a joint operating agreement that expires in 2089. The company shows its share of revenue and expenses as a net amount in the "Other revenue" line.

The company owns 49.5% of the voting common stock and 65% of the nonvoting common stock of the Seattle Times Company; 28.9% of the voting stock of Newspapers First; a 33.3% equity share of CareerBuilder; a 20.4% equity interest in Classified Ventures; a 50% equity interest in Newscom, LLC; a 13.5% partnership interest in Ponderay Newsprint Company; a 50% partnership interest in Knight Ridder/Tribune Information Services, Inc.; and 33.3% of the voting stock of InfiNet Company. It is a one-third partner in the SP Newsprint Co.

Note 4. Unconsolidated Companies and Joint Ventures

Summary financial information for the company's unconsolidated companies and joint ventures accounted for under the equity method is as follows (in thousands):

	2002	2001	2000
Current assets	$ 308,005	$ 308,822	$ 307,945
Property, plant and equipment and other assets	1,685,431	1,769,702	1,627,313
Current liabilities	269,076	235,452	192,030
Long-term debt and other noncurrent liabilities	620,976	579,473	669,911
Net sales	1,423,174	1,319,245	1,393,426
Gross profit	102,589	168,219	103,469
Net income (loss)	(193,790)	(4,584)	9,832
Company's share of:			
Net assets	301,680	393,777	304,486
Net loss	$ (62,262)	$ (16,095)	$ (8,506)

In 1989, the Detroit Free Press and The Detroit News began operating under a joint operating agreement as Detroit Newspapers (DN). Balance sheet and net sales amounts for DN at Dec. 29, 2002, Dec. 30, 2001, and Dec. 31, 2000, are included in the preceding table, and the net assets contributed to DN are included in "Equity in unconsolidated companies and joint ventures" in the Consolidated Balance Sheet. Excluding DN, net sales of the unconsolidated companies and joint ventures were $1,009.8 million in 2002, $904.3 million in 2001 and $936.8 million in 2000. Excluding DN, the company's investment in unconsolidated subsidiaries includes $289.9 million of net assets accumulated since the investment dates. Dividends and cash distributions received from unconsolidated companies and joint ventures, excluding DN, were $7.4 million in 2002, $3.4 million in 2001 and $9.5 million in 2000.

Minority Interest

3.53

LAFARGE NORTH AMERICA INC. AND SUBSIDIARIES (DEC)

(In thousands)	2002	2001	2000
Net sales	$3,251,555	$3,323,020	$2,787,629
Costs and expenses:			
Cost of goods sold	2,521,317	2,606,681	2,099,332
Selling and administrative	318,072	296,091	269,368
Amortization of goodwill	—	20,641	17,213
Income from managed assets:			
Management fees and cost reimbursement	(190,833)	(9,704)	—
Direct and allocated costs and expenses	178,833	4,059	—
Other (income) expense, net	3,570	4,197	(29,036)
Minority interests	8,368	7,007	—
Interest expense	52,791	54,507	50,620
Interest income	(9,720)	(6,615)	(23,697)
Total costs and expenses	2,882,398	2,976,864	2,383,800
Earnings before income taxes	$ 369,157	$ 346,156	$ 403,829

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 9 Minority Interests

Minority interests primarily consist of 166.4 million shares of no par preferred stock (the "Preferred Shares") issued by a subsidiary of the company on December 29, 2000, in conjunction with the Warren merger. No gain or loss was recognized as a result of the issuance of these securities, and the company owned substantially all of the voting equity of the subsidiary both before and after the transaction. The holder of the Preferred Shares is entitled to receive cumulative, preferential cash dividends at the annual rate of 6.0 percent of the issue price (Canadian $166.4 million, or approximately U.S. $105 million) from 2001 to 2003, 5.5 percent of the issue price from 2004 to 2005 and 5.0 percent of the issue price thereafter. In addition, the holder may receive additional dividends based on its share of the total after-tax proceeds received by Warren from the sale of certain assets during each quarter. During 2002 and 2001, respectively, the company paid

$2.1 million and $0.6 million in additional dividends resulting from these sales, which are included in "Minority interests" in the accompanying Consolidated Statements of Income.

The Preferred Shares are redeemable at the original issue price, in whole or in part, on or after December 29, 2005 at the option of the holder thereof. Further, at any time following December 29, 2015, the company may redeem all or a portion of the then outstanding Preferred Shares at an amount equal to the issuance price.

The Preferred Shares are entitled to a preference over the Common Stock and Exchangeable Shares with respect to the payment of dividends and to the distribution of assets in the event of the issuing subsidiary's liquidation or dissolution.

Litigation Settlement

3.54

CENDANT CORPORATION AND SUBSIDIARIES (DEC)

(In millions)	2002	2001	2000
Revenues			
Service fees and membership-related, net	$10,062	$5,426	$4,191
Vehicle-related	3,979	3,134	11
Other	47	53	118
Net revenues	14,088	8,613	4,320
Expenses			
Operating	6,721	2,658	1,176
Vehicle depreciation, lease charges and interest, net	2,094	1,789	—
Marketing and reservation	1,392	1,114	896
General and administrative	1,120	965	663
Non-program related depreciation and amortization	466	477	321
Other charges (credits):			
Acquisition and integration related costs	285	112	—
Litigation and related charges, net	103	86	2
Restructuring and other unusual charges	(14)	379	109
Mortgage servicing rights impairment	—	94	—
Non-program related interest (net of interest income of $41, $91 and $73)	262	252	152
Total expenses	12,429	7,926	3,319
Gains on dispositions of businesses	—	443	37
Losses on dispositions of businesses	—	(26)	(45)
Impairment of investments	—	(441)	—
Income before income taxes, minority interest and equity in Homestore	$ 1,659	$ 663	$ 993

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7 (In Part): Other Charges (Credits)

Litigation and Related Costs

During 2002, 2001 and 2000, the Company recorded charges of $145 million, $100 million and $43 million, respectively, for litigation and related costs incurred in connection with settlements or investigations relating to the 1998 discovery of accounting irregularities in the former business units of CUC International, Inc. ("CUC"). The 2002 charges were partially offset by a credit of $42 million related to a recovery under the Company's directors' and officers' liability insurance policy in connection with derivative actions arising from former CUC related litigation. The 2001 and 2000 charges were partially offset by non-cash credits of $14 million and $41 million, respectively, to reflect adjustments to the PRIDES class action litigation settlement charge recorded by the Company in 1998 (see Note 22—Mandatorily Redeemable Trust Preferred Securities Issued by Subsidiary Holding Solely Senior Debentures Issued by the Company for more detailed information on the PRIDES). Such adjustments represented a reduction in the number of Rights to be issued in connection with the settlement.

23 (In Part): Commitments and Contingencies

Litigation Contingencies (In Part)

The Company is involved in litigation asserting claims associated with the accounting irregularities discovered in former CUC business units outside of the principal common stockholder class action litigation. While the Company has an accrual of approximately $100 million recorded on its Consolidated Balance Sheet for these claims based upon its best estimates, it does not believe that it is feasible to predict or determine the final outcome or resolution of these unresolved proceedings. An adverse outcome from such unresolved proceedings could be material with respect to earnings in any given reporting period. However, the Company does not believe that the impact of such unresolved proceedings should result in a material liability to the Company in relation to its consolidated financial position or liquidity.

The Company is involved in pending litigation in the usual course of business. In the opinion of management, such litigation will not have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

Change in Fair Value of Derivatives

3.55

THE FAIRCHILD CORPORATION AND SUBSIDIARIES (JUN)

(In thousands)	2002	2001	2000
Revenue:			
Net sales	$624,093	$622,812	$635,361
Rental revenue	6,679	7,030	3,583
Other income, net	5,021	5,922	10,827
	635,793	635,764	649,771
Costs and expenses:			
Cost of goods sold	472,270	466,361	472,023
Cost of rental revenue	4,911	4,599	2,489
Selling, general & administrative	128,342	125,106	130,864
Amortization of intangibles	—	12,506	12,574
Impairment charges	3,435	5,889	—
Restructuring	—	—	8,578
	608,958	614,461	626,528
Operating income	26,835	21,303	23,243
Interest expense	51,124	57,577	48,942
Interest income	(4,368)	(1,861)	(4,850)
Net interest expense	46,756	55,716	44,092
Investment income (loss)	(992)	8,367	9,935
Decrease in fair market value of interest rate contract	(4,567)	(5,610)	—
Nonrecurring gain	—	—	28,625
Earnings (loss) from continuing operations before taxes	$ (25,480)	$ (31,656)	$ 17,711

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (In thousands)

9. Derivative Instruments and Hedging Activities

In fiscal 1998, we entered into a ten-year interest rate swap agreement to reduce our cash flow exposure to increases in interest rates on variable rate debt. The ten-year interest rate swap agreement provides us with interest rate protection on $100 million of variable rate debt, with interest being calculated based on a fixed LIBOR rate of 6.24% to February 17, 2003. On February 17, 2003, the bank with which we entered into the interest swap agreement will have a one-time option to elect to cancel the agreement or to do nothing and proceed with the transaction, using a fixed LIBOR rate of 6.715% for the period February 17, 2003 to February 19, 2008.

We adopted SFAS No. 133 on July 1, 2000. At adoption, we recorded, within other comprehensive income, a decrease of $0.5 million in the fair market value of our $100 million interest rate swap agreement. The $0.5 million decrease will be amortized over the remaining life of the interest rate swap agreement using the effective interest method. The offsetting interest rate swap liability is separately being reported as a "fair market value of interest rate contract" within other long-term liabilities. In the statement of earnings, we have recorded the net swap interest accrual as part of interest expense. Unrealized changes in the fair value of the swap are recorded on a separate line entitled "decrease in fair market value of interest rate contract."

We did not elect to pursue hedge accounting for the interest rate swap agreement, which was executed to provide an economic hedge against cash flow variability on the floating rate note. When evaluating the impact of SFAS No. 133 on this hedge relationship, we assessed the key characteristics of the interest rate swap agreement and the note. Based on this assessment, we determined that the hedging relationship would not be highly effective. The ineffectiveness is caused by the existence of the embedded written call option in the interest rate swap agreement and the absence of a mirror option in the hedged item. As such, pursuant to SFAS No. 133, we designated the interest rate swap agreement in the no hedging designation category. Accordingly, we have recognized a non-cash decrease in fair market value of interest rate derivatives of $4.6 million and $5.6 million in 2002 and 2001, respectively, as a result of the fair market value adjustment for our interest rate swap agreement.

The fair market value adjustment of these agreements will generally fluctuate based on the implied forward interest rate curve for the 3-month LIBOR. If the implied forward interest rate curve decreases, the fair market value of the interest hedge contract will increase and we will record an additional charge. If the implied forward interest rate curve increases, the fair market value of the interest hedge contract will decrease, and we will record income.

In March 2000, we issued a floating rate note with a principal amount of $30,750. Embedded within the promissory note agreement is an interest rate cap. The embedded interest rate cap limits to 8.125%, the 1-month LIBOR interest rate that we must pay on the note. At execution of the promissory note, the strike rate of the embedded interest rate cap of 8.125% was above the 1-month LIBOR rate of 6.61%. Under SFAS 133, the embedded interest rate cap is considered to be clearly and closely related to the debt of the host contract and is not required to be separated and accounted for separately from the host contract. In fiscal 2001, we accounted for the hybrid contract, comprised of the variable rate note and the embedded interest rate cap, as a single debt instrument.

We recognize interest expense under the provisions of the hedge agreements based on the fixed rate. We are exposed to credit loss in the event of non-performance by the lenders; however, such non-performance is not anticipated.

The table below provides information about our derivative financial instruments and other financial instruments that are sensitive to changes in interest rates, which include interest rate swaps. For interest rate swaps, the table presents notional amounts and weighted average interest rates by expected (contractual) maturity dates. Notional amounts are used to calculate the contractual payments to be exchanged under the contract. Weighted average variable rates are based on implied forward rates in the yield curve at the reporting date.

Expected Fiscal Year Maturity Date	2003	2008
Type of interest rate contracts	Interest rate cap	Variable to fixed
Variable to fixed	$30,750	$100,000
Fixed LIBOR rate	N/A	6.24%[a]
LIBOR cap rate	8.125%	N/A
Average floor rate	N/A	N/A
Weighted average forward LIBOR rate	1.95%	4.46%
Fair market value at June 30, 2002	$ 5	$ (10,989)

[a] On February 17, 2003, the bank will have a one-time option to elect to cancel the agreement or to do nothing and proceed with the transaction, using a fixed LIBOR rate of 6.715% for the period February 17, 2003 to February 19, 2008.

Sale of Receivables

3.56

BOISE CASCADE CORPORATION AND SUBSIDIARIES (DEC)

(Thousands)	2002	2001	2000
Sales	$7,412,329	$7,422,175	$7,806,657
Costs and expenses			
Materials, labor, and other operating expenses	6,013,613	5,990,601	6,193,863
Depreciation, amortization, and cost of company timber harvested	306,973	296,023	297,700
Selling and distribution expenses	785,883	785,243	832,485
General and administrative expenses	154,284	131,720	124,177
Other (income) expense, net	30,842	129,460	(83,535)
	7,291,595	7,333,047	7,364,690
Equity in net income (loss) of affiliates	(2,435)	(8,039)	2,061
Income from operations	$ 118,299	$ 81,089	$ 444,028

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. Other (Income) Expense, Net

"Other (income) expense, net" includes nonroutine and miscellaneous income and expense items. The components of "Other (income) expense, net" in the Consolidated Statements of Income (Loss) are as follows:

(Thousands)	2002	2001	2000
Sale and write-down of investment in IdentityNow	$23,646	$ 54,261	$ —
Sale of European operations	(1,388)	(5,000)	(98,618)
Restructuring activities	(750)	57,929	—
Sales of receivables (Note 6)	4,387	8,372	9,317
Postretirement benefits	—	10,871	—
Other, net	4,947	3,027	5,766
	$30,842	$129,460	$(83,535)

6. Receivables

We have sold fractional ownership interests in a defined pool of trade accounts receivable. At December 31, 2002, 2001, and 2000, $200 million of sold accounts receivable were excluded from "Receivables" in the accompanying Consolidated Balance Sheets, compared with the December 31, 1999, balance of $100 million. The increase of $100 million in sold accounts receivable at December 31, 2000, over the amount at December 31, 1999, provided cash from operations in 2000. The portion of fractional ownership interest we retain is included in "Receivables" in the Consolidated Balance Sheets. This program consists of a revolving sale of receivables committed to by the purchasers for 364 days and is subject to renewal. Costs related to the program are included in "Other (income) expense, net" in the Consolidated Statements of Income (Loss); see Note 3. Under the accounts receivable sale agreement, the maximum amount available from time to time is subject to change based on the level of eligible receivables, restrictions on concentrations of receivables, and the historical performance of the receivables we sell, not to exceed $200 million.

Merger Costs

3.57

PFIZER INC. AND SUBSIDIARY COMPANIES (DEC)

(Millions)	2002	2001	2000
Revenues	$32,373	$29,024	$26,045
Costs and expenses:			
Cost of sales	4,045	3,823	3,755
Selling, informational and administrative expenses	10,846	9,717	9,566
Research and development expenses	5,176	4,776	4,374
Merger-related costs	630	819	3,223
Other (income)/deductions—net	(120)	(95)	(374)
Income from continuing operations before provision for taxes on income, minority interests and cumulative effect of a change in accounting principle	$11,796	$ 9,984	$ 5,501

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Significant Accounting Policies

A (In Part): Consolidation and Basis of Presentation

On June 19, 2000, we completed our merger with Warner-Lambert Company (Warner-Lambert). The merger was accounted for as a pooling of interests. As a result, we restated all prior period consolidated financial statements presented to reflect the combined results of operations, financial position and cash flows of both companies as if they had always been merged. Prior to the merger, the only significant transactions between Pfizer and Warner-Lambert occurred under the Lipitor marketing agreements. We have eliminated these transactions from the restated combined financial statements.

2. Merger Activities

Merger of Pfizer and Warner-Lambert

On June 19, 2000, we completed our merger with Warner-Lambert. We issued approximately 2,440 million shares of our common stock for all the outstanding common stock of Warner-Lambert. The merger qualified as a tax-free reorganization and was accounted for as a pooling of interests under APB No. 16, *Business Combinations.*

Proposed Acquisition of Pharmacia Corporation

On July 15, 2002, we announced that we signed a definitive agreement to merge with Pharmacia Corporation (Pharmacia) in a stock-for-stock transaction valued on that date at approximately $60 billion. In December 2002, both Pfizer and Pharmacia shareholders approved the acquisition. The European Commission has approved our proposed acquisition of Pharmacia. We are awaiting approval by U.S. regulatory authorities. We expect the acquisition will close in the first quarter of 2003. Under terms of the merger agreement, upon close of the transaction we will exchange 1.4 shares of Pfizer common stock for each outstanding share of Pharmacia common stock in a tax-free transaction resulting in the issuance of approximately 2 billion shares of Pfizer common stock. We also will exchange options on 1.4 shares of Pfizer common stock for each outstanding Pharmacia option at the merger date. In addition, each share of Pharmacia convertible perpetual preferred stock will be exchanged for a share of a newly created class of Pfizer convertible perpetual preferred stock with rights substantially identical to the rights of the Pharmacia convertible perpetual preferred stock. The perpetual preferred stock will be convertible into approximately 16 million shares of Pfizer common stock.

In 2002, we have incurred approximately $33 million in transaction costs, including banking, legal, accounting and other costs directly related to our proposed acquisition of Pharmacia. At December 31, 2002, these costs are included in *Other assets, deferred taxes and deferred charges.* However, upon close of the acquisition, these amounts will become a part of the purchase price of Pharmacia. We have also incurred and expensed approximately $98 million of pre-integration costs associated with the proposed acquisition of Pharmacia. These costs are included in *Merger-related costs.*

The acquisition of Pharmacia could result in the divestiture of certain assets and operations, as required by regulatory agencies.

3. Merger-Related Costs

We incurred the following merger-related costs in connection with our merger with Warner-Lambert in 2000 and our proposed acquisition of Pharmacia:

(Millions of dollars)	2002	2001	2000
Transaction costs[1]	$ —	$ —	$ 226
Transaction costs related to Warner-Lambert's termination of the Warner-Lambert/American Home Products merger[1]	—	—	1,838
Integration costs—Warner-Lambert[2]	345	456	242
Pre-integration costs—Pharmacia[3]	98	—	—
Restructuring charges—Warner-Lambert	187	363	917
Total merger-related costs	$ 630	$ 819	$3,223

[1] Transaction costs include banking, legal, accounting and other costs directly related to our merger with Warner-Lambert.

[2] Integration costs represent external, incremental costs directly related to our merger with Warner-Lambert, including expenditures for consulting and systems integration.

[3] Pre-integration costs represent external, incremental costs directly related to our proposed acquisition of Pharmacia.

The components of the restructuring charges associated with the merger of the Warner-Lambert operations follow:

	Provisions				Utilization Through Dec. 31,	Reserve Dec. 31,
(Millions of dollars)	2002	2001	2000	Total	2002	2002
Employee termination costs	$170	$249	$850	$1,269	$(1,237)	$32
Property, plant and equipment	4	84	46	134	(134)	—
Other	13	30	21	64	(64)	—
Total	$187	$363	$917	$1,467	$(1,435)	$32

Through December 31, 2002, the charges for employee termination costs represent the approved reduction of our work force of our continuing businesses by 7,961 people, mainly in administrative functions for corporate, manufacturing, distribution, sales and research. We notified affected individuals, and as of December 31, 2002, 7,321 employees had been terminated. Employee termination costs include accrued severance benefits and costs associated with change-in-control provisions of certain Warner-Lambert employment contracts. Under the terms of these contracts, certain terminated employees may elect to defer receipt of severance benefits. Severance benefits deferred for future payments were $218 million at December 31, 2002 and $215 million at December 31, 2001. The deferred severance benefits are considered utilized charges and are included in *Other noncurrent liabilities.*

The impairment and disposal charges through December 31, 2002 for property, plant and equipment include the consolidation of facilities and related fixed assets and the termination of certain software installation projects.

Environmental Clean-Up

3.58

OCCIDENTAL PETROLEUM CORPORATION AND SUBSIDIARIES (DEC)

(In millions)	2002	2001	2000
Revenues			
Net sales	$7,338	$8,102	$8,504
Interest, dividends and other income	143	223	263
Gains on disposition of assets, net	10	10	639
	7,491	8,335	9,406
Costs and other deductions			
Cost of sales	3,385	3,626	3,933
Selling, general and administrative and other operating expenses	635	665	686
Write-down of assets	42	3	180
Depreciation, depletion and amortization of assets	1,012	965	894
Environmental remediation	23	109	—
Exploration expense	176	184	94
Interest and debt expense, net	295	401	510
	5,568	5,953	6,297
Income before taxes and other items	$1,923	$2,382	$3,109

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Environmental Costs

Environmental expenditures that relate to current operations are expensed or capitalized as appropriate. Reserves for estimated costs that relate to existing conditions caused by past operations and that do not contribute to current or future revenue generation are recorded when environmental remedial efforts are probable and the costs can be reasonably estimated. In determining the reserves, Occidental refers to currently available information, including relevant past experience, available technology, regulations in effect, the timing of remediation and cost-sharing arrangements. The environmental reserves are based on management's estimate of the most likely cost to be incurred and are reviewed periodically and adjusted as additional or new information becomes available. For the years ended December 31, 2002 and 2001, Occidental has not accrued any reimbursements or recoveries as assets. Recoveries and reimbursements are recorded in income when receipt is probable. Environmental reserves are recorded on a discounted basis only when a reserve is initially established and the aggregate amount of the estimated costs for a specific site and the timing of cash payments are reliably determinable. The reserve methodology for a specific site is not modified once it has been established.

At sites involving multiple parties, Occidental provides environmental reserves based upon its expected share of liability. When other parties are jointly liable, the financial viability of the parties, the degree of their commitment to participate and the consequences to Occidental of their failure to participate are evaluated when estimating the company's ultimate share of liability. Occidental believes that it will not be required to assume a share of liability of other potentially responsible parties with whom it is alleged to be jointly liable in an amount that would have a material effect on Occidental's consolidated financial position or liquidity or results of operations.

Most cost sharing arrangements with other parties fall into one of the following three categories:

- *Category 1:* Comprehensive Environmental Response, Compensation and Liability Act (CERCLA) or state-equivalent sites wherein Occidental and other alleged potentially responsible parties share the cost of remediation in accordance with negotiated or prescribed allocations;
- *Category 2:* Oil and gas joint ventures wherein each joint venture partner pays its proportionate share of remedial cost; and

- *Category 3:* Contractual arrangements typically relating to purchases and sales of property wherein the parties to the transaction agree to methods of allocating the costs of environmental remediation.

In all three of these categories, Occidental records as a reserve its expected net cost of remedial activities, as adjusted by recognition for any non-performing parties.

In addition to the costs of investigating and implementing remedial measures, which often take in excess of ten years at CERCLA sites, Occidental's reserves include management's estimates of the cost of operation and maintenance of remedial systems. To the extent that the remedial systems are modified over time in response to significant changes in site-specific data, laws, regulations, technologies or engineering estimates, Occidental reviews and changes the reserves accordingly on a site-specific basis.

The following shows environmental reserve activity for the past three reporting periods:

(In millions)	2002	2001	2000
Balance—beginning of year	$454	$402	$454
Increases to provision including interest accretion	25	111	2
Changes from acquisitions/dispositions	—	5	23
Payments	(84)	(75)	(85)
Other	(2)	11	8
Balance—end of year	$393	$454	$402

Occidental expects to expend funds equivalent to about half of the current environmental reserve over the next three years and the balance over the next ten or more years.

Note 8 Environmental Expenditures

Occidental's operations in the United States are subject to stringent federal, state and local laws and regulations relating to improving or maintaining the quality of the environment. Foreign operations also are subject to environmental-protection laws. Costs associated with environmental compliance have increased over time and are generally expected to rise in the future. Environmental expenditures related to current operations are factored into the overall business planning process. These expenditures are mainly considered an integral part of production in manufacturing quality products responsive to market demand.

The laws which require or address environmental remediation may apply retroactively to past waste disposal practices and releases. In many cases, the laws apply regardless of fault, legality of the original activities or current ownership or control of sites. Occidental Petroleum Corporation (OPC) or certain of its subsidiaries are currently participating in environmental assessments and cleanups under these laws at federal Superfund sites, comparable state sites and other remediation sites, including Occidental facilities and previously owned sites. Also, OPC and certain of its subsidiaries have been involved in a substantial number of governmental and private proceedings involving historical practices at various sites including, in some instances, having been named in proceedings under CERCLA and similar federal, state and local environmental laws. These proceedings seek funding or performance of remediation and, in some cases, compensation for alleged property damage, punitive damages and civil penalties.

Occidental manages its environmental remediation efforts through a wholly owned subsidiary, Glenn Springs Holdings, Inc. (GSH), which reports its results directly to Occidental's corporate management. The following table presents Occidental's environmental remediation reserves at December 31, 2002, 2001 and 2000 grouped by three categories of environmental remediation sites:

	2002		2001		2000	
($ amounts in millions)	Number of Sites	Reserve	Number of Sites	Reserve	Number of Sites	Reserve
CERCLA & equivalent sites	124	$284	126	$320	127	$263
Active facilities	14	46	14	59	14	66
Closed or sold facilities	44	63	47	75	49	73
Total	182	$393	187	$454	190	$402

In determining the environmental remediation reserves, Occidental refers to currently available information, including relevant past experience, available technology, regulations in effect, the timing of remediation and cost-sharing arrangements. Occidental expects that it will continue to incur additional liabilities beyond those recorded for environmental remediation at these and other sites. The range of reasonably possible loss for existing environmental remediation matters could be up to $400 million beyond the amount accrued. Many factors could result in changes to Occidental's environmental reserves and reasonably possible range of loss. The most significant are:

- The original cost estimate may have been inaccurate.
- Modified remedial measures might be necessary to achieve the required remediation results. Occidental generally assumes that the remedial objective can be achieved using the most cost-effective technology reasonably expected to achieve that objective. Such technologies may include air sparging or phyto-remediation of shallow groundwater, or limited surface soil removal or in-situ treatment producing acceptable risk assessment results. Should such remedies fail to achieve remedial objectives, more intensive or costly measures may be required.
- The remedial measure might take more or less time than originally anticipated to achieve the required contaminant reduction. Site-specific time estimates can be affected by factors such as groundwater capture rates, anomalies in subsurface geology, interactions between or among water-bearing zones and non-water-bearing zones, or the ability to identify and control contaminant sources.
- The regulatory agency might ultimately reject or modify Occidental's proposed remedial plan and insist upon a different course of action.

Additionally, other events might occur that could affect Occidental's future remediation costs, such as:

- The discovery of more extensive contamination than had been originally anticipated. For some sites with impacted groundwater, accurate definition of contaminant plumes requires years of monitoring data and computer modeling. Migration of contaminants may follow unexpected pathways along geologic anomalies that could initially go undetected. Additionally, the size of the area requiring remediation may change based upon risk assessment results following site characterization or interim remedial measures.
- Remediation technology might improve to decrease the cost of remediation. In particular, for groundwater remediation sites with projected long-term operation and maintenance, the development of more effective treatment technology, or acceptance of alternative and more cost-effective treatment methodologies such as bio-remediation, could significantly affect remediation costs.
- Laws and regulations might change to impose more or less stringent remediation requirements.

At December 31, 2002, OPC or certain of its subsidiaries have been named in 124 CERCLA or state equivalent proceedings, as shown below.

($ amounts in millions)

Description	Number of Sites	Reserve Balance
Minimal/no exposure	102	$ 7
Reserves between $1–10 MM	14	54
Reserves over $10 MM	8	223
Total	124	$284

The eight sites with individual reserves over $10 million in 2002 are a former copper mining and smelting operation in Tennessee, two closed landfills in Western New York, groundwater treatment facilities at three former chemical plants (Western New York, Montague, Michigan and Tacoma, Washington), replacement of a municipal drinking water treatment plant in Western New York, and various sediment clean-up actions in Washington.

Certain subsidiaries of OPC are currently addressing releases of substances from past operations at 14 active facilities. Three facilities—certain oil and gas properties in the southwestern United States, a chemical plant in Louisiana, and a phosphorous recovery operation in Tennessee—account for 62 percent of the reserves associated with these facilities.

There are 44 sites formerly owned or operated by certain subsidiaries of OPC that have ongoing environmental remediation requirements. Three sites account for 66 percent of the reserves associated with this group. The three sites are: an active refinery in Louisiana where Occidental indemnifies the current owner and operator for certain remedial actions, a water treatment facility at a former coal mine in Pennsylvania, and a former chemical plant in West Virginia.

Occidental's costs, some of which may include estimates, relating to compliance with environmental laws and regulations are shown below for each segment:

(In millions)	2002	2001	2000
Operating expenses			
Oil and gas	$ 32	$ 22	$ 17
Chemical	46	47	51
	$ 78	$ 69	$ 68
Capital expenditures			
Oil and gas	$ 70	$ 60	$ 27
Chemical	16	19	20
	$ 86	$ 79	$ 47
Remediation expenses			
Corporate	$ 23	$109	$ —
Environmental reserves			
Corporate	$393	$454	$402

Operating expenses are incurred on a continual basis. Capital expenditures relate to longer-lived improvements in currently operating facilities. Remediation expenses relate to existing conditions caused by past operations and do not contribute to current or future revenue generation. Although total costs may vary in any one year, over the long term, segment operating and capital expenditures for environmental compliance generally are expected to increase.

Eight counties in the Houston-Galveston area are subject to a federal EPA mandate to adopt a plan for implementing certain requirements of the federal Clean Air Act, known as a State Implementation Plan. In October 2001, the EPA approved a State Implementation Plan for the Houston Galveston area (the Plan). In December 2002, the Texas Commission on Environmental Quality revised the regulations associated with the Plan. The revised Plan contains provisions requiring the reduction of 80 percent of current nitrogen oxide (NOx) emissions and 60 percent of the volatile organic compound (VOC) emissions in the Houston-Galveston area by November 2007. Occidental operates six facilities that will be subject to the Plan's NOx and VOC-reduction requirements. Occidental estimates that over the next several years its capital expenditures will increase by a total of $70–$120 million for environmental control and monitoring equipment necessary to comply with the Plan, depending on the amount of emissions reduction that is ultimately required. Occidental began expending the capital necessary to comply with the Plan in 2001 and expects expenditures to end in 2007, although the timing of the expenditures will vary by facility.

Occidental presently estimates that capital expenditures for environmental compliance (including the Plan discussed above) will be approximately $72 million for 2003 and $95 million for 2004.

Royalties

3.59

HASBRO, INC. AND SUBSIDIARIES (DEC)

(Thousands of dollars)	2002	2001	2000
Net revenues	$2,816,230	$2,856,339	$3,787,215
Cost of sales	1,099,162	1,223,483	1,673,973
Gross profit	1,717,068	1,632,856	2,113,242
Expenses			
Amortization	94,576	121,652	157,763
Royalties	296,152	209,725	426,881
Research and product development	153,775	125,633	208,485
Advertising	296,549	290,829	452,978
Selling, distribution and administration	656,725	675,482	863,496
Restructuring	—	(1,795)	63,951
Loss on sale of business units	—	—	43,965
Total expenses	1,497,777	1,421,526	2,217,519
Operating profit (loss)	$ 219,291	$ 211,330	$ (104,277)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Royalties

The Company enters into license agreements with inventors, designers and others for the use of intellectual properties in its products. These agreements may call for payment in advance or future payment for minimum guaranteed amounts. Amounts paid in advance are recorded as an asset and charged to expense as revenue from the related products is recognized. If all or a portion of the minimum guaranteed amounts appear not to be recoverable through future use of the rights obtained under license, the nonrecoverable portion of the guaranty is charged to expense at that time.

Purchased R&D

3.60

AMGEN INC. (DEC)

(In millions)	2002	2001	2000
Revenues:			
Product sales	$4,991.2	$3,511.0	$3,202.2
Corporate partner revenues	200.3	252.0	246.2
Royalty income	331.5	252.7	181.0
Total revenues	5,523.0	4,015.7	3,629.4
Operating expenses:			
Cost of sales	735.7	443.0	408.4
Research and development	1,116.6	865.0	845.0
Selling, general and administrative	1,462.1	970.7	826.9
Write-off of acquired in-process research and development	2,991.8	—	30.1
Amortization of acquired intangible assets	155.2	—	—
(Earnings) loss of affiliates, net	(12.6)	2.7	23.9
Other items, net	(141.3)	203.1	(48.9)
Total operating expenses	6,307.5	2,484.5	2,085.4
Operating (loss) income	$ (784.5)	$1,531.2	$1,544.0

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Research and Development Costs

Research and development expenses are comprised of the following types of costs incurred in performing R&D activities: salaries and benefits, allocated overhead and occupancy costs, clinical trial and related clinical manufacturing costs, contract services, and other outside costs. Research and development expenses also include such costs related to activities performed on behalf of corporate partners. Research and development costs are expensed as incurred.

Acquired In-Process Research and Development

Costs to acquire in-process research and development ("IPR&D") projects and technologies which have no alternative future use and which have not reached technological feasibility at the date of acquisition are expensed as incurred (see Note 3, "Immunex acquisition"). Acquired IPR&D is considered as part of total R&D expense.

Note 3 (In Part): Immunex Acquisition

On July 15, 2002, the Company acquired all of the outstanding common stock of Immunex in a transaction accounted for as a business combination. Immunex was a leading biotechnology company dedicated to developing immune system science to protect human health. The Immunex acquisition is expected to further advance Amgen's role as a global biotechnology leader with the benefits of accelerated growth and increased size, product base, product pipeline, and employees. The acquisition is also intended to enhance Amgen's strategic position within the biotechnology industry by strengthening and diversifying its (1) product base and product pipeline in key therapeutic areas, and (2) discovery research capabilities in proteins and antibodies. The results

of Immunex's operations have been included in the consolidated financial statements commencing July 16, 2002.

• • • • • •

The purchase price of the acquisition was (in millions):

Fair value of Amgen shares issued	$14,313.0
Cash consideration (including payment to Wyeth)	2,526.2
Fair value of Amgen options issued	870.2
Transaction costs	62.4
Total	$17,771.8

Purchase Price Allocation

The purchase price was allocated to the tangible and identifiable intangible assets acquired and liabilities assumed based on their estimated fair values at the acquisition date. The excess of the purchase price over the fair values of assets and liabilities acquired amounted to $9,773.9 million and was allocated to goodwill. The Company expects that substantially all of the amount allocated to goodwill will not be deductible for tax purposes.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed as of the acquisition date (in millions):

Current assets, principally cash and marketable securities	$ 1,624.6
Deferred tax assets	200.2
Property, plant, and equipment	572.4
In-process research and development	2,991.8
Identifiable intangible assets, principally developed product technology and core technology	4,803.2
Goodwill	9,773.9
Other assets	26.2
Current liabilities	(625.0)
Deferred tax liabilities	(1,595.5)
Net assets	$17,771.8

The allocation of the purchase price was based, in part, on a third-party valuation of the fair values of in-process research and development, identifiable intangible assets, and certain property, plant, and equipment. The purchase price allocation will remain preliminary until Amgen completes its evaluation of the various restructuring plans undertaken following the consummation of the merger, as discussed below. The final determination of the purchase price allocation is expected to be completed as soon as practicable after the consummation of the acquisition.

In the fourth quarter of 2002, goodwill increased by $53.9 million principally due to the impact of adjusting amounts previously accrued under the Company's various restructuring plans and obtaining final third-party valuations of identifiable intangible assets.

In-Process Research and Development

Approximately $2,991.8 million of the purchase price represents the estimated fair value of projects that, as of the acquisition date, had not reached technological feasibility and had no alternative future use. Accordingly, this amount was immediately expensed in the consolidated statement of operations in the third quarter of 2002. The estimated fair values assigned to IPR&D is comprised of the following projects by therapeutic area (in millions):

	Value of IPR&D Acquired
Inflammation	$2,160.1
Oncology	726.3
Other	105.4
Total	$2,991.8

The estimated fair value of these projects was determined based on the use of a discounted cash flow model. For each project, the estimated after-tax cash flows were probability weighted to take into account the stage of completion and the risks surrounding the successful development and commercialization. These cash flows were then discounted to a present value using discount rates ranging from 12% to 14%. In addition, solely for the purposes of estimating the fair values of these IPR&D projects as of July 15, 2002, the following assumptions were made:

- Future R&D costs of $500 million to $600 million (unaudited) per therapeutic area would be incurred to complete the inflammation and the oncology research projects, and future costs of $200 million to $250 million (unaudited) would be incurred to complete all other research projects. These estimates are net of any R&D costs that will be shared under collaborations with corporate partners.
- The research projects, which were in various stages of development from pre-clinical through phase 3 clinical trials, are expected to reach completion at various dates ranging from 2003 through 2009.

The major risks and uncertainties associated with the timely and successful completion of these projects consist of the ability to confirm the safety and efficacy of the technology based on the data from clinical trials and obtaining necessary regulatory approvals. In addition, no assurance can be given that the underlying assumptions used to forecast the cash flows or the timely and successful completion of such projects will materialize, as estimated. For these reasons, among others, actual results may vary significantly from the estimated results.

Start-Up Costs

3.61

LOWE'S COMPANIES, INC. (JAN)

(In millions)	2003	2002	2001
Net sales	$26,491	$22,111	$18,779
Cost of sales	18,465	15,743	13,488
Gross margin	8,026	6,368	5,291
Expenses:			
Selling, general and administrative	4,730	3,913	3,348
Store opening costs	129	140	132
Depreciation	626	517	409
Interest	182	174	121
Total expenses	5,667	4,744	4,010
Pre-tax earnings	$ 2,359	$ 1,624	$ 1,281

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Store Opening Costs

Costs of opening new or relocated retail stores are charged to operations as incurred.

Nonrecurring/Unusual Losses

3.62

ANALOG DEVICES, INC. (OCT)

(Thousands)	2002	2001	2000
Revenue			
Net sales	$1,707,508	$2,276,915	$2,577,547
Costs and expenses			
Cost of sales	802,980	1,008,095	1,116,520
Gross margin	904,528	1,268,820	1,461,027
Operating expenses:			
Research and development	423,869	464,686	389,997
Selling, marketing, general and administrative	257,054	287,146	293,364
Purchased in-process research and development	—	9,500	—
Amortization of intangibles	56,873	52,795	10,569
Special charges	48,494	47,007	—
	786,290	861,134	693,930
Operating income	$ 118,238	$ 407,686	$ 767,097

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (All tabular amounts in thousands)

5. Special Charges

A summary of the Company's special charges is as follows:

	Fiscal 2002				
Income Statement	2nd Quarter Special Charges	3rd Quarter Special Charges	4th Quarter Special Charges	FY02 Total	Fiscal 2001 Special Charges
Workforce reductions	$15,284	$ 3,676	$2,512	$21,472	$29,636
Abandonment of equipment	2,327	700	859	3,886	11,573
Equipment/lease cancellation and cleanup fees	8,076			8,076	3,298
Investment impairments	2,125	3,779	2,090	7,994	2,500
Other	903	1,258	944	3,105	
Change in estimate	(1,465)		2,000	535	
Goodwill impairment		3,426		3,426	
Total special charges	$27,250	$12,839	$8,405	$48,494	$47,007

A summary of the activity in accrued restructuring is as follows:

Accrued Restructuring	Fiscal 2002 2nd Quarter Special Charges	Fiscal 2002 3rd Quarter Special Charges	Fiscal 2002 4th Quarter Special Charges	Fiscal 2001 Special Charges	Total
Special charges				$ 47,007	$ 47,007
Severance payments				(6,178)	(6,178)
Non-cash impairment charge				(14,073)	(14,073)
Balance at November 3, 2001				26,756	26,756
Special charges	$27,250	$12,839	$ 8,405		48,494
Severance payments	(583)	(680)	(110)	(16,824)	(18,197)
Other cash payments	(988)		(200)		(1,188)
Change in estimate	3,465		(2,000)	(1,465)	—
Non-cash impairment charge	(4,127)	(7,905)	(2,949)	(860)	(15,841)
Balance at November 2, 2002	$25,017	$ 4,254	$ 3,146	$ 7,607	$ 40,024

During the second quarter of fiscal 2002, the Company recorded special charges of approximately $27.2 million (comprised of $28.7 million of second quarter charges offset by $1.5 million related to a change in estimate discussed below.) The second quarter charge was comprised of $25.7 million related to the planned transfer of production from the Company's three older four-inch wafer fabrication facilities to the Company's three six-inch and one eight-inch wafer fabrication facilities, and $3 million primarily related to the impairment of an investment, which was partially offset by an adjustment of $1.5 million related to equipment cancellation fees recorded in fiscal year 2001. The investment impairment, which was related to an equity investment in a private company, was due to the Company's decision to abandon the product strategy for which the investment was made. Included in the $25.7 million special charge are severance and fringe benefit costs of $15.3 million for 509 manufacturing employees in the United States and Ireland, of which 182 of these employees had been terminated as of November 2, 2002, $2.3 million related to the write-down of equipment to be abandoned and $8.1 million of other charges, primarily related to lease termination and cleanup costs. The write-down of equipment was principally due to our decision to discontinue various product development strategies. This program is proceeding in accordance with the Company's original plan and is expected to be substantially complete by the end of the second quarter of fiscal 2003.

In addition, the remaining service lives of certain assets within the older four-inch wafer fabrication facilities have been shortened. As a result, depreciation expense included in cost of sales in fiscal 2002 included additional depreciation of approximately $8.7 million associated with the shortened lives.

During the third quarter of fiscal 2002, the Company recorded special charges of $12.8 million. The charges included severance and fringe benefit costs of $3.7 million related to cost reduction actions taken in several product groups and, to a lesser extent, in manufacturing, $3.8 million related to the impairment of an investment, $3.4 million impairment of goodwill related to the closure of an Austrian design center acquired in fiscal 2001 and $1.9 million primarily related to the abandonment of equipment and lease cancellation fees. The investment impairment, which related to an equity investment in a private company, was due to the Company's decision to abandon the product strategy for which the investment was made. The severance and fringe benefits costs were for approximately 70 engineering employees in the United States, Europe and Canada, and approximately 30 manufacturing employees in the United States. All of the manufacturing employees and approximately 32 of the engineering employees had been terminated as of November 2, 2002. The Company expects to substantially complete the above actions by the end of the first quarter of fiscal 2003.

During the fourth quarter of fiscal 2002, the Company recorded special charges of approximately $8.4 million. The charges included severance and fringe benefit costs of $2.5 million related to cost reduction actions taken in our sales group, several product groups and our manufacturing testing area for approximately 65 employees in the United States and Europe, of which 40 had been terminated as of November 2, 2002. The charges also included $2.1 million related to the impairment of investments, $1.8 million primarily related to the abandonment of equipment and lease cancellation fees and a change in estimate of $2 million related to clean-up costs previously recorded in the second quarter of fiscal 2002. The investment impairment charges were related to the decline in fair value of a publicly-traded equity investment below cost basis that was determined to be other-than-temporary and of an equity investment in a private company. The private company equity investment was part of a product strategy the Company decided to abandon. The Company expects to substantially complete this action by the third quarter of fiscal 2003.

During fiscal 2001, the Company recorded special charges of $47 million related to cost reduction actions taken in response to the current economic climate. The actions consisted of workforce reductions in manufacturing and, to a lesser extent, in selling, marketing and administrative areas as well as a decision to consolidate worldwide manufacturing operations and rationalize production planning and quality activities. The cost reductions included severance and fringe benefit costs of $29.6 million for approximately 1,200 employees in the U.S., Europe, Asia and the Philippines of which approximately 1,010 of these employees had been terminated as of November 2, 2002. The remaining 190 employees are expected to be terminated during the first quarter of fiscal 2003. As of November 2, 2002, $23 million of the $29.6 million aggregate severance cost obligations pertaining to the fiscal 2001 worldwide cost reduction actions had been paid. The special charge also included $11.6 million

related to the abandonment of equipment resulting from the consolidation of worldwide manufacturing operations and $5.8 million of other charges primarily related to equipment and lease cancellation fees. Based on the results of negotiations with vendors regarding purchase order cancellation fees, the amount paid was $1.5 million less that the amount recorded for such charges and accordingly, we adjusted the provision for purchase order cancellation fees by $1.5 million in the second quarter of fiscal 2002 to reflect this change in estimate.

3.63

CABOT CORPORATION (SEP)

(Dollars in millions)	2002	2001	2000
Net sales and other operating revenues	$1,557	$1,670	$1,574
Cost of sales	1,128	1,237	1,164
Gross profit	429	433	410
Selling and administrative expenses	219	208	173
Research and technical service	48	48	43
Special charges	14	22	10
Income from operations	$ 148	$ 155	$ 184

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note B. Special Items

Cabot has chosen to separately disclose special items because the items are non-recurring in nature and the results excluding special items are an appropriate measurement of Cabot's on-going operating results. The following is a summary of the special income and charges recorded:

(Dollars in millions)	2002	2001	2000
Insurance recoveries	$ 8	$ 1	$ 10
Asset impairment charges	(13)	(2)	(9)
Severance charges and other cost reduction initiatives/programs	(1)	—	(9)
Litigation reserve and environmental charges	(8)	—	(2)
Retirement of Chief Executive Officer and resignation of Chief Financial Officer	—	(21)	—
Non-operating special items	(3)	1	—
Total special income (charges)	$(17)	$(21)	$(10)

Special items from operations for fiscal 2002 include an $8 million impairment charge to discontinue an energy project in the Chemical Businesses, a $5 million charge for respirator claims derived from a disposed safety products business and a $3 million environmental charge due to updated cost estimates. In addition, associated with the acquisition of Showa Cabot Supermetals KK, now known as Cabot Supermetals (CSM), the Company recorded a $5 million asset impairment charge for the cancellation of expansion projects at the Performance Materials plant in Boyertown, Pennsylvania, and a $1 million severance charge. The $1 million severance charge was for severance and termination benefits for approximately 24 employees of the Performance Materials business. Cabot also recorded an $8 million benefit from insurance recoveries. Non-operating special items for fiscal 2002 include a $2 million charge related to a translation adjustment at a closed plant and a $1 million charge for non-capitalizable currency transaction costs associated with the acquisition of CSM.

Special items from operations for fiscal 2001 include a $21 million charge related to the retirement of the Chief Executive Officer and the resignation of the Chief Financial Officer. The charge consisted of $13 million to accelerate the vesting of shares issued under Cabot's Long Term Incentive Compensation Plan and $8 million of cash payments. Special charges for 2001 also include a $2 million charge from the discontinuance of a toll manufacturing agreement and the benefits of a $1 million insurance recovery. Non-operating special items for fiscal 2001 include a $1 million recovery of costs from a translation adjustment at a closed plant.

Special items from operations for fiscal 2000 include the benefit of a $10 million insurance recovery, a $2 million charge to increase the environmental reserve and an $18 million charge to close two plants. Included in the $18 million charge were accruals of $2 million for severance and termination benefits for approximately 38 employees of the Chemical and Performance Materials Businesses, $7 million for facility closing costs, and a $9 million charge for the impairment of long-lived plant assets. These expenses are included as special items in the consolidated statements of income. During 2001, $1 million of severance and termination benefits and $3 million of facility closing costs were paid. It was determined during fiscal 2001 that the recovery value of fixed assets was overvalued by $2 million and the required facility closing costs would be $2 million less than originally accrued. At September 30, 2002, all severance and termination benefits have been paid and $2 million of facility closing costs remained accrued for the required monitoring costs at the second site.

3.64

INTERNATIONAL MULTIFOODS CORPORATION (FEB)

(In thousands)	2002	2001	2000
Net sales	$ 2,849,085	$ 2,524,907	$ 2,384,715
Cost of materials and production	(2,427,144)	(2,150,949)	(2,032,349)
Delivery and distribution	(213,748)	(184,917)	(168,371)
Gross profit	208,193	189,041	183,995
Selling, general and administrative	(161,063)	(137,283)	(132,057)
Unusual items	(660)	3,488	519
Operating earnings	$ 46,470	$ 55,246	$ 52,457

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 5: Unusual Items

Fiscal 2002

In fiscal 2002, we recognized a pre-tax unusual charge of $0.7 million as follows:

(In millions)	Gain on Sale of Building	Employee Termination and Other Exit Costs	Loss on Equipment Disposals	Total
Condiments facility consolidation	$1.8	$(0.3)	$ —	$ 1.5
Sales reorganization and work-force reduction	—	(0.9)	—	(0.9)
Closure of distribution center and work-force reduction	—	(0.5)	(0.5)	(1.0)
Severance for divested business	—	(0.3)	—	(0.3)
Total unusual charge	$1.8	$(2.0)	$(0.5)	$(0.7)

In October 2001, we completed the sale of our condiments-processing facility in Scarborough, Ontario, as part of a plan to consolidate our condiments-processing operations in Dunnville, Ontario. We recognized a $1.8 million gain on the sale of the building and a $0.3 million charge for additional employee termination and facility closing costs. Certain costs related to the project, including employee and equipment relocation expenses, were not included in the unusual charge. These expenses, which were recognized when incurred, totaled $1.6 million in fiscal 2002 and were included in general and administrative expenses.

As a result of the Acquisition, we reorganized our U.S. Foodservice Products sales force. We also took steps to reduce our foodservice manufacturing overhead costs. As a result of these actions, we recorded a $0.9 million charge for severance costs associated with the departure of 23 employees, including the president of the division.

We closed our Kent, Wash., distribution facility and also reduced our work force at certain other distribution centers. Approximately 39 salaried and hourly employees were terminated, resulting in a $0.5 million charge. In addition, we recognized a $0.5 million loss on equipment disposals at one of our distribution centers as a result of canceling an expansion project at that facility.

Also in fiscal 2002, we recognized an unusual charge of $0.3 million for termination benefits for 57 former hourly employees of our divested U.S. flour milling business. As part of the sale agreement, we were obligated to provide, under certain conditions, severance payments for eligible former employees who are involuntarily terminated by the buyer.

The liability balance associated with unusual items was $0.7 million as of March 2, 2002, and is composed of future severance payments. Cash payments related to unusual items were $2.6 million for fiscal 2002.

Fiscal 2001

We recognized a pre-tax unusual gain of $3.5 million as follows:

(In millions)	Gain on Sale of Building	Employee Termination and Other Exit Costs	Lease Commitment Costs	Total
Condiments facility consolidation	$ —	$(1.8)	$ —	$(1.8)
Sale of headquarters building	5.8	(0.2)	—	5.6
Reversal of charges	—	0.2	0.9	1.1
Severance and costs for closure of distribution centers	—	(1.1)	(0.3)	(1.4)
Total unusual gain	$ 5.8	$(2.9)	$ 0.6	$ 3.5

Our condiments consolidation project included expanding our Canadian condiments operation in Dunnville, Ontario, and closing a facility in Scarborough, Ontario. In fiscal 2001, we recorded a pre-tax unusual charge of $1.8 million for severance and related benefit costs for 174 full-time and seasonal employees. Certain costs related to the project, including employee and equipment relocation expenses, were not included in the unusual charge. These expenses, which were recognized when incurred, totaled $0.7 million in fiscal 2001 and were included in general and administrative expenses. See further discussion under the Fiscal 2002 section of this Note.

We recognized a pre-tax unusual gain of $5.8 million from the sale of our corporate headquarters building in Minnesota. We also incurred severance costs of $0.2 million for corporate staff reductions that were associated with the sale.

We decided to retain a distribution center in California that was originally scheduled to be closed as part of a fiscal 1999 consolidation plan. As a result, $1.1 million of costs were reversed, which included lease commitment and employee termination costs.

We closed our Boise, Idaho, and West Allis, Wis., distribution centers. Components of charges resulting from the closures included losses on lease commitments and employee termination costs. In addition, we recognized severance and related costs associated with the departure of the distribution group's president. These actions resulted in unusual charges of $1.4 million.

Fiscal 2000

In the third quarter of fiscal 2000, we recognized a gain of $0.5 million primarily from the reversal of certain reserves established in fiscal 1999 as part of a facility consolidation plan at our distribution business. The reversal was required as management determined that four distribution centers identified for closure under the original plan would remain open. Consequently, we had fewer-than-planned work-force reductions and lower lease commitment costs.

IMPACT OF EVENTS ON SEPTEMBER 11, 2001

3.65 The FASB's Emerging Issues Task Force (EITF) recognizes that the enormous loss of life and property, interruption of commerce, and disruption of the U.S. economy caused by the terrorist attacks of September 11, 2001 are unprecedented in terms of magnitude and pervasiveness of their effects. EITF Issue No. 01–10, *Accounting for the Impact of the Terrorist Attacks of September 11, 2001,* was issued to provide guidance on accounting for the impact of the September 11 events. *EITF Issue No. 01–10* describes how losses and costs resulting from the September 11 events, related insurance recoveries, and federal assistance should be classified in the statement of operations and when these items should be recognized. In addition, it identifies what disclosures should be made in the notes to the financial statements, as well as indicating when asset impairment losses and liabilities for other losses and costs resulting from the September 11 events should be recognized.

3.66 In 2002, 10 survey companies made a footnote and/or income statement disclosure of the events of September 11. An example of such a disclosure follows. Examples of disclosures using only footnotes are shown in Section 1.

3.67

B/E AEROSPACE, INC. (FEB)

(In millions)	2002	2001	2000
Net sales	$680.5	$666.4	$723.3
Cost of sales (Note 3)	530.1	416.6	543.6
Gross profit	$150.4	$249.8	$179.7

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (In millions)

1 (In Part): Summary of Significant Accounting Policies

Long-Lived Assets

The company accounts for the impairment and disposition of long-lived assets in accordance with SFAS No. 121. *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of.* In accordance with SFAS No. 121, long-lived assets are reviewed for events or changes in circumstances that indicate that their carrying value may not be recoverable. During the year ended February 23, 2002, management determined that certain property, plant and equipment had been permanently impaired as a result of the decline in industry conditions and facility consolidation. As a result, the company recorded a charge of $24.1 in the third quarter of the year ended February 23, 2002.

3. Facility Consolidations and Other Special Charges

The rapid decline in industry conditions brought about by the terrorist attacks on September 11, 2001 caused the company to implement a facility consolidation plan designed to re-align its capacity and cost structure with changed conditions in the airline industry. Under the plan, the company intends to close five facilities and reduce its workforce by about 1,000 employees. As a result, the company recorded a charge of $98.9 which included cash expenses of approximately $15.6 and non-cash charges totaling approximately $62.9 associated with the write-down of fixed assets, inventory and other assets and $20.4 million associated with the impairment of related intangible assets. In addition, the company incurred approximately $5.7 of transition costs associated with the facilities and personnel consolidation program, which are expensed as incurred. The charge has been included in cost of sales for the year ended February 23, 2002.

The $15.6 of cash charges related to involuntary severance and benefit programs for approximately 1,000 employees, lease termination costs and preparing facilities of disposal and sale. As of February 23, 2002, the company had terminated approximately 201 employees and paid $1.1 in severance and related termination benefits. As of April 30, 2002, 536 employees had been terminated leaving approximately 464 employees to be terminated by November 30, 2002. The balance of the accrual for cash charges was related to lease termination costs and estimated costs of preparing facilities for disposal and sale, of which $2.0 was paid as of February 23, 2002.

Non-cash charges included impairment charges relating to property and equipment ($24.1), inventory ($34.5) and other assets ($4.3). The charge associated with property and equipment resulted from the decision to close five factories and relocate production activities to other facilities. As a result of changed industry conditions, early retirement of aircraft, program cancellations and modifications and plant closures, the combined carrying value of inventories and other assets at seven plants was reduced by approximately $38.8. As of February 23, 2002, approximately $24.1 of inventory and other assets had been charged off and physically disposed of.

Due to changed industry conditions, early retirement of aircraft and related product lines and plant closures, certain intangible assets having an aggregate carrying value of approximately $20.4 were determined to be permanently impaired and were written off as of February 23, 2002.

Cash requirements related to facility consolidation activities were funded from operations. Pretax cash outlays are expected to aggregate approximately $12.5 during fiscal 2003.

The following table summarizes the facility consolidation costs accrued during the year ended February 23, 2002:

	Original Accrual	Dispositions	Paid in Cash	Balance at Feb. 23, 2002
Accrued liability for severance, lease termination and other costs	$15.6	$ —	$(3.1)	$12.5
Impaired inventories, property and equipment	62.9	(50.8)	—	12.1
Impaired intangible assets	20.4	(20.4)	—	—
	$98.9	$(71.2)	$(3.1)	$24.6

PENSIONS AND OTHER POSTRETIREMENT BENEFITS

3.68 Effective for fiscal years beginning after December 15, 1997, SFAS No. 132, *Employers' Disclosures about Pensions and Other Postretirement Benefits,* states the disclosure requirements for pensions and other postretirement benefits. *SFAS No. 132* does not supersede SFAS No. 87, *Employers' Accounting for Pensions,* SFAS No. 88, *Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits,* or SFAS No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions,* with respect to the measurement or recognition of pensions and other post retirement benefits.

3.69 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 post retirement benefits. Tables 3-8, 3-9 and 3-10 show the actuarial assumption rates used by the survey companies for the years 1999–2002 in accounting for pension benefits. Table 3-11 shows the health care cost trend rate used by the survey companies in 2002 to account for other postretirement benefits. As shown in Table 3-11, 335 survey companies disclosed the health care cost trend rate. Of those 335 survey companies, 305 disclosed one rate for all participants and 30 disclosed two rates—the rate for participants under age 65 and the rate for participants age 65 and over.

3.70 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.

3.71

TABLE 3-8: ASSUMED DISCOUNT RATE

%	2002	2001	2000	1999
4.5 or less	2	—	2	—
5	—	1	—	3
5.5	5	—	2	—
6	24	12	8	15
6.5	240	25	12	30
7	127	248	73	94
7.5	18	124	223	203
8	1	10	108	82
8.5	—	—	1	4
9	—	—	—	—
9.5	—	—	1	1
10	—	—	—	1
10.5	—	1	—	—
11 or greater	—	1	2	1
Not disclosed	5	6	7	4
Companies Disclosing Defined Benefit Plans	**422**	**428**	**439**	**438**

3.72

TABLE 3-9: ASSUMED RATE OF COMPENSATION INCREASE

%	2002	2001	2000	1999
4.5 or less	317	284	247	244
5	52	84	109	121
5.5	11	17	26	23
6	8	12	15	17
6.5	1	1	2	—
7	—	—	1	—
7.5	3	2	2	3
8	—	1	3	1
8.5	—	—	2	2
9	—	2	4	2
9.5	1	—	1	2
10	—	—	2	—
10.5	—	1	1	—
11 or greater	1	—	1	1
Not disclosed	28	24	23	22
Companies Disclosing Defined Benefit Plans	**422**	**428**	**439**	**438**

3.73

TABLE 3-10: EXPECTED RATE OF RETURN

%	2002	2001	2000	1999
4.5 or less	—	1	1	—
5	1	—	4	2
5.5	—	—	—	2
6	2	1	3	1
6.5	2	2	2	1
7	11	6	8	9
7.5	16	9	11	10
8	61	39	33	38
8.5	89	45	44	45
9	140	135	134	143
9.5	65	98	99	96
10	18	63	67	57
10.5	7	14	19	20
11 or greater	—	5	8	9
Not disclosed	10	10	6	5
Companies Disclosing Defined Benefit Plans	**422**	**428**	**439**	**438**

3.74

TABLE 3-11: HEALTH CARE COST TREND RATE—2002

%	All Participants	Participants Under Age 65	Participants Age 65 and Over
5.5 or less	16	1	1
6–6.5	9	—	—
7–7.5	17	4	1
8–8.5	33	7	0
9–9.5	58	11	3
10–10.5	82	6	7
11–11.5	36	1	8
12–12.5	37	—	9
13–13.5	12	—	—
14 or greater	4	—	1
Fixed amount (not subject to escalation)	1	—	—
Companies Disclosing Rate	**305**	**30**	**30**

Defined Benefit Plans

3.75

HERSHEY FOODS CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

13. Pension and Other Post-Retirement Benefit Plans

The Corporation's policy is to fund domestic pension liabilities in accordance with the minimum and maximum limits imposed by the Employee Retirement Income Security Act of 1974 and Federal income tax laws, respectively. Non-domestic pension liabilities are funded in accordance with applicable local laws and regulations. Plan assets are invested in a broadly diversified portfolio consisting primarily of domestic and international common stocks and fixed income securities. Other benefits include health care and life insurance provided by the Corporation under two post-retirement benefit plans.

A summary of the changes in benefit obligations and plan assets as of December 31, 2002 and 2001 is presented below:

	Pension Benefits		Other Benefits	
(In thousands of dollars)	2002	2001	2002	2001
Change in benefits obligation				
Benefits obligation at beginning of year	$ 837,540	$ 655,178	$ 301,406	$ 256,307
Service cost	31,890	30,093	3,157	3,434
Interest cost	50,372	48,239	19,674	17,829
Amendments	2,528	48	—	—
Actuarial loss	75,207	44,261	21,551	4,959
Special termination benefits	809	106,273	—	15,451
Settlements	(141,546)	—	—	—
Curtailment (gain) loss	(1,060)	1,451	62	17,594
Other	1,665	(2,110)	33	(249)
Benefits paid	(41,241)	(45,893)	(16,999)	(13,919)
Benefits obligation at end of year	816,164	837,540	328,884	301,406
Change in plan assets				
Fair value of plan assets at beginning of year	687,151	602,871	—	—
Actual return on plan assets	(95,385)	(40,437)	—	—
Employer contribution	308,080	172,327	16,999	13,919
Settlements paid	(141,546)	—	—	—
Other	(171)	(1,717)	—	—
Benefits paid	(41,241)	(45,893)	(16,999)	(13,919)
Fair value of plan assets at end of year	716,888	687,151	—	—
Funded status	(99,276)	(150,389)	(328,884)	(301,406)
Unrecognized transition asset	270	52	—	—
Unrecognized prior service cost	39,533	43,092	(10,180)	(14,722)
Unrecognized net actuarial loss	305,520	108,298	84,231	65,468
Intangible asset	(738)	(44,397)	—	—
Accumulated other comprehensive loss	(394)	(57,127)	—	—
Prior service cost recognized due to curtailment	—	—	—	2,228
Prepaid (accrued) benefits cost	$ 244,915	$(100,471)	$(254,833)	$(248,432)
Weighted-average assumptions				
Discount rate	6.3%	7.0%	6.3%	7.0%
Expected long-term rate of return on assets	9.5	9.5	N/A	N/A
Rate of increase in compensation levels	4.9	4.9	N/A	N/A

For measurement purposes, an 8% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2003 and future years.

Contributions totaling $308.1 million were made to the Corporation's pension plans during 2002 primarily to improve the funded status as a result of the poor market performance of pension plan assets during the year. In February 2001, the Corporation made a $75.0 million contribution to its domestic pension plans to improve the funded status. In December 2001, the Corporation made a $95.0 million contribution to one of its domestic pension plans to fund anticipated payments related to the early retirement program.

The unrecognized net actuarial loss for pension benefits in 2002 and 2001 was due primarily to the actual return on plan assets being less than the expected return and reduced discount rate assumptions.

As of December 31, 2002, for pension plans with accumulated benefit obligations in excess of plan assets, the related projected benefit obligation, accumulated benefit obligation and the fair value of plan assets were $87.7 million, $73.2 million and $35.0 million, respectively. As of December 31, 2001, for pension plans with accumulated benefit obligations in excess of plan assets, the related projected benefit obligation, accumulated benefit obligation and the fair value of plan assets were $794.3 million, $750.9 million and $657.3 million, respectively. Included in the projected benefit obligation and accumulated benefit obligation amounts as of December 31, 2002, were $29.3 million and $27.1 million, respectively, for an unfunded supplemental executive retirement program, which is a non-qualified plan that provides certain senior executives defined pension benefits based on their age, service and total compensation. Included in the projected benefit obligation and accumulated benefit obligation amounts as of December 31, 2001, were $41.6 million and $40.4 million, respectively, primarily associated with the supplemental executive retirement program.

A minimum pension liability adjustment is required when the actuarial present value of accumulated plan benefits exceeds plan assets and accrued pension liabilities. In 2002, the reversal of a minimum liability adjustment of $58.3 million, net of deferred tax expense of $23.4 million, was recorded as a component of other comprehensive income (loss) and reported in accumulated other comprehensive income (loss) as a component of stockholders' equity. In 2001, a minimum

liability adjustment of $57.1 million, net of a deferred tax benefit of $22.9 million, was recorded as a component of other comprehensive income (loss) and reported in accumulated other comprehensive income (loss) as a component of stockholders' equity.

A summary of the components of net periodic benefits cost for the years ended December 31, 2002, 2001 and 2000 is presented below:

	Pension Benefits			Other Benefits		
(In thousands of dollars)	2002	2001	2000	2002	2001	2000
Components of net periodic benefits cost						
Service cost	$ 31,890	$ 30,093	$ 27,961	$ 3,157	$ 3,434	$ 3,184
Interest cost	50,372	48,239	45,710	19,674	17,829	14,056
Expected return on plan assets	(60,443)	(61,791)	(60,143)	—	—	—
Amortization of prior service cost	3,906	3,891	3,783	(1,858)	(2,168)	(2,165)
Amortization of unrecognized transition balance	(326)	(27)	(286)	—	—	—
Recognized net actuarial loss (gain)	4,371	—	(2,670)	2,774	2,761	—
Other	—	—	—	—	(80)	(41)
Corporate sponsored plans	29,770	20,405	14,355	23,747	21,776	15,034
Multi-employer plans	483	615	577	—	—	—
Administrative expenses	423	297	421	—	—	—
Net periodic benefits cost	30,676	21,317	15,353	23,747	21,776	15,034
Special termination benefits	809	106,273	—	—	15,451	—
Curtailment loss	2,116	2,802	—	—	15,366	—
Settlement loss	30,118	—	—	—	—	—
Total amount reflected in earnings	$ 63,719	$130,392	$ 15,353	$23,747	$52,593	$15,034

The Corporation has two post-retirement benefit plans. The health care plan is contributory, with participants' contributions adjusted annually, and the life insurance plan is noncontributory.

In conjunction with the business realignment initiatives announced on October 24, 2001, the Corporation offered an early retirement program to approximately 10% of its work force in the fourth quarter of 2001. The early retirement program gave eligible salaried employees an opportunity to retire with enhanced benefits related to the Corporation's pension and other post-retirement benefit plans. In general, eligible employees were born before January 1, 1954, and were hired before January 1, 1999. Pension benefits were enhanced by adding five additional years of age and service to eligible employees' retirement accounts, along with certain supplemental benefits. Retiree medical benefits were enhanced by adding five additional years to age and service formulas used to determine retiree contributions.

In 2002, pension settlement and curtailment losses and special termination benefits totaled $33.0 million. This amount related primarily to the non-cash costs for pension settlements associated with departing employees electing a lump sum payment of their pension benefit under the early retirement program and for pension curtailments and special termination benefits associated with the closure of three manufacturing facilities as part of the business realignment initiatives.

The total pre-tax charge for the VWRP recorded in the fourth quarter of 2001 was $148.7 million and was accrued based on actual employee acceptances. Improved pension benefits under the early retirement program of $109.1 million will be funded through payments from one of the Corporation's defined benefit pension plans. Enhanced retiree medical benefits of $30.8 million will be funded from operating cash flows. Additional costs for outplacement services and enhanced severance benefits under a voluntary mutual separation program of $8.8 million were funded from operating cash flows.

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 of dollars)	1 Percentage Point Increase	1 Percentage Point (Decrease)
Effect on total service and interest cost components	$ 837	$ (657)
Effect on post-retirement benefit obligation	11,601	(10,192)

3.76

THE J. M. SMUCKER COMPANY (APR)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note H: Pensions and Other Postretirement Benefits

The Company has pension plans covering substantially all of its domestic employees. Benefits are based on the employee's years of service and compensation. The Company's plans are funded in conformity with the funding requirements of applicable government regulations.

In addition to providing pension benefits, the Company sponsors several unfunded, defined postretirement plans that provide health care and life insurance benefits to

substantially all active and retired domestic employees not covered by certain collective bargaining agreements, and their covered dependents and beneficiaries. These plans are contributory, with retiree contributions adjusted periodically, and contain other cost-sharing features, such as deductibles and coinsurance. Covered employees generally are eligible for these benefits when they reach age 55 and have attained 10 years of credited service.

Net periodic benefit cost included the following components:

	Defined Benefit Pension Plans			Other Postretirement Benefits		
(Dollars in thousands)	2002	2001	2000	2002	2001	2000
Service cost	$ 2,414	$ 2,133	$ 2,216	$ 506	$ 424	$ 513
Interest cost	5,504	5,303	4,668	737	673	717
Expected return on plan assets	(6,444)	(6,571)	(6,053)	—	—	—
Amortization of prior service cost (credit)	1,087	1,086	927	(61)	(61)	(61)
Amortization of initial net asset	(234)	(142)	(91)	—	—	—
Recognized net actuarial gain	(177)	(823)	(272)	(160)	(218)	(28)
Net periodic benefit cost	$ 2,150	$ 986	$ 1,395	$1,022	$ 818	$1,141

The following table sets forth the combined status of the plans as recognized in the consolidated balance sheets:

	Defined Benefit Pension Plans		Other Postretirement Benefits	
(Dollars in thousands)	2002	2001	2002	2001
Change in benefit obligation:				
Benefit obligation at beginning of the year	$ 74,898	$ 67,670	$ 9,991	$ 8,560
Service cost	2,414	2,133	506	424
Interest cost	5,504	5,303	737	673
Amendments	197	30	—	—
Actuarial loss	1,457	2,529	887	522
Participant contributions	—	—	193	188
Benefits paid	(3,017)	(2,767)	(526)	(376)
Benefit obligation at end of the year	$ 81,453	$ 74,898	$ 11,788	$ 9,991
Change in plan assets:				
Fair value of plan assets at beginning of the year	$ 72,685	$ 74,226	$ —	$ —
Actual return on plan assets	(2,499)	510	—	—
Company contributions	1,578	716	333	188
Participant contributions	—	—	193	188
Benefits paid	(3,017)	(2,767)	(526)	(376)
Fair value of plan assets at end of the year	$ 68,747	$ 72,685	$ —	$ —
Net amount recognized:				
Funded status of the plans	$ (12,706)	$ (2,213)	$ (11,788)	$ (9,991)
Unrecognized net actuarial loss (gain)	1,370	(9,208)	(2,433)	(3,480)
Unrecognized prior service cost (credit)	9,332	10,222	(692)	(753)
Unrecognized initial asset	(765)	(999)	—	—
Net benefit liability recognized	$ (2,769)	$ (2,198)	$ (14,913)	$ (14,224)
Prepaid benefit cost	$ 5,589	$ 5,582	$ —	$ —
Accrued benefit liability	(13,996)	(10,239)	(14,913)	(14,224)
Intangible asset	4,410	2,459	—	—
Minimum pension liability	1,228	—	—	—
Net benefit liability recognized	$ (2,769)	$ (2,198)	$ (14,913)	$ (14,224)
Weighted average assumptions:				
Discount rate	7.25%	7.50%	7.25%	7.50%
Expected return on plan assets	9.00%	9.00%	—	—
Rate of compensation increase	4.50%	4.50%	—	—

For fiscal 2003, the assumed health care cost trend rates are 8.5% for all participants. The rate for participants under age 65 is assumed to decrease to 5% in 2007. The health care cost trend rate assumption has a significant effect on the amount of the other postretirement benefit obligation and periodic other postretirement benefit cost reported. A one percentage point annual change in the assumed health care cost trend rate would have the following effect as of April 30, 2002:

	One Percentage Point	
(Dollars in thousands)	Increase	Decrease
Effect on total service and interest cost components	$ 270	$ (213)
Effect on benefit obligation	$1,999	$(1,597)

The projected benefit obligation and plan assets applicable to pension plans with projected benefit obligations in excess of plan assets was $36,626,000 and $20,065,000, respectively, at April 30, 2002, and $32,876,000 and $19,979,000, respectively, at April 30, 2001.

Pension plan assets consist of listed stocks and government obligations, including 336,000 of the Company's Common Shares at April 30, 2002 and 2001. The market value of these shares is $11,659,000 at April 30, 2002. The Company paid dividends of $215,000 on these shares during the year. Prior service costs are being amortized over the average remaining service lives of the employees expected to receive benefits.

The Company also charged to operations approximately $958,000, $870,000, and $854,000 in fiscal 2002, 2001, and 2000, respectively, for contributions to foreign pension plans and to plans not administered by the Company on behalf of employees subject to certain labor contracts. These amounts were determined in accordance with foreign actuarial computations and provisions of the labor contracts. The Company is unable to determine its share of either the accumulated plan benefits or net assets available for benefits under such plans.

In addition, certain of the Company's active employees participate in multiemployer plans which provide defined postretirement health care benefits. The aggregate amount contributed to these plans, including the charge for net periodic postretirement benefit costs, totaled $1,851,000, $1,719,000, and $1,687,000 in fiscal 2002, 2001, and 2000, respectively.

3.77

UNITED STATES STEEL CORPORATION (DEC)

NOTES TO FINANCIAL STATEMENTS

3 (In Part): Summary of Principal Accounting Policies

Pensions, Other Postretirement and Postemployment Benefits

U.S. Steel has noncontributory defined benefit pension plans and defined benefit retiree health care and life insurance plans (other postretirement benefits) that cover most of its domestic employees on their retirement. The net pension and other postretirement benefits obligations recorded and the related periodic costs are based on, among other things, assumptions of the discount rate, estimated return on plan assets, salary increases, the mortality of participants and the current level and escalation of health care costs in the future. Additionally, U.S. Steel recognizes an obligation to provide postemployment benefits, primarily for disability-related claims covering indemnity and medical payments for certain domestic employees. The obligation for these claims and the related periodic costs are measured using actuarial techniques and assumptions. Actuarial gains and losses are deferred and amortized over future periods.

12. Pensions and Other Postretirement Benefits

U.S. Steel has noncontributory defined benefit pension plans covering substantially all domestic employees. Benefits under these plans are based upon years of service and final average pensionable earnings, or a minimum benefit based upon years of service, whichever is greater. In addition, pension benefits are also provided to most domestic salaried employees based upon a percent of total career pensionable earnings. U.S. Steel also participates in multiemployer plans, most of which are defined benefit plans associated with coal operations.

U.S. Steel also has defined benefit retiree health care and life insurance plans (other benefits) covering most domestic employees upon their retirement. Health care benefits are provided through comprehensive hospital, surgical and major medical benefit provisions or through health maintenance organizations, both subject to various cost sharing features. Life insurance benefits are provided to nonunion retiree beneficiaries primarily based on employees' annual base salary at retirement. For domestic union retirees, life insurance benefits are provided primarily based on fixed amounts negotiated in labor contracts with the appropriate unions.

(In millions)	Pension Benefits 2002	Pension Benefits 2001	Other Benefits 2002	Other Benefits 2001
Change in benefit obligations				
Benefit obligations at January 1	$ 7,358	$6,921	$ 2,555	$ 2,149
Service cost	96	89	18	15
Interest cost	485	496	172	161
Plan amendments	—	4	—	—
Actuarial losses	602	469	638	261
Plan merger and acquisition[(a)]	—	106	—	152
Settlements, curtailments and termination benefits[(b)]	(215)	21	—	—
Benefits paid	(688)	(748)	(212)	(183)
Benefit obligations at December 31	$ 7,638	$7,358	$ 3,171	$ 2,555
Change in plan assets				
Fair value of plan assets at January 1	$ 8,583	$9,312	$ 728	$ 842
Actual return on plan assets	(434)	(26)	(21)	21
Acquisition	1	62	—	—
Employer contributions	—	—	17	17
Trustee distributions[(c)]	(18)	(17)	—	—
Settlements paid from plan assets	(197)	—	—	—
Benefits paid from plan assets	(688)	(748)	(180)	(152)
Fair value of plan assets at December 31	$ 7,247	$8,583	$ 544	$ 728
Funded status of plans at December 31	$ (391)[(d)]	$1,225[(d)]	$(2,627)	$(1,827)
Unrecognized transition asset	(1)	(1)	—	—
Unrecognized prior service cost	532	629	6	7
Unrecognized actuarial losses	2,581	866	770	57
Additional minimum liability[(e)]	(1,663)	(32)	—	—
Prepaid (accrued) benefit cost	$ 1,058	$2,687	$(1,851)	$(1,763)
Prepaid (accrued) benefit cost is reflected in the balance sheet as follows:				
Pension asset	$ 1,654	$2,745	$ —	$ —
Payroll and benefits payable	(5)	(20)	(56)	(27)
Employee benefits	(591)	(38)	(1,795)	(1,736)

(a) Reflects merger of Transtar benefit plans and LTV's tin mill employee obligations into the main U.S. Steel insurance plan upon acquisition of these businesses. Amount also reflects the recognition of an obligation associated with retiree medical benefits for pre-1989 Lorain Works' retirees which had been assumed by Republic Technologies Holdings, LLC (Republic). This obligation was recorded in 2001 as a result of Republic's bankruptcy proceedings (see Note 15).

(b) Reflects pension settlements in 2002 as a result of increased lump sum payouts during 2002 primarily due to the completion in June 2002 of the voluntary early retirement program for nonunion employees related to the Separation. Reflects an increase in obligations in 2001 due principally to a nonunion voluntary early retirement program offered in conjunction with the Separation and a shutdown of the majority of the Fairless Works.

(c) Represents transfers of excess pension assets to fund retiree health care benefits accounts under Section 420 of the Internal Revenue Code.

(d) Includes plans that have accumulated benefit obligations in excess of plan assets:

	2002	2001
Aggregate accumulated benefit obligations	$(5,075)	$(58)
Aggregate projected benefit obligations (PBO)	(5,227)	(69)
Aggregate plan assets	4,479	—

Of the PBO total, $6 million and $8 million represent the portions of pension benefits applicable to Marathon employees' corporate service with USX Corporation at December 31, 2002 and 2001, respectively. Such amounts will be reimbursed by Marathon and are reflected as long-term receivables from related parties on the balance sheet. The aggregate accumulated benefit obligations in excess of plan assets reflected above are included in the payroll and benefits payable and employee benefits lines on the balance sheet.

(e) Additional minimum liability recorded was offset by the following:

Intangible asset	$ 414	$ —
Accumulated other comprehensive income (losses):		
Beginning of year	$ (20)	$ (4)
Change during year (net of tax)	(742)	(16)
Change during the year (equity investees)	(14)	—
Balance at end of year	$(776)	$(20)

(In millions)	Pension Benefits 2002	2001	2000	Other Benefits 2002	2001	2000
Components of net periodic benefit cost (credit)						
Service cost	$ 96	$ 89	$ 76	$ 18	$ 15	$ 12
Interest cost	485	496	505	172	161	147
Expected return on plan assets	(788)	(837)	(841)	(54)	(60)	(24)
Amortization—net transition gain	—	(1)	(67)	—	—	—
—prior service costs	96	97	98	2	4	4
—actuarial (gains) losses	8	2	(44)	—	(3)	(29)
Multiemployer plans[(a)]	—	—	—	12	12	9
Settlement and termination losses[(b)]	100	34	—	—	—	—
Net periodic benefit cost (credit)	$ (3)	$(120)	$(273)	$150	$129	$119

[(a)] Primarily consists of payments to a multiemployer health care benefit plan created by the Coal Industry Retiree Health Benefit Act of 1992 based on assigned beneficiaries receiving benefits. The present value of this unrecognized obligation is broadly estimated to be $76 million, including the effects of future medical inflation, and this amount could increase if additional costs are assigned.

[(b)] Relates primarily to voluntary early retirement programs.

	Pension Benefits 2002	2001	Other Benefits 2002	2001
Weighted-average actuarial assumptions at December 31:				
Discount rate	6.25%	7.00%	6.25%	7.00%
Increase in compensation rate	4.00%	4.00%	4.00%	4.00%
For the year ended December 31:				
Expected annual return on plan assets	8.80%	8.90%	8.00%	8.00%

For measurement purposes, a 10% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2003. This rate was assumed to decrease gradually to 4.75% for 2010 and remain at that level thereafter. The expected annual return on plan asset assumption, used in the determination of the net periodic benefit cost (credit), will be reduced to 8.2% for 2003.

A one-percentage-point change in assumed health care cost trend rates would have the following effects:

(In millions)	1-Percentage-Point Increase	1-Percentage-Point Decrease
Effect on total of service and interest cost components	$ 24	$ (20)
Effect on other postretirement benefit obligations	300	(253)

Selling, general and administrative expenses for 2002 included a pretax settlement loss of $10 million related to retirements of personnel covered under the non tax-qualified pension plan and the executive management supplemental pension program, and a pretax pension settlement loss of $90 million for the nonunion qualified plan.

SFAS No. 87 "Employer's Accounting for Pensions" provides that if at any plan measurement date, the fair value of plan assets is less than the plan's accumulated benefit obligation (ABO), the sponsor must establish a minimum liability at least equal to the amount by which the ABO exceeds the fair value of the plan assets and any pension asset must be removed from the balance sheet. The sum of the liability and pension asset is offset by the recognition of an intangible asset and/or as a direct charge to stockholders' equity, net of tax effects. Such adjustments have no direct impact on earnings per share or cash. As of December 31, 2002, the fair value of plan assets for the U.S. Steel pension plan for union employees was $4,479 million. Based on asset values as of December 31, 2002, the ABO for this plan exceeded the fair value of plan assets by $543 million. Consequently, required minimum liability adjustments were recorded resulting in the recognition of an intangible asset of $414 million and a charge to equity (net of tax) of $748 million at December 31, 2002.

U.S. Steel also contributes to several defined contribution plans for its salaried employees and a small number of wage employees. Company contributions to these plans, which for the most part are based on a percentage of the employees' salary depending on years of service, totaled $14 million in 2002, $13 million in 2001 and $11 million in 2000. Most union employees are eligible to participate in a defined contribution plan where there is no company match on savings. U.S. Steel also maintains a supplemental thrift plan to provide benefits which are otherwise limited by the Internal Revenue Service for qualified plans; company costs under these plans totaled less than $1 million in 2002, 2001 and 2000.

Defined Contribution Plans

3.78

HON INDUSTRIES INC. AND SUBSIDIARIES (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Retirement Benefits

The Company has defined contribution profit-sharing plans covering substantially all employees who are not participants in certain defined benefit plans. The Company's annual

contribution to the defined contribution plans is based on employee eligible earnings and results of operations and amounted to $23,524,000, $24,826,000, and $24,400,000 in 2002, 2001, and 2000, respectively.

The Company sponsors defined benefit plans which include a limited number of salaried and hourly employees at certain subsidiaries.

The Company's funding policy is generally to contribute annually the minimum actuarially computed amount. Net pension costs relating to these plans were $0 for 2002, 2001, and 2000. The actuarial present value of obligations, less related plan assets at fair value, is not significant.

The Company also participates in a multiemployer plan, which provides defined benefits to certain of the Company's union employees. Pension expense for this plan amounted to $309,000, $310,000, and $308,500 in 2002, 2001, and 2000, respectively.

Supplemental Retirement Plans

3.79

AVON PRODUCTS, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (In millions)

10 (In Part): Employee Benefit Plans

Supplemental Retirement Programs

Avon offers a Deferred Compensation Plan (the "Plan") for those employees who are eligible to participate in the Company's Long Term Incentive Plan and are on the U.S. payroll. The Plan is an unfunded, unsecured plan for which obligations are paid to participants out of the Company's general assets, including assets held in a grantors trust, described below, and corporate-owned life insurance policies. The Plan allows for the deferral of all or part of a participant's base salary, incentive compensation bonuses and any excess personal savings account contributions over specified annual limits up to 6% of base salary. Participants may elect to have their deferred compensation invested in one or more of four investment alternatives. Expense associated with the Plan for the years ended December 31, 2002, 2001 and 2000, was $5.3, $5.4 and $5.0, respectively. At December 31, 2002, the accrued cost for deferred compensation plan was $75.9 (2001–$72.0) and was included in Other liabilities.

Avon maintains a supplemental retirement program consisting of a Supplemental Executive Retirement and Life Plan ("SERP") and a Benefits Restoration Pension Plan ("Restoration Plan") under which non-qualified supplemental pension benefits are paid to higher paid employees in addition to amounts received under Avon's qualified retirement plan which is subject to IRS limitations on covered compensation. The annual cost of this program has been included in the determination of the net periodic benefit cost shown above and in 2002 amounted to $9.7 (2001–$10.5, 2000–$10.2). The benefit obligation under this program at December 31, 2002 was $40.6 (2001–$35.5) and was primarily included in Employee Benefit Plans.

Avon also maintains a Supplemental Life Insurance Plan ("SLIP") under which additional death benefits ranging from $.35 to $2.0 are provided to certain active and retired officers.

Avon established a grantors trust to provide funding for the benefits payable under the SERP and SLIP and to provide for funding of obligations under Avon's Deferred Compensation Plan. The trust is irrevocable and, although subject to creditors' claims, assets contributed to the trust can only be used to pay such benefits with certain exceptions. The assets held in the trust at December 31, 2002, amounting to $77.2 (2001–$88.7), consisted of a fixed-income portfolio, a managed portfolio of equity securities, corporate-owned life insurance policies and cash and cash equivalents. These assets are included in Other assets. The cash surrender value of the corporate-owned life insurance policies at December 31, 2002 was $27.6 (2001–$26.6).

Additionally, Avon held assets at December 31, 2002 amounting to $10.1 to fund other benefit payments. The assets consisted of corporate-owned life insurance policies with a cash surrender value of $8.3 and mutual funds with a market value of $1.8.

The equity securities and fixed-income portfolio included in the grantors trust and the mutual funds, discussed above, are classified as available-for-sale and recorded at current market value. In 2002 and 2001, net unrealized gains and losses on these securities were recorded in Accumulated other comprehensive loss (see Note 5, Accumulated Other Comprehensive Loss).

The cost, gross unrealized gains and losses and market value of the available-for-sale securities as of December 31, were as follows:

	2002			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
Equity securities	$44.0	$ .7	$(20.8)	$23.9
U.S. government bonds*	2.3	.1	—	2.4
State and municipal bonds*	20.1	1.0	—	21.1
Mortgage backed securities*	.7	.1	—	.8
Other	3.8	—	(1.2)	2.6
Total available-for-sale securities	70.9	1.9	(22.0)	50.8
Cash and equivalents	.6	—	—	.6
Total	$71.5	$1.9	$(22.0)	$51.4

* At December 31, 2002, investments with scheduled maturities in two to five years totaled $11.0 and after five years totaled $12.1.

Payments, proceeds and net realized losses from the purchases and sales of these securities totaled $30.4, $33.8 and $.5, respectively, during 2002.

	2001			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
Equity securities	$44.4	$1.5	$(15.2)	$30.7
U.S. government bonds	2.1	—	—	2.1
State and municipal bonds	21.9	.4	(.1)	22.2
Mortgage backed securities	2.8	—	—	2.8
Corporate bonds	.6	—	—	.6
Total available-for-sale securities	71.8	1.9	(15.3)	58.4
Cash and equivalents	3.7	—	—	3.7
Total	$75.5	$1.9	$(15.3)	$62.1

Payments, proceeds and net realized gains from the purchases and sales of these securities totaled $50.9, $58.3 and $.1, respectively, during 2001. For the purpose of determining realized gains and losses, the cost of securities sold was based on specific identification.

3.80

FEDERATED DEPARTMENT STORES, INC. (JAN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

13 (In Part): Retirement Plans

The Company has a defined benefit plan ("Pension Plan") and a defined contribution plan ("Savings Plan") which cover substantially all employees who work 1,000 hours or more in a year. In addition, the Company has a defined benefit supplementary retirement plan which includes benefits, for certain employees, in excess of qualified plan limitations. For the 52 weeks ended February 1, 2003, the 52 weeks ended February 2, 2002 and the 53 weeks ended February 1, 2001 net retirement expense for these plans totaled $32 million, $22 million and $27 million, respectively.

Measurement of plan assets and obligations for the Pension Plan and the defined benefit supplementary retirement plan are calculated as of December 31 of each year. The discount rates used to determine the actuarial present value of projected benefit obligations under such plans were 6.75% as of December 31, 2002 and 7.25% as of December 31, 2001. The assumed weighted average rate of increase in future compensation levels was 5.8% as of December 31, 2002 and December 31, 2001 for the Pension Plan and 7.7% as of December 31, 2002 and December 31, 2001 for the defined benefit supplementary retirement plan. The long-term rate of return on assets (Pension Plan only) was 9.00% as of December 31, 2002 and 9.75% as of December 31, 2001.

• • • • • •

Supplementary Retirement Plan

The following provides a reconciliation of benefit obligations, plan assets and funded status of the supplementary retirement plan as of December 31, 2002 and 2001:

(Millions)	2002	2001
Change in projected benefit obligation		
Projected benefit obligation, beginning of year	$ 180	$ 137
Service cost	6	5
Interest cost	13	12
Plan amendments	—	(1)
Actuarial loss	33	36
Benefits paid	(16)	(9)
Projected benefit obligation, end of year	$ 216	$ 180
Change in plan assets		
Fair value of plan assets, beginning of year	$ —	$ —
Company contributions	16	9
Benefits paid	(16)	(9)
Fair value of plan assets, end of year	$ —	$ —
Funded status	$(216)	$(180)
Unrecognized net loss	90	65
Unrecognized prior service cost	1	2
Accrued benefit cost	$(125)	$(113)
Amounts recognized in the statement of financial position		
Accrued benefit cost	$(169)	$(135)
Intangible asset	1	2
Accumulated other comprehensive loss	43	20
Net amount recognized	$(125)	$(113)

The accumulated benefit obligation for the supplementary retirement plan was $169 million and $135 million as of December 31, 2002 and December 31, 2001, respectively.

Net pension costs for the supplementary retirement plan included the following actuarially determined components:

(Millions)	2003	2002	2001
Service cost	$ 6	$ 5	$ 4
Interest cost	13	12	9
Amortization of prior service cost	1	2	2
Recognition of net actuarial loss	8	6	2
	$28	$25	$17

As permitted under SFAS No. 87, "Employers' Accounting for Pensions," the amortization of any prior service cost is determined using a straight-line amortization of the cost over the average remaining service period of employees expected to receive benefits under the plan.

Multiemployer Plans

3.81

THE KROGER CO. (JAN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

18 (In Part): Benefit Plans

The Company participates in various multi-employer plans for substantially all union employees. The Company is required to make contributions to these plans in amounts established under collective bargaining agreements. Pension expense for these plans is recognized as contributions are funded. Benefits are generally based upon a fixed amount for each year of service. Contributions for 2002, 2001 and 2000 were $153, $114 and $103, respectively. A decline in the value of assets held by these plans, caused by performance of the investments in the financial markets in recent years, is likely to result in higher contributions to these plans and to create challenges in collective bargaining. Moreover, if the Company exits markets, it may be required to pay a potential withdrawal liability if the plans were underfunded at the time of withdrawal. However, the Company is unable to determine the potential amount of liability at this time. Any adjustments will be recorded when it is probable that a liability exists and it is determined that markets will be exited.

Amendment of Plan

3.82

PRAXAIR, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 19. Retirement Programs

Pensions

Praxair has two main U.S. retirement programs which are non-contributory defined benefit plans, the Praxair Retirement Program and the CBI Retirement Program. The latter program primarily benefits former employees of CBI Industries, Inc. which Praxair acquired in 1996. Effective July 1, 2002, the Praxair Retirement Program was amended to give participating employees a one-time choice to remain covered by the old formula or to elect coverage under a new formula. The old formula is based predominantly on years of service, age and compensation levels prior to retirement, while the new formula provides for an annual contribution to an individual account which grows with interest each year at a predetermined rate. Also, this new formula will apply to all new employees hired into businesses adopting this plan. U.S. pension plan assets are comprised of a diversified mix of assets including domestic and international corporate equities, government securities and corporate debt securities. Pension coverage for employees of certain of Praxair's international subsidiaries generally is provided by those companies through separate plans. Obligations under such plans are primarily provided for through diversified investment portfolios, with some smaller plans provided for under insurance policies or by book reserves.

Praxair's U.S. packaged gases business has a defined contribution plan. Company contributions to this plan are calculated as a percentage of salary based on age plus service. Praxair's U.S. Healthcare business also sponsors a defined contribution plan. It provides for a matching contribution as well as a company contribution that is not dependent on employee contributions. In both plans, U.S. employees may supplement the company contributions up to the maximum allowable by IRS regulations. Certain international subsidiaries of the company also sponsor defined contribution plans where contributions are determined under various formulas. The cost for all contribution plans was $7 million in 2002, 2001 and 2000 (not included in the tables that follow).

U.S. employees other than those in the packaged gases business are eligible to participate in a defined contribution savings plan. Employees may contribute up to 18% of their compensation, subject to the maximum allowable by IRS regulations. Company contributions to this plan are calculated on a graduated scale based on employee contributions to the plan. As discussed above, as part of the election made for July 1, 2002, current employees were given the choice of maintaining coverage under the matching formula then in effect, or if so chosen, to move to an enhanced matching formula. Effective July 1, 2002, this enhanced matching program applies to all employees hired into businesses adopting this plan. The cost for this plan was $11 million in 2002 and $10 million in 2001 and 2000 (not included in the tables that follow).

Postretirement Benefits Other Than Pensions (OPEB)

Praxair provides health care and life insurance benefits to certain eligible retired employees. These benefits are provided through various insurance companies and health care providers. Praxair is also obligated to make payments for a portion of postretirement benefits related to retirees of Praxair's former parent. Additionally, as part of the CBI acquisition in 1996, Praxair assumed responsibility for health care and life insurance benefit obligations for CBI's retired employees. All postretirement health care programs have cost caps that limit the Company's exposure to future cost increases. In addition, as part of the choice election made for July 1, 2002, all current employees were given the choice of maintaining coverage in retirement under the current plan, or to move to a plan whereby coverage would be provided, but with no Praxair subsidy whatsoever. Praxair does not currently fund its postretirement benefits obligations. Praxair retiree plans may be changed or terminated by Praxair at any time for any reason with no liability to current or future retirees.

Pension and Postretirement Benefit Costs

The components of net pension and OPEB costs for 2002, 2001, and 2000 are shown below:

	Pensions			OPEB		
(Millions of dollars)	2002	2001	2000	2002	2001	2000
Net benefit cost						
Service cost	$ 30	$ 26	$ 30	$ 4	$ 5	$ 6
Interest cost	73	67	64	16	14	15
Expected return on assets	(86)	(81)	(78)	—	—	—
Curtailment/settlement (gains)	—	—	(6)	—	—	—
Net amortization and deferral	(2)	(3)	(3)	(3)	(4)	(5)
Net periodic benefit cost	$ 15	$ 9	$ 7	$17	$15	$16

The changes in benefit obligation and plan assets and the funded status reconciliation as of December 31, 2002 and 2001 for Praxair's significant pension and OPEB programs are shown below:

	Pensions					
	2002		2001		OPEB	
(Millions of dollars)	US	INTL	US	INTL	2002	2001
Change in benefit obligation						
Benefit obligation, January 1	$ 759	$236	$ 705	$243	$ 224	$ 230
Service cost	21	9	19	8	4	4
Interest cost	58	15	53	14	16	15
Participant contributions	—	1	—	—	7	11
Plan amendments	—	—	—	—	—	8
Actuarial loss (gain)	85	—	19	—	26	(14)
Benefits paid	(40)	(15)	(37)	(18)	(26)	(28)
Curtailment/settlement (gains)	—	(1)	—	—	—	—
Currency translation	—	1	—	(11)	(4)	(2)
Other changes*	18	—	—	—	7	—
Benefit obligation, December 31	$ 901	$246	$ 759	$236	$ 254	$ 224
Change in plan assets						
Fair value of plan assets, January 1	$ 605	$241	$ 666	$259	$ —	$ —
Actual return on plan assets	(54)	(5)	(30)	8	—	—
Company contributions	—	7	—	3	—	—
Participant contributions	—	1	—	—	—	—
Benefits paid	(33)	(15)	(31)	(18)	—	—
Currency translation	—	1	—	(11)	—	—
Fair value of plan assets, December 31	$ 518	$230	$ 605	$241	$ —	$ —
Funded status reconciliation						
Funded status, December 31	$(383)	$ (16)	$(154)	$ 5	$(254)	$(224)
Unrecognized (gains) losses—net	247	11	45	(17)	24	2
Unrecognized prior service cost	(6)	2	(5)	2	(9)	(14)
Unrecognized transition amount	—	1	—	(1)	—	—
Net amount recognized, December 31	$(142)	$ (2)	$(114)	$ (11)	$(239)	$(236)
Amounts in the balance sheet:						
Prepaid benefit cost	$ —	$ 4	$ —	$ 2	$ —	$ —
Accrued benefit liability	(305)	(9)	(132)	(16)	(239)	(236)
Intangible assets	—	1	—	3	—	—
Accumulated other comprehensive income (loss)	163	2	18	—	—	—
Net amount recognized, December 31	$(142)	$ (2)	$(114)	$ (11)	$(239)	$(236)

* Other changes in 2002 represent the CBI non-qualified pension and OPEB obligations included in the table beginning in 2002 and accrued for in 2002, 2001 and 2000.

The projected benefit obligation, accumulated benefit obligation, and fair value of plan assets for the pension plans with accumulated benefit obligations in excess of plan assets were $1,062 million, $961 million, and $604 million, respectively, as of December 31, 2002 ($911 million, $821 million and $695 million, respectively, as of December 31, 2001).

The weighted average or range of assumptions for the Company's pension and OPEB benefit plans were as follows:

	U.S. Plans		International Plans	
	2002	2001	2002	2001
Discount rate	6.75%	7.25%	4.00–9%	3.25–11%
Rate of increase in compensation levels	3.75%	4.25%	2.25–5%	2.25–8%
Expected long-term rate of return on plan assets*	9.25%	9.50%	2.00–10%	5.5–12%

* For 2003, the expected long-term rate of return on plan assets will be 8.5% for the U.S. plans. Expected returns for international plans will vary. These rates are determined annually by management based on a weighted average of current and historical market trends, historical portfolio performance and the portfolio mix of investments.

For OPEB measurement purposes, a 11.0% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2003, gradually reducing to 5.0% in 2008 and thereafter. These health care cost trend rate assumptions have an impact on the amounts reported; however, cost caps limit the impact on the net OPEB benefit cost. To illustrate the effect, a one-percentage point change in assumed health care cost trend rates would have the following effects:

(Millions of dollars)	One-Percentage Point Increase	One-Percentage Point Decrease
Effect on the total of service and interest cost components of net OPEB benefit cost	$—	$—
Effect on OPEB benefit obligation	$ 4	$(4)

Adoption of Plan

3.83

GIANT INDUSTRIES, INC. AND SUBSIDIARIES (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 15—Pension and Post-Retirement Benefits

The Giant Yorktown Cash Balance Plan ("Cash Plan") is a defined benefit plan for the employees of Giant Yorktown, Inc. and was established in 2002. The Cash Plan is a "cash balance" retirement plan fully funded by the Company without employee contributions. All employees of Giant Yorktown, Inc. meeting the eligibility requirements are automatically included in the Cash Plan. Under the Cash Plan, an account is established for each eligible employee that in general reflects pay credits, based on a percentage of eligible pay determined by age or years of service, whichever yields the greater percentage, plus regular interest credits. Interest credits are generally equal to the greater of 5% or the 12-month average of the one-year U.S. Treasury constant maturity rates plus 1%. Yorktown employees who were covered by the BP retirement plan on July 1, 2000, are generally eligible for a grandfather provision that affects the calculation of the benefit under the plan.

The Company must make a lump-sum payment to the Cash Plan each year. The amount of the Company's annual payment is based on various factors, including actuarial calculations linked to the potential retirement ages of Yorktown employees. The Company's payment to the Cash Plan for the year ending December 31, 2002 will be $868,000 and will be made by August 2003. For the year ending December 31, 2003, the Company estimates that the annual payment for the Cash Plan will be approximately $1,500,000.

The Giant Yorktown Retiree Medical Plan (the "Medical Plan") is a defined post-retirement benefit plan for the employees of Giant Yorktown, Inc. and was established in 2002. The Medical Plan will pay a percentage of the medical premium for coverage under the plan. Coverage is generally available to full-time employees who are age 50 or older with 10 or more years of service. The Company will pay from 50% to 80% of the premium cost, depending on age and years of service. Unlike the Cash Plan, the Company is not required to fund the Medical Plan on an annual basis. The Company did not make a payment to the Medical Plan for the year ending December 31, 2002 and does not anticipate making a payment to the Medical Plan for the year ending December 31, 2003.

The following table contains the disclosures for the Company's pension plan and retiree medical plan for 2002.

	Cash Balance Plan	Retiree Medical Plan
Reconciliation of benefit obligation:		
Benefit obligation at beginning of year	$ —	$ —
Service cost	576,969	101,972
Interest cost	310,251	93,005
Benefit paid	—	—
Actuarial loss	401,341	162,660
Plan amendments	—	—
Acquisitions	7,262,000	2,141,000
Benefit obligation at end of year	$ 8,550,561	$ 2,498,637
Reconciliation of plan assets:		
Fair value of plan assets at beginning of year	$ —	$ —
Actual return on plan assets	—	—
Employer contributions	—	—
Benefits paid	—	—
Acquisitions	—	—
Fair value of plan assets at end of year	$ —	$ —
Unfunded status	$(8,550,561)	$(2,498,637)
Unrecognized net transition obligation	—	—
Unrecognized net prior service cost	—	—
Unrecognized net loss	401,341	162,660
Accrued benefit cost	$(8,149,220)	$(2,335,977)
Weighted-average assumptions at end of year:		
Discount rate	6.50%	6.50%
Expected return on assets	8.50%	8.50%
Salary scale	4.00%	—
Net periodic benefit cost included the following:		
Service cost	$ 576,969	$ 101,972
Interest cost	310,251	93,005
Expected return on assets	—	—
Amortization of prior service cost	—	—
Recognized net actuarial (gain)/loss	—	—
Net periodic benefit cost	$ 887,220	$ 194,977

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plan. A 1%-point change in assumed health care cost trend rates would have the following effect:

	1%-Point	
	Increase	Decrease
Effect on total of service and interest cost components	$ 6,906	$ (6,695)
Effect on postretirement benefit obligation	88,351	(85,646)

Curtailment Gains/Losses

3.84

LEAR CORPORATION AND SUBSIDIARIES (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9 (In Part): Pension and Other Postretirement Benefit Plans

The Company has noncontributory defined benefit pension plans covering certain domestic employees and certain employees in foreign countries, principally Canada. The Company's salaried plans provide benefits based on a five-year average earnings formula. Hourly pension plans provide benefits under flat benefit formulas. The Company also has contractual arrangements with certain employees which provide for supplemental retirement benefits. In general, the Company's policy is to fund these plans based on legal requirements, tax considerations and local practices.

The Company has postretirement plans covering a portion of the Company's domestic and Canadian employees. The plans generally provide for the continuation of medical benefits for all eligible employees who complete ten years of service after age 45 and retire from the Company at age 55 or older. The Company does not fund its postretirement benefit obligation. Rather, payments are made as costs are incurred by covered retirees.

A reconciliation of the change in benefit obligation, the change in plan assets and the net amount recognized in the consolidated balance sheets is shown below (based on a September 30 measurement date, in millions):

	Pension		Other Postretirement	
	2002	2001	2002	2001
Change in benefit obligation:				
Benefit obligation at beginning of year	$ 312.8	$ 281.5	$ 122.0	$ 92.4
Service cost	29.5	28.1	11.0	8.4
Interest cost	23.1	20.0	9.3	7.1
Amendments	13.2	0.7	(0.2)	0.1
Actuarial loss	26.8	10.9	48.6	18.4
Benefits paid	(13.3)	(14.8)	(9.5)	(3.6)
Curtailment (gain) loss	(2.8)	(3.4)	—	0.2
Special termination benefits	0.9	—	0.4	—
Translation adjustment	7.0	(10.2)	(0.1)	(1.0)
Benefit obligation at end of year	$ 397.2	$ 312.8	$ 181.5	$ 122.0
Change in plan assets:				
Fair value of plan assets at beginning of year	$ 211.7	$ 219.5	$ —	$ —
Actual return on plan assets	(15.1)	(24.3)	—	—
Employer contributions	35.4	38.0	9.5	3.6
Benefits paid	(13.3)	(14.8)	(9.5)	(3.6)
Translation adjustment	0.9	(6.7)	—	—
Fair value of plan assets at end of year	$ 219.6	$ 211.7	$ —	$ —
Funded status	$(177.6)	$(101.1)	$(181.5)	$(122.0)
Unrecognized net actuarial loss	85.8	27.3	52.2	3.9
Unrecognized net transition (asset) obligation	(1.0)	(1.1)	19.2	21.6
Unrecognized prior service cost	40.1	30.9	(0.2)	(0.6)
Net amount recognized	$ (52.7)	$ (44.0)	$(110.3)	$ (97.1)
Amounts recognized in the consolidated balance sheets:				
Prepaid benefit cost	$ 3.1	$ 31.7	$ —	$ —
Accrued benefit liability	(139.7)	(121.2)	(110.3)	(97.1)
Intangible asset	35.0	24.9	—	—
Deferred tax asset	16.5	7.6	—	—
Accumulated other comprehensive loss	32.4	13.0	—	—
Net amount recognized	$ (52.7)	$ (44.0)	$(110.3)	$ (97.1)

In 2002, the Company recognized a curtailment (gain) loss of $2.8 million and $(0.4) million with respect to pension and other postretirement benefits, respectively, in conjunction with workforce reductions, plant closings and plan settlements.

In 2001, the Company recognized a curtailment gain of $0.6 million and $0.1 million with respect to pension and other postretirement benefits, respectively, in conjunction with severance actions taken in the first six months of 2001 to reduce the Company's cost base.

As of December 31, 2002 and 2001, the majority of the Company's pension plans had accumulated benefit obligations in excess of plan assets. The projected benefit obligation, accumulated benefit obligation and fair value of plan assets of these plans were $374.2 million, $325.8 million and $197.8 million, respectively, as of December 31, 2002 and $291.9 million, $250.7 million and $187.5 million, respectively, as of December 31, 2001.

Components of the Company's net periodic benefit costs are shown below (in millions):

	Pension			Other Postretirement		
	2002	2001	2000	2002	2001	2000
Service cost	$ 29.5	$ 28.1	$ 30.1	$11.0	$ 8.4	$10.3
Interest cost	23.1	20.0	18.1	9.3	7.1	6.5
Expected return on plan assets	(17.5)	(17.8)	(14.1)	—	—	—
Amortization of actuarial (gain) loss	0.4	(0.9)	(0.2)	0.6	(1.4)	(1.3)
Amortization of transition (asset) obligation	(0.4)	(0.3)	(0.3)	1.7	1.8	1.8
Amortization of prior service cost	3.3	3.1	2.9	(0.1)	0.2	0.1
Curtailment (gain) loss	2.8	(0.6)	—	(0.4)	(0.1)	(1.0)
Net periodic benefit cost	$ 41.2	$ 31.6	$ 36.5	$22.1	$16.0	$16.4

The weighted-average actuarial assumptions used in determining the funded status information and net periodic benefit cost information are shown below:

	Pension		Other Postretirement	
	2002	2001	2002	2001
Discount rate:				
Domestic plans	6.75%	7.50%	6.75%	7.50%
Foreign plans	7.00%	7.00%	7.00%	7.00%
Expected return on plan assets:				
Domestic plans	9.00%	9.50%	N/A	N/A
Foreign plans	7.00%	7.00%	N/A	N/A
Rate of compensation increase:				
Domestic plans	3.75%	4.50%	N/A	N/A
Foreign plans	4.50%	4.50%	N/A	N/A

The weighted-average assumptions for the foreign plans relate primarily to Canadian pension and other postretirement benefit plans.

For measurement purposes, domestic healthcare costs were assumed to increase 13.0% in 2003, grading down over time to 5.5% in ten years. Foreign healthcare costs were assumed to increase 6.0% in 2003, grading down over time to 4.4% in five years.

Assumed healthcare cost trend rates have a significant effect on the amounts reported for the postretirement plans. A 1% rise in the assumed rate of healthcare cost increases each year would increase the postretirement benefit obligation as of December 31, 2002 by $29.4 million and increase the postretirement net periodic benefit cost by $5.1 million for the year then ended. A 1% decrease in the assumed rate of healthcare cost increases each year would decrease the postretirement benefit obligation as of December 31, 2002 by $24.7 million and decrease the postretirement net periodic benefit cost by $4.2 million for the year then ended.

POSTEMPLOYMENT BENEFITS

3.85 SFAS No. 112, *Employers' Accounting for Postemployment Benefits,* 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*.

3.86 Examples of disclosures for postemployment benefits follow.

3.87

PHELPS DODGE CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Postemployment Benefits

We have certain postemployment benefit plans covering most of our U.S. employees and, in some cases, employees of international subsidiaries. The benefit plans may provide severance, long-term disability income, health care, life insurance, continuation of health and life insurance coverage for disabled employees or other welfare benefits. We account for these benefits on an accrual basis. Our funding policy provides that payments shall be at least equal to our cash basis obligation. Additional amounts may also be provided from time to time.

16 (In Part): Postretirement and Other Employee Benefits Other Than Pensions

We have a number of postemployment plans covering severance, long-term disability income, health care, life insurance, continuation of health and life insurance coverage for disabled employees or other welfare benefits. At December 31, 2002 and 2001, the accumulated postemployment benefit disability consisted of a current portion of $3.6 million and

$3.3 million included in accounts payable and accrued expenses and $18.0 million and $21.8 million included in other liabilities and deferred credits.

3.88

WEIRTON STEEL CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 8 Postemployment Benefits

The components comprising the Company's obligations for postemployment benefits are (i) workers' compensation; (ii) severance programs which include medical coverage continuation; and (iii) sickness and accident protection, which includes medical and life insurance benefits.

Actuarial assumptions and demographic data, as applicable, that were used to measure the postemployment benefit obligation as of December 31, 2002 and 2001, were consistent with those used to measure pension and other postretirement benefit obligations for each respective year. As of December 31, 2002 and 2001, the Company had accrued $35.8 million and $36.9 million, respectively, for postemployment benefit obligations. The workers compensation liability is discounted at a rate of 6.5%.

EMPLOYEE COMPENSATORY PLANS

3.89 Effective for fiscal years beginning after December 15, 1995, SFAS No. 123, *Accounting for Stock-Based Compensation,* 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 Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees. SFAS No. 123* amends *APB Opinion No. 25* to require pro forma disclosures of net income and earnings per share as if the "fair value based method" was used.

3.90 Effective for fiscal years ending after December 15, 2002, SFAS No. 148, *Accounting for Stock-Based Compensation—Transition and Disclosure,* amends *SFAS No. 123* to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, *SFAS No. 148* amends the disclosure requirements of *SFAS No. 123* to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results.

3.91 Table 3-12 lists the types of employee compensatory plans disclosed by the survey companies. Compensatory plans may consist of stock awards or cash payments. The "stock award" caption in Table 3-12 represents restricted stock awards, performance awards, and bonuses paid by issuing stock.

3.92 Examples of employee compensatory plan disclosures follow.

3.93

TABLE 3-12: EMPLOYEE COMPENSATORY PLANS

	Number of Companies			
	2002	**2001**	**2000**	**1999**
Stock options	587	585	583	587
Savings/investment	339	324	263	279
Stock award	332	327	337	320
Stock purchase	189	188	150	135
Employee stock ownership	93	110	110	120
Deferred compensation	93	78	68	71
Profit-sharing	63	94	94	108
Incentive compensation	63	76	70	92

Stock Option Plans

3.94

THE BLACK & DECKER CORPORATION AND SUBSIDIARIES (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (In Part): Summary of Accounting Policies

Stock-Based Compensation

As described in Note 14, 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. 148, *Accounting for Stock-Based Compensation—Transition and Disclosure.*

Note 14: 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. In addition, the Corporation provides pro forma disclosure of stock-based compensation, as measured under the fair value requirements of SFAS No. 123, *Accounting for Stock-Based Compensation*. These pro forma disclosures are provided as required under SFAS No. 148, *Accounting for Stock-Based Compensation—Transition and Disclosure.*

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, 2002, 9,373,414 non-qualified stock options were outstanding under domestic plans. There were 7,000 stock options outstanding under the United Kingdom plan.

Under all plans, there were 944,670 shares of common stock reserved for future grants as of December 31, 2002. Transactions are summarized as follows:

	Stock Options	Weighted-Average Exercise Price
Outstanding at December 31, 1999	6,604,790	$39.38
Granted	3,892,450	42.77
Exercised	155,278	23.59
Forfeited	784,837	46.69
Outstanding at December 31, 2000	9,557,125	40.42
Granted	1,276,450	34.01
Exercised	1,263,275	21.57
Forfeited	482,814	44.71
Outstanding at December 31, 2001	9,087,486	41.91
Granted	1,279,300	48.13
Exercised	773,297	26.91
Forfeited	213,075	45.17
Outstanding at December 31, 2002	9,380,414	$43.92
Shares exercisable at December 31, 2000	3,637,612	$32.07
Shares exercisable at December 31, 2001	3,201,321	$39.85
Shares exercisable at December 31, 2002	3,780,183	$44.35

Exercise prices for options outstanding as of December 31, 2002, ranged from $20.50 to $61.00. The following table provides certain information with respect to stock options outstanding at December 31, 2002:

Range of Exercise Prices	Stock Options Outstanding	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life
Under $30.75	1,028,662	$29.68	7.1
$30.75–$46.13	4,510,065	41.34	6.9
Over $46.13	3,841,687	50.77	7.4
	9,380,414	$43.92	7.1

The following table provides certain information with respect to stock options exercisable at December 31, 2002:

Range of Exercise Prices	Stock Options Exercisable	Weighted-Average Exercise Price
Under $30.75	469,537	$29.30
$30.75–$46.13	1,425,623	39.35
Over $46.13	1,885,023	51.88
	3,780,183	$44.35

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. 148 for stock-based compensation granted, including, if materially different from reported results, disclosure of pro forma net earnings and earnings per share had compensation expense relating to 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 2002, 2001, and 2000 were $18.17, $11.96, and $16.50, respectively, and were estimated using the Black-Scholes option valuation model with the following weighted-average assumptions:

	2002	2001	2000
Expected life in years	6.3	6.2	5.9
Interest rate	4.91%	4.70%	6.50%
Volatility	33.0%	32.4%	32.2%
Dividend yield	.99%	1.44%	1.12%

A reconciliation of the Corporation's net earnings to pro forma net earnings, and the related pro forma earnings per share amounts, for the years ended December 31, 2002, 2001 and 2000, is provided below. For purposes of pro forma disclosure, stock-based compensation expense is recognized in accordance with the provisions of SFAS No. 123. Further, pro forma stock-based compensation expense is amortized to expense on a straight-line basis over the vesting period.

(Dollars in millions except per share data)	2002	2001	2000
Net earnings	$229.7	$108.0	$282.0
Adjustment to net earnings for:			
Stock-based compensation income (expense) included in net earnings, net of tax	—	2.3	(1.0)
Pro forma stock-based compensation expense, net of tax	18.5	13.8	19.7
Pro forma net earnings	$211.2	$ 91.9	$263.3
Pro forma net earnings per common share—basic	$ 2.63	$ 1.14	$ 3.15
Pro forma net earnings per common share—assuming dilution	$ 2.62	$ 1.13	$ 3.12

3.95

THE CLOROX COMPANY (JUN)

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

1 (In Part): Significant Accounting Policies

Stock-Based Compensation

The Company accounts for stock-based compensation using the intrinsic value method prescribed in APB Opinion No. 25 whereby the options are granted at market price, and therefore no compensation costs are recognized. Compensation cost for stock options, if any, would be measured as the excess of the quoted market price of the Company's stock at the date of grant over the amount an employee must pay to acquire the stock. Restricted stock awards are recorded as compensation cost over the requisite vesting periods based on the market value on the date of grant. Unearned compensation cost on restricted stock awards is shown as a reduction to stockholder's equity. SFAS No. 123, "Accounting for Stock-Based Compensation," established accounting and disclosure requirements using a fair-value based method of accounting for stock-based employee compensation plans. The Company has elected to retain its current method of accounting as described above and has adopted the disclosure requirements of SFAS No. 123. (See Note 13).

13. Stock Compensation Plans

At June 30, 2002, the Company has various non-qualified stock-based compensation programs which include stock options, performance units and restricted stock awards. The Company's various stock options plans, which include the pre-merger plans of First Brands, provide for the granting of stock options to officers, key employees and directors. The 1996 Stock Incentive Plan ("1996 Plan") and the 1993 Directors' Stock Option Plan are the only plans with stock option awards currently available for grant. The 1996 Plan, the 1993 Directors' Stock Option Plan and prior plans have shares exercisable at June 30, 2002. Effective July 1, 2001, the Board authorized and reserved for issuance an additional 11.5 million common shares under the 1996 Plan. The Company is authorized to grant options for up to 25.5 million common shares under the 1996 Plan, of which 12.6 million common shares are remaining and could be granted in the future. The Company is authorized to grant options for up to 400,000 common shares under the 1993 Directors' Stock Option Plan, of which 111,000 common shares are remaining and could be granted in the future. Options outstanding under the Company's plans (except First Brands options which became exercisable upon the merger) have been granted at prices which are either equal to or above the market value of the stock on the date of grant, vest over a one to seven-year period, and expire no later than ten years after the grant date.

The following table gives information about the Company's common stock that may be issued upon the exercise of options, performance units and restricted stock awards under all the Company's existing non-qualified stock-based compensation programs at June 30, 2002:

Number of securities to be issued upon exercise (in thousands)	16,334
Weighted-average exercise price	$ 31
Number of securities remaining for future issuance (in thousands)	12,757

The status of the Company's stock option plans at June 30, 2002 is summarized below:

(In thousands)	Number of Shares	Weighted-Average Exercise Price
Outstanding at June 30, 1999	13,640	$34
Granted	3,104	40
Exercised	(1,381)	20
Cancelled	(301)	44
Outstanding at June 30, 2000	15,062	36
Granted	3,077	36
Exercised	(1,077)	19
Cancelled	(3,367)	62
Outstanding at June 30, 2001	13,695	31
Granted	3,785	35
Exercised	(1,591)	23
Cancelled	(677)	38
Outstanding at June 30, 2002	15,212	$33
Options exercisable at:		
June 30, 2002	9,063	$29
June 30, 2001	8,570	26
June 30, 2000	7,687	21

If compensation expense for the Company's various stock option plans had been determined based upon fair values at the grant dates for awards under those plans in accordance with SFAS No. 123, "Accounting for Stock-Based Compensation," then the Company's pro-forma net earnings, basic and diluted earnings per common share would have been as follows for the fiscal years ended June 30:

	2002	2001	2000
Net earnings:			
As reported	$ 322	$ 323	$ 394
Pro forma	296	286	373
Earnings per share:			
Basic			
As reported	$1.39	$1.37	$1.67
Pro forma	1.28	1.21	1.58
Diluted			
As reported	$1.37	$1.35	$1.64
Pro forma	1.26	1.19	1.56

The weighted-average fair value per share of each option granted during fiscal years 2002, 2001 and 2000, estimated as of the grant date using the Black-Scholes option pricing model, was $11.53, $12.76 and $12.43, respectively.

The following assumptions were used to estimate the fair value of fiscal year 2002, 2001 and 2000 option grants:

	2002	2001	2000
Dividend yield	2.07%	2.28%	1.80%
Expected volatility	38.4%	38.9%	36.5%
Risk-free interest rate	3.5% to 4.8%	4.6% to 6.5%	5.7% to 6.8%
Expected life	4 to 5 years	4 to 5 years	3 to 6 years

Summary information about the Company's stock options outstanding at June 30, 2002 is as follows (number of shares in thousands):

Range of Exercise Price	Options Outstanding	Weighted-Average Remaining Contractual Life in Years	Weighted-Average Exercise Price	Options Exercisable	Weighted-Average Exercise Price
$10–$13	745	1.6	$13	745	$13
13–20	1,024	2.2	16	1,024	16
20–27	2,718	3.8	22	2,718	22
27–34	80	5.7	33	63	33
34–40	9,504	8.1	36	3,957	37
40–47	250	7.5	44	153	43
47–54	54	6.6	50	52	51
54–61	342	6.8	54	342	54
61–67	495	6.6	67	9	67
$10–$67	15,212	6.5	$33	9,063	$29

3.96

CSP INC. AND SUBSIDIARIES (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8. Stock Options

In 1997, the Company adopted the 1997 Stock Option Plan covering 199,650 shares, which was ratified by the shareholders in January 1998. In 1991, the Company adopted the 1991 Stock Option Plan covering 332,750 shares of common stock. Under the Plans, both incentive stock options and non-qualified stock options may be granted to officers, key employees and other persons providing services to the Company. The stock option plans provide for issuance of options at their fair market value on the date of grant. These options vest over a period of five years, do not vest in the first year, and expire ten years from the date of grant. In the 1991 plan, up to 26,624 shares are allocated for annual non-discretionary grants of 1,100 shares each to non-employee directors of the Company who are serving on the last business day of January each year.

The following is a summary of common stock option activity for the three years ended September 30, 2002:

	Weighted Average Exercise Price of Shares Under Plans	Number of Shares			
		1997 Plan	1991 Plan	1981 Plan	Total
Outstanding August 27, 1999	$5.98	—	319,148	10,038	329,186
Granted	$5.29	110,000	7,400	—	117,400
Exercised	$5.58	—	(32,723)	(2,763)	(35,486)
Expired and terminated	$5.78	(4,000)	(7,813)	(664)	(12,477)
Outstanding August 31, 2000	$5.80	106,000	286,012	6,611	398,623
Granted	$4.22	46,500	4,000	—	50,500
Exercised	$4.60	—	(1,331)	—	(1,331)
Expired and terminated	$5.67	(4,000)	(7,453)	—	(11,453)
Outstanding August 31, 2001	$5.26	148,500	281,228	6,611	436,339
Granted	$3.68	4,000	6,000	—	10,000
Expired and terminated	$5.83	(6,000)	(30,273)	(6,611)	(42,884)
Outstanding Sept. 30, 2002	$5.53	146,500	256,955	—	403,455
Available for future grants		53,150	—	—	53,150
Exercisable	$5.69	82,001	242,381	—	324,482

The following table summarizes information about fixed stock options outstanding at September 30, 2002.

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Years of Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$3.65–$5.64	171,242	6.8	$ 4.69	101,494	$ 4.75
$5.65–$7.64	224,813	4.8	$ 6.04	216,988	$ 6.03
$8.50	4,400	0.4	$ 8.50	4,400	$ 8.50
$11.00–$11.25	3,000	7.5	$11.16	1,500	$11.16
	403,455		$ 5.53	324,482	$ 5.69

The Company applies Accounting Principles Board Opinion No. 25 ("APB No. 25"), "Accounting for Stock Issued to Employees" and related Interpretations in accounting for its stock option plans. Following the guidance of APB No. 25, no compensation expenses have been recognized in the consolidated financial statements for such plans. Had compensation costs for the Company's stock option plans been determined based on the fair value at the grant date for awards under these plans consistent with the methodology prescribed under SFAS No. 123, "Accounting for Stock based Compensation," the Company's net income (loss) would have been adjusted to the proforma amounts indicated below:

(Amounts in thousands, except per share data)	2002	2001	2000
Net income (loss) as reported	$(5,663)	$(2,885)	$ 675
Pro forma	$(5,770)	$(2,990)	$ 553
Income (loss) per share diluted as reported	$ (1.61)	$ (0.82)	$0.18
Pro forma	$ (1.64)	$ (0.85)	$0.15

The grant date fair value of each stock option is estimated using the following assumptions: an expected life of 5 years, expected volatility of 60.2% in 2002, 56.0% in 2001, and 18.4% in 2000 and dividend yields of 0% and a weighted average risk-free interest rate of 4.62% in 2002, 5.85% in 2001, and 6.30% in 2000. The weighted average grant date fair values of options granted in 2002, 2001, and 2000 were $1.84, $4.22, and $5.90, respectively. The effects of applying SFAS No. 123 as shown in the above pro forma disclosure is not representative of the pro forma effect on net income in future years because it does not take into consideration pro forma compensation expense related to grants made prior to fiscal 1996.

3.97

HASBRO, INC. AND SUBSIDIARIES (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Thousands of dollars and shares except per share data)

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

Stock Options

Hasbro uses the intrinsic-value method of accounting for stock-based awards granted to employees and, accordingly, does not currently recognize compensation expense for its stock-based awards to employees in the Consolidated Statements of Operations. See Note 12 for pro forma information on the impact of the fair-value method of accounting for stock options.

12) Stock Options, Restricted Stock and Warrants

Hasbro has various stock plans for employees as well as a plan for non-employee members of the Board (collectively, the "plans") and has reserved 28,816 shares of its common stock for issuance upon exercise of options and the grant of other awards granted or to be granted under the plans. These options generally vest in equal annual amounts over three to five years. The plans provide that options be granted at exercise prices not less than fair market value on the date the option is granted and options are adjusted for such changes as stock splits and stock dividends. No options are exercisable for periods of more than ten years after date of grant. Certain of the plans permit the granting of awards in the form of stock options, stock appreciation rights, stock awards and cash awards.

The Company issued restricted stock and granted deferred restricted stock units to certain key employees of 20, 10 and 713 during 2002, 2001, and 2000, respectively. At December 29, 2002, these awards, net of forfeitures, aggregated the equivalent of 505 shares. These shares or units are nontransferable and subject to forfeiture for periods prescribed by the Company. Upon granting of these awards, unearned compensation equivalent to the market value at the date of grant is charged to shareholders' equity and subsequently amortized over the periods during which the restrictions lapse, generally 3 years. Amortization of deferred, unearned compensation relating to the restricted stock and deferred restricted stock units of $1,770, $2,561 and $2,733 was recorded in fiscal 2002, 2001 and 2000, respectively.

As permitted by Statement of Financial Accounting Standards No. 123 (SFAS 123), Hasbro continues to apply Accounting Principles Board Opinion No. 25 (APB 25) in accounting for the plans under which no compensation cost is recognized. Had compensation expense been recorded under the provisions of SFAS 123, the impact on the Company's net earnings (loss) and earnings (loss) per share would have been:

	2002	2001	2000
Reported net earnings (loss)	$ (170,674)	59,732	(144,631)
Pro forma compensation expense, net of tax	(18,420)	(10,307)	(21,981)
Pro forma net earnings (loss)	$ (189,094)	49,425	(166,612)
Pro forma net earnings (loss) per share			
Basic	$ (1.09)	.29	(.94)
Diluted	$ (1.09)	.29	(.94)

The weighted average fair value of options granted in 2002, 2001 and 2000 were $7.34, $5.56 and $6.43, respectively. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions used for grants in 2002, 2001 and 2000, respectively: risk-free interest rates of 4.58%, 4.98% and 6.77%; expected dividend yields of 0.72%, 1.02% and 1.58% and expected volatility of approximately 43%, 49% and 41%, and expected lives of approximately 6 years.

Additionally, the Company has reserved 18,775 shares of its common stock for issuance upon exercise of outstanding warrants. In January 2003, the Company amended certain warrants. The warrants covered under this warrant amendment agreement consisted of 9,750 warrants with an exercise price of $18.67 as well as 6,000 warrants with an exercise price of $23.33. The amendment included an extension of the life of each of the warrants of 10 years. In addition, the Company was provided with an option running through October 13, 2016 to purchase these warrants for an

aggregate purchase price of, at the Company's election, either $200 million in cash, or $220 million in the Company's common stock, such stock being valued at time of exercise of the option. Also, the amendment extends an option to the grantee through January 2008 to sell all of these warrants to Hasbro for a price to be paid at the Company's election of either $100 million in cash, or $110 million in the Company's common stock, such stock being valued at the time of the exercise of the option. If this amendment had been in effect at December 29, 2002, diluted earnings per share before cumulative effect of accounting change for the year ended December 29, 2002 would have been $0.41. In 2000, the Company granted warrants to purchase 1,000 and 700 shares at exercise prices of $15.70 and $18.84, respectively, relating to product rights. At December 29, 2002, the unvested portion of these warrants was 500 and 350 shares, respectively, which will be recorded at fair value when the related performance commitments are met.

Information with respect to options and warrants for the three years ended December 29, 2002 is as follows:

	2002	2001	2000
Number of shares:			
Outstanding at beginning of year	38,483	40,458	33,776
Granted	4,756	3,535	9,029
Exercised	(465)	(603)	(475)
Expired or canceled	(3,155)	(4,907)	(1,872)
Outstanding at end of year	39,619	38,483	40,458
Exercisable at end of year	28,617	27,393	27,656
Weighted average exercise price:			
Granted	$16.89	11.95	15.59
Exercised	$11.58	13.69	7.81
Expired or canceled	$20.44	21.22	22.40
Outstanding at end of year	$19.14	19.49	20.27
Exercisable at end of year	$20.35	20.49	20.11

11. Stock Options

Options to purchase common stock of the Company have been granted under various incentive plans and by board action to directors, officers and other key employees at prices equal to or above the fair market value of the stock on the dates the options were granted. The plans provide that the option price for certain options granted under the plans may be paid in cash, shares of common stock or a combination thereof.

Under the 2000 Long-Term Incentives Plan, the Company may grant up to 16 million shares of Company common stock as non-qualified options, incentive stock options, stock appreciation rights and restricted stock. Shares available for future grant or payment under various incentive plans were 7.6 million at September 30, 2002. None of the incentive plans presently permits options to be granted after November 30, 2009. Stock options generally expire ten years from the date they are granted and vest over three years (time-vesting options) with the exception of performance-vesting options. Performance-vesting options expire ten years from the date they are granted and vest at the earlier of (a) the date the market price of the Company's common stock reaches a specified level for a pre-determined period of time or certain other financial performance criteria are met or (b) a period of six to nine years from the date they are granted.

3.98

ROCKWELL AUTOMATION, INC. (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Stock-Based Compensation

The Company accounts for stock-based compensation in accordance with Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees.* Stock options are granted at prices equal to the fair market value of the Company's common stock on the grant dates, therefore no compensation expense is recognized in connection with stock options granted to employees. Compensation expense resulting from grants of restricted stock is recognized during the period the service is performed.

Information relative to stock options is as follows (shares in thousands):

	2002		2001		2000	
	Shares	Wtd. Avg. Exercise Price	Shares	Wtd. Avg. Exercise Price	Shares	Wtd. Avg. Exercise Price
Number of shares under option:						
Outstanding at beginning of year	19,696	$14.15	13,998	$36.04	11,564	$31.13
Granted:						
Time-vesting	2,720	13.48	3,309	28.23	2,523	51.04
Performance-vesting	—	—	941	29.94	880	52.48
Adjustments:						
Collins adjustment	—	—	6,379	—	—	—
Conversion to Collins options	—	—	(2,486)	37.32	—	—
Exercised	(2,123)	11.63	(1,884)	23.17	(561)	24.62
Canceled or expired	(518)	16.81	(561)	29.99	(408)	40.31
Outstanding at end of year	19,775	14.27	19,696	14.15	13,998	36.04
Exercisable at end of year	12,133	13.88	9,863	13.48	8,584	30.52

Approximately 1.1 million performance-vesting options were not exercisable at September 30, 2002.

In connection with the Spinoff, the number and exercise prices of certain options were adjusted in order to preserve the intrinsic value of the options that were outstanding immediately before and after the Spinoff. For certain other options, option holders received a combination of Rockwell Automation and Rockwell Collins options with adjustments made to the number and exercise prices of those options to preserve the intrinsic value of the Rockwell Automation and Rockwell Collins options that were outstanding immediately before and after the Spinoff. Outstanding Rockwell Automation options held by Rockwell Collins employees generally were converted into Rockwell Collins options. None of the information for 2000, the options outstanding at the beginning of 2001 nor grants for 2001 have been restated to reflect adjustments made in connection with the Spinoff.

The following table summarizes information about stock options outstanding at September 30, 2002 (shares in thousands; remaining life in years):

	Options Outstanding			Options Exercisable	
		Weighted Average			
Range of Exercise Prices	Shares	Remaining Life	Exercise Price	Shares	Wtd. Avg. Exercise Price
$ 7.07 to $10.49	1,665	1.2	$ 9.07	1,665	$ 9.07
$10.50 to $11.78	6,443	7.1	11.28	4,082	11.09
$11.79 to $14.14	4,483	6.7	13.42	1,824	13.46
$14.15 to $16.27	1,737	6.4	15.68	1,272	15.60
$16.28 to $18.86	1,523	4.1	17.42	1,293	17.39
$18.87 to $23.57	3,924	6.7	20.50	1,997	20.62
	19,775			12,133	

The closing price of the Company's common stock on the New York Stock Exchange-Composite Transactions reporting system on September 30, 2002 was $16.27 per share.

The Company's net income and earnings per share would have been reduced to the following pro forma amounts if the Company accounted for its stock-based plans using the fair value method provided by SFAS No. 123, *Accounting for Stock-Based Compensation* (in millions, except per share amounts):

	2002		2001		2000	
	As Reported	Pro Forma	As Reported	Pro Forma	As Reported	Pro Forma
Net income	$ 121	$ 115	$ 305	$ 271	$ 636	$ 611
Basic earnings per share	$0.66	$0.63	$1.67	$1.48	$3.38	$3.26
Diluted earnings per share	$0.64	$0.61	$1.65	$1.46	$3.35	$3.22

The 2001 pro forma net income includes $6 million ($4 million after tax, or two cents per diluted share) of pro forma compensation expense related to the spinoff of Rockwell Collins. The pro forma effect of stock options on net income for 2002 may not be indicative of the pro forma effect on net income in future years.

The per share weighted average fair value of options granted was $2.99 in 2002, $8.79 in 2001 and $16.30 in 2000. The fair value of each option was estimated on the date of grant or subsequent date of option adjustment using the Black-Scholes pricing model and the following assumptions:

	2002	2001		2000
	Grants	Grants	Collins Spinoff Adjustment	Grants
Average risk-free interest rate	4.01%	5.76%	4.73%	6.06%
Expected dividend yield	3.76%	2.29%	1.77%	2.29%
Expected volatility	0.30	0.33	0.35	0.33
Expected life (years)	5	5	5	5

The per share weighted average fair value of options granted in 2001 and 2000 have not been restated to reflect the Spinoff.

Savings/Investment Plans

3.99

CHEVRONTEXACO CORPORATION (DEC)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Millions of dollars)

Note 19 (In Part): Employee Benefit Plans

Employee Savings Investment Plan

Eligible employees of ChevronTexaco and certain of its subsidiaries participate in the ChevronTexaco Employee Savings Investment Plan (ESIP). In 2002, the Employees Thrift Plan of Texaco Inc., Employees Savings Plan of ChevronTexaco Global Energy Inc. (formerly Caltex Corporation), Stock Plan of ChevronTexaco Global Energy Inc. and Employees Thrift Plan of Fuel and Marine Marketing LLC were merged into the ChevronTexaco ESIP. Charges to expense for these plans were $161, $157 and $63 in 2002, 2001 and 2000, respectively.

3.100

COLLINS INDUSTRIES, INC. AND SUBSIDIARIES (OCT)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6) Tax Deferred Savings Plan and Trust

In 1985, the Company made available to all eligible employees the opportunity to participate in the Company's Tax Deferred Savings Plan and Trust. The Company provides a 50% matching contribution in the form of cash or unregistered common stock of the Company on the eligible amount invested by participants in the plan to purchase common stock of the Company. The Company's contribution to this plan was $81,488 in 2002, $131,165 in 2001, and $130,487 in 2000. This plan held 515,427 shares of the Company's common stock at October 31, 2002 and 606,462 shares at October 31, 2001.

3.101

UNISYS CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

16 (In Part): Employee Plans

Stock Plans (In Part)

U.S. employees are eligible to participate in an employee savings plan. Under this plan, employees may contribute a percentage of their pay for investment in various investment alternatives. Company matching contributions of 2% of pay are made in the form of newly issued shares of company common stock. The charge to income related to the company match for the years ended December 31, 2002, 2001 and 2000, was $17.9 million, $18.0 million and $19.1 million, respectively.

Stock Award Plans

3.102

ALBERTO-CULVER COMPANY & SUBSIDIARIES (SEP)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5 (In Part): Stock Option and Restricted Stock Plans

The company is also authorized to grant up to 1,000,000 shares of Class A common stock to employees under its restricted stock plan. The restricted shares vest on a cumulative basis in four equal annual installments commencing four years after the date of grant for grants made prior to July 26, 2001 and in four equal annual installments commencing two years after the date of grant for all subsequent grants. The total value of restricted shares is recorded as unearned compensation at the time of grant based on the fair market value of the shares on the date of grant. The unearned compensation balance is amortized into expense over the vesting period. During fiscal year 2002, employees were granted 85,800 restricted shares at a weighted average fair value of $32.66 per share on the date of grant. At September 30, 2002, there were 363,950 restricted shares outstanding and 539,200 Class A shares remained authorized for future issuance. The unearned compensation balance included as a separate component of stockholders' equity was $5.8 million at September 30, 2002.

The company is seeking authorization from shareholders at the January, 2003 annual meeting of shareholders for two new Class B stock option plans and a new Class B restricted stock plan. If approved, the new plans will be authorized to grant up to 6.15 million non-qualified stock options to employees and non-employee directors to purchase the company's Class B shares and up to 600,000 restricted shares of Class B common stock to employees. If these new plans are approved, the company will no longer be authorized to grant stock options or restricted shares of Class A common stock under the current stock option and restricted stock plans.

3.103

HILLENBRAND INDUSTRIES, INC. AND SUBSIDIARIES (SEP)

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

7 (In Part): Stock-Based Compensation

At September 30, 2002, the Company had four active stock-based compensation programs; the Stock Incentive Plan, the Hillenbrand Industries Stock Award Program, the Hillenbrand Director Phantom Stock Plan and the Hillenbrand Industries Directors, Deferred Compensation Plan, all of which are described below. These programs are administered by the full Board of Directors or the Compensation and Management Development Committee of the Board.

The Stock Incentive Plan, which was approved at the 2002 annual meeting of shareholders, replaced the 1996 Stock Option Plan. Common shares reserved for issuance under the plan total 5 million, plus 294,611 shares previously authorized for use under the 1996 Stock Option Plan. The Stock Incentive Plan provides for long-term performance compensation for key employees and members of the Board of Directors. Under the terms of the plan, each non-employee director is automatically granted an option to purchase 4,000 shares of common stock each year on the first day following the Company's annual meeting, vesting on the first anniversary of the date of grant and exercisable over a ten year term. A variety of discretionary awards for employees and non-employee directors are authorized under the plan, including incentive or non-qualified stock options, stock appreciation rights, restricted stock, deferred stock and bonus stock. The vesting of such awards may be conditioned upon either a specified period of time or the attainment of specific performance goals as determined by the administrator of the plan. The option price and term are also subject to determination by the administrator with respect to each grant. Option prices are generally expected to be set at the average fair market price at date of grant and option terms are not expected to exceed ten years. As of September 30, 2002, 233,500 option shares have been granted and 14,000 shares have been cancelled under the Stock Incentive Plan. A total of 5,075,111 shares remain available for future grants under all aspects of the Stock Incentive Plan.

• • • • • •

Under the Hillenbrand Industries Stock Award Program, shares of common stock have been granted to certain key employees. All shares granted under this program are contingent upon continued employment over specified terms. During 1999, 45,000 shares were granted under this program, 20,000 of which were canceled for lack of continued employment. During 2001, an additional 56,500 shares were granted under this program, 6,000 of which have been canceled. Dividends, payable in stock, accrue on the grants and are subject to the same specified terms as the original grants. Shares granted in 1999 had a fair value of $27.75 per share and those in 2001 had a range of fair values from $44.38 to $50.85. Of these grants, 5,000 shares became vested on January 1, 2002, with an additional 25,000 shares scheduled to vest on October 5, 2002, 6,500 shares on January 1, 2003 and 39,000 shares on January 17, 2004. Accrued dividends related to the grants will also vest accordingly.

Under the former long-term portion of the Company's Senior Executive Compensation Program, long-term performance share compensation was provided to key employees in the form of annual share awards contingent on continued employment and the achievement of pre-established financial objectives of the Company over succeeding three-year periods. The fair value of common stock granted under this program was $50.75 and $34.81 per share in fiscal 2001 and 2000, respectively. As of September 30, 2002, 33,424 tentative performance shares remain payable under this program. A total of 242,484 shares are deferred of which all are vested and payable as of September 30, 2002.

• • • • • •

Under a prior restricted stock plan, key employees were granted restricted shares of the Company's stock. As of September 30, 2002 there were 4,556 shares which remain deferred under this program. No awards were made in the periods covered by these financial statements and the plan has been terminated.

3.104

OCCIDENTAL PETROLEUM CORPORATION AND SUBSIDIARIES (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 11 (In Part): Stockholders' Equity

Stock Incentive Plans (In Part)

Stock Options and Stock Appreciation Rights

The 1995 Incentive Stock Plan, as amended, provided for the grant of awards in the form of options, SARs, performance stock or restricted stock to salaried employees of Occidental or persons who have agreed to become salaried employees. An aggregate of 25,000,000 shares of common stock were reserved for issuance in connection with awards under the 1995 Plan. Adjustments to the number of shares covered by an award or the option or base price of an option or SAR may be made by the Committee in order to prevent the dilution or expansion in participants' rights due to a change in capitalization, merger, consolidation, reorganization or similar corporate transaction. Stockholder approval is required to extend the maximum period for exercising stock options or SARs (10 years from the date of grant), to reduce the option price or base price of any outstanding options or SARs, or for any material amendment of the 1995 Plan as defined in Rule 16b-3 of the Exchange Act. The 1995 Incentive Stock Plan was terminated for the purposes of further grants upon the effective date of the 2001 Incentive Stock Plan.

The 2001 Incentive Compensation Plan, as amended, provides for the grant of awards in the form of common stock, options, SARs, restricted stock, stock units or similar rights to purchase shares. Any of the awards may be granted as performance-based awards. An aggregate of 17,000,000 shares were initially reserved for issuance under the 2001 Plan. The plan administrator will proportionately adjust outstanding awards in the event of an extraordinary dividend or distribution or any reclassification, recapitalization, reorganization, merger or other extraordinary corporate transaction, or a sale of substantially all of the assets of Occidental as a whole. In such events, an adjustment may be made to the number and type of shares subject to an award, the grant, purchase or exercise price of outstanding awards; the securities, cash or property deliverable upon exercise of an outstanding award or the performance goals or objectives applicable to an outstanding award. Upon the occurrence of a change of control event (the dissolution or liquidation of Occidental, consummation of a business combination, any person acquiring more than 20 percent of the voting power of Occidental or a significant change in Occidental's Board of Directors composition) and unless the administrator determines to the contrary, options and SARs become immediately exercisable, restricted stock immediately vests, performance-based awards become immediately payable and any rights of a participant under any other award are accelerated to give the participant the benefit of the award. Stockholder approval is required for any reduction in the exercise price of any option or SAR below the fair market value on the date of grant and for any amendment to the plan that would materially increase the benefits to participants under the 2001 Plan or the number of securities that may be issued or would materially modify the requirements for eligibility. No awards may be made under the 2001 Plan after April 20, 2011. At December 31, 2002, 4,049,638 shares were available under this plan for future awards, which may include stock options, SARs, restricted stock, performance stock and dividend equivalents.

Mandatory Deferred Restricted Stock Awards

Pursuant to the 2001 Incentive Compensation Plan, employees have been awarded mandatory deferred Occidental restricted common stock, with the right to receive shares vesting between 3 and 5 years, or earlier under certain conditions. The mandatory deferred restricted shares are not issued until the end of the deferral period, but employees receive dividend equivalents on the deferred shares. The related expense is amortized over the vesting period. Vested shares are included in both basic and diluted shares outstanding, while unvested shares are only included in diluted shares outstanding. In 2002, rights to receive 923,224 shares were awarded at a weighted-average grant-date value of $26.73.

Restricted Stock Awards

Pursuant to the 2001 Incentive Compensation Plan and the 1995 Incentive Stock Plan, certain executives have been awarded Occidental restricted common stock at the par value of $.20 per share, with such shares vesting after three or four years, respectively, or earlier under certain conditions. The related expense is amortized over the vesting period. Restricted shares are issued when granted, but are subject to recall if certain conditions are not satisfied. Unvested shares are included in diluted shares outstanding. In 2002, 3,784 shares were awarded at a weighted-average grant date value of $25.99; in 2001, 275,384 shares were awarded at a weighted-average grant-date value of $24.59; in 2000, 40,000 shares were awarded at a weighted-average grant-date value of $21.875 per share. Shares granted prior to 2000 totaled 652,226 with a weighted-average grant-date price of $22.41.

Performance Stock Awards

Performance stock awards have been made to various employees pursuant to the 2001 Incentive Compensation Plan and the 1995 Incentive Stock Plan. The number of shares of common stock to be received under these awards by such officers at the end of the performance period will depend on the attainment of performance objectives based either on a peer company comparison of total stockholder return for such period, or in the case of segment employees, a combination of total stockholder return and return on assets of the segment. The expected cost of these shares is reflected in income over the performance period. The grantees will receive shares of common stock in an amount ranging from zero to 200 percent of the Target Share Award (as such amount is defined in the grant). Since performance-based

unvested stock is contingent upon satisfying conditions, those unvested shares are considered to be contingently issuable shares and are not included in the computation of diluted earnings per share until all conditions for issuance are met. Performance stock awards are included in basic shares outstanding when issued. In 2002, awards for 310,913 target shares were granted at a weighted-average grant-date value of $26.53; in 2001, awards for 336,642 target shares were granted at a weighted-average grant-date value of $24.27; in 2000, awards for 375,654 target shares were granted at a weighted-average grant-date value of $21.625 per share. Target shares granted prior to 2000 are 836,698 with a weighted-average grant-date value of $20.18 per share. In 2002, 2001 and 2000, 187,780, 47,782 and 101,630 shares, respectively, were issued for the target shares granted in prior years.

1996 Restricted Stock Plan for Non-Employee Directors

Under the 1996 Restricted Stock Plan for Non-Employee Directors, each non-employee Director of the Company will receive awards of restricted common stock each year as additional compensation for their services as a member of the Board of Directors. A maximum of 150,000 shares of common stock may be awarded under the Directors Plan and 23,500, 21,000 and 21,000 shares of common stock were awarded during 2002, 2001 and 2000, respectively. At December 31, 2002, 59,165 shares of common stock were available for the granting of future awards.

3.105

VALERO ENERGY CORPORATION AND SUBSIDIARIES (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

21 (In Part): Employee Benefit Plans

Stock Compensation Plans

Valero has various fixed and performance-based stock compensation plans, which are summarized as follows:

- The Executive Stock Incentive Plan (ESIP) authorizes the grant of various stock and stock-related awards to executive officers and other key employees. Awards available under the ESIP include options to purchase shares of common stock, performance awards that vest upon the achievement of an objective performance goal, and restricted stock which vests over a period determined by Valero's compensation committee. As of December 31, 2002, a total of 1,968,267 shares of Valero common stock remain available to be awarded under the ESIP.
- A non-qualified stock option plan grants options to purchase shares of common stock to key officers, employees and prospective employees. As of December 31, 2002, a total of 163,459 shares of Valero common stock remain available to be awarded under this plan.
- The Executive Incentive Bonus Plan provides bonus compensation to key employees based on individual contributions to company profitability. Bonuses are payable either in cash, Valero common stock, or both. As of December 31, 2002, a total of 200,000 shares of Valero common stock remain authorized to be issued under this plan.
- A non-employee director stock option plan provides non-employee directors of Valero automatic annual grants of stock options to purchase Valero's common stock. As of December 31, 2002, a total of 116,000 shares of Valero common stock remain available to be awarded under this plan.
- A restricted stock plan for non-employee directors provides non-employee directors a grant of Valero's common stock valued at $45,000 that vests in three equal annual installments, with similar grants issued after full vesting of prior grants. As of December 31, 2002, a total of 75,942 shares of Valero common stock remain available to be awarded under this plan.
- Valero GP, LLC's 2000 Long-Term Incentive Plan and 2002 Unit Option Plan provide for grants of restricted common units of Valero L.P. and options to purchase common units of Valero L.P., respectively. Generally, these restricted common unit and option awards vest in three equal annual installments. As of December 31, 2002, a total of 194,750 units and 23,800 units of Valero L.P. common units remain available to be awarded under the 2000 Long-Term Incentive Plan and 2002 Unit Option Plan, respectively.

The number and weighted-average grant-date fair value of shares of Valero common stock granted under the above-noted plans (other than shares related to stock options which are presented in a separate table below) during the years ended December 31, 2002, 2001 and 2000 were as follows:

	2002		2001		2000	
	Shares Granted	Weighted-Average Grant-Date Fair Value	Shares Granted	Weighted-Average Grant-Date Fair Value	Shares Granted	Weighted-Average Grant-Date Fair Value
ESIP:						
Restricted stock	4,500	$37.98	8,000	$37.52	17,619	$29.14
Performance awards	187,200	40.44	132,400	34.13	146,100	21.81
Executive incentive bonus plan	119,449	41.39	251,624	36.72	134,362	21.81
Non-employee director restricted stock plan	2,190	41.12	1,932	37.79	1,608	28.00
Valero GP, LLC:						
Restricted units	55,250	40.95	—	—	—	—
Unit option awards	176,200	37.08	—	—	—	—

Under the terms of the ESIP, the stock option plan and the non-employee director stock option plan, the exercise price of options granted will not be less than the fair market value of Valero's common stock at the date of grant. Stock options become exercisable pursuant to the individual written agreements between Valero and the participants, usually in three equal annual installments beginning one year after the date of grant, with unexercised options generally expiring ten years from the date of grant. Upon completion of the UDS Acquisition, all UDS stock options held by employees and non-employee directors of UDS became vested and were converted to Valero stock options, which had a fair value of $120 million.

Stock Purchase Plans

3.106

DANA CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (In millions)

Note 11. Employees' Stock Purchase Plan

The majority of our full-time U.S. and some of our non-U.S. employees are eligible to participate in our stock purchase plan. Plan participants can authorize us to withhold up to 15% of their earnings and deposit this amount with an independent custodian. We match up to 50% of the participants' contributions in cash over a five-year period beginning with the year the amounts are withheld. If a participant withdraws any shares before the end of five years, the amount of our match will depend on how long the shares were in the account. The charge to expense for our match was $10 in 2000, $11 in 2001 and $11 in 2002.

The custodian uses the funds to purchase our common stock at current market prices. The custodian purchased the following number of shares in the open market: 2,212,391 in 2000, 2,405,040 in 2001 and 2,239,968 in 2002. We are also authorized to issue up to 4,500,000 shares to provide an alternate source of shares for the custodian. No shares have been issued by us through December 31, 2002 in connection with this plan. As record keeper for the plan, we allocate the purchased shares to the participants' accounts. Shares are distributed to the participants on request in accordance with the plan's withdrawal provisions.

3.107

DELUXE CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note One (In Part): Significant Accounting Policies

Employee Stock-Based Compensation

As permitted by SFAS No. 123, *Accounting for Stock-Based Compensation,* we continue to account for employee stock-based compensation in accordance with Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees.* All options issued under our stock incentive plan allow for the purchase of shares of common stock at prices equal to the stock's market value at the date of grant. Accordingly, no compensation expense has been recognized for stock options. Additionally, under our current employee stock purchase plan, eligible employees are able to purchase Deluxe common stock at 85% of the lower of its fair market value at the beginning or end of each six-month purchase period. No compensation expense is recognized for the difference between the employees' purchase price and the fair value of the stock. We disclose pro forma net income and earnings per share as if the fair value method of SFAS No. 123 had been used (see Note 11).

Note Eleven (In Part): Employee Benefit and Stock-Based Compensation Plans

Stock Purchase Plan

In May 2002, our shareholders approved certain changes to our employee stock purchase plan which became effective

as of February 1, 2002. The changes were made with the intention of qualifying the plan as an "employee stock purchase plan" under Section 423 of the Internal Revenue Code. Purchases under the plan are made semi-annually, with the first purchase occurring on July 31, 2002. Eligible employees are able to purchase Deluxe common stock at 85% of the lower of its fair market value at the beginning or end of each six-month purchase period. In accordance with APB Opinion No. 25, *Accounting for Stock Issued to Employees,* we do not recognize compensation expense for the difference between the employees' purchase price and the fair value of the stock. During 2002, 60,520 shares were issued under this amended plan at a price of $33.06.

Through January 31, 2002, we maintained a non-qualified employee stock purchase plan that allowed eligible employees to purchase Deluxe common stock at 75% of its fair market value on the first business day following each three-month purchase period. Compensation expense recognized in continuing operations for the difference between the employees' purchase price and the fair value of the stock was $0.3 million in 2002, $1.2 million in 2001 and $1.8 million in 2000. Under the plan, we issued 26,788 shares at a price of $34.00 in 2002, 178,847 shares at prices ranging from $16.16 to $26.71 in 2001 and 434,337 shares at prices ranging from $16.83 to $20.58 in 2000.

3.108

SCHLUMBERGER LIMITED (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Stock Compensation Plans (In Part)

As of December 31, 2002, Schlumberger had two types of stock-based compensation plans, which are described below. Schlumberger applies APB Opinion 25 and related Interpretations in accounting for its plans. Accordingly, no compensation cost has been recognized for its stock option plans and its stock purchase plan. Had compensation cost for the stock-based Schlumberger plans been determined based on the fair value at the grant dates for awards under those plans, consistent with the method of SFAS 123, Schlumberger net income and earnings per share would have been the pro forma amounts indicated below:

(Stated in millions except per share amounts)	2002	2001	2000
Net income (loss)			
As reported	$(2,320)	$ 522	$ 735
Pro forma	$(2,476)	$ 386	$ 633
Basic earnings (loss) per share			
As reported	$ (4.01)	$0.91	$1.29
Pro forma	$ (4.28)	$0.67	$1.11
Diluted earnings (loss) per share			
As reported	$ (4.01)	$0.91	$1.27
Pro forma	$ (4.28)	$0.67	$1.09

Employee Stock Purchase Plan

Under the Schlumberger Discounted Stock Purchase Plan, Schlumberger is authorized to issue up to 22,012,245 shares of common stock to its employees. Under the terms of the Plan, employees can choose each year to have up to 10% of their annual earnings withheld to purchase Schlumberger common stock. The purchase price of the stock is 85% of the lower of its beginning or end of the Plan year market price. Under the Plan, Schlumberger sold 2,677,842, 1,752,833 and 1,431,309 shares to employees in 2002, 2001 and 2000, respectively. Proforma compensation cost has been computed for the fair value of the employees' purchase rights, which was estimated using the Black-Scholes model with the following assumptions for 2002, 2001 and 2000: Dividend of $0.75; expected life of one year; expected volatility of 34% for 2002, 36% for 2001 and 38% for 2000; and risk-free interest rates of 1.74% for 2002, 3.03% for 2001, 5.71% for 2000. The weighted-average fair value of those purchase rights granted in 2002, 2001 and 2000, was $13.324, $15.540 and $23.141, respectively.

Employee Stock Ownership Plans

3.109

CABOT CORPORATION (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note K (In Part): Employee Benefit Plans

Retirement Savings Plan (In Part)

The RSP is a defined contribution plan which encourages long-term systematic savings and provides funds for retirement or possible earlier needs. The RSP has two components, a 401 (k) plan and an Employee Stock Ownership Plan (ESOP).

Employee Stock Ownership Plan

In September 1988, Cabot established the ESOP as an integral part of the retirement program that was designed for participants to share in the growth of Cabot. All regular employees of Cabot and its participating subsidiaries in the U.S., except employees of the Performance Materials business subject to collective bargaining agreements, are eligible to participate beginning on the later of the first day of employment or the date the employee is included in an employee group that participates in the plan. Under the ESOP, which is 100% Company funded, Cabot allocates convertible preferred stock to each participant's account on a quarterly basis. The allocation is generally between 4% and 8% of a participant's compensation. The ESOP is accounted for in compliance with SOP 76-3, "Accounting Practices for Certain Employee Stock Ownership Plans".

In November 1988, Cabot placed 75,336 shares of its Series B ESOP Convertible Preferred Stock in the ESOP for cash at a price of $1,000 per share. Each share of the Series B ESOP Convertible Preferred Stock was convertible into 87.5 shares of Cabot's common stock, subject to certain events and anti-dilution adjustment provisions, and carries voting

rights on an "as converted" basis. As a result of the Cabot Microelectronics dividend (Note D) that was distributed on September 29, 2000 to the holders of Cabot common stock, the conversion rate of the Series B ESOP Convertible Preferred Stock was adjusted from 87.5 to 146.4 shares of Cabot's common stock. The trustee for the ESOP has the right to cause Cabot to redeem shares sufficient to provide for periodic distributions to plan participants. Cabot has the option to redeem the shares for $1,000 per share, convert the shares to common stock, or a combination thereof.

The issued shares of Series B ESOP Convertible Preferred Stock receive preferential and cumulative quarterly dividends and are ranked as to dividends and liquidation prior to Cabot's Series A Junior Participating Preferred Stock and common stock. For purposes of calculating diluted earnings per share, the Series B ESOP Convertible Preferred Stock is assumed to be converted to common stock based on the conversion rate. At September 30, 2002, 8 million shares of Cabot's common stock were reserved for conversion of the Series B ESOP Convertible Preferred Stock.

On the last business day of each calendar quarter, 742.6 shares, as amended in March 2001 from 750 shares, of the Series B ESOP Convertible Preferred Stock are released and allocated to participants' accounts. The allocation to each participant is based on the value of Cabot's preferred stock, the number of shares allocated as dividends, and the total eligible compensation. If the amount of the participant allocation were to fall below 4%, Cabot would make an additional contribution to bring the total value to 4% for the participant. The allocation is made to the account of each participant who is employed on that date, has retired, died or become totally and permanently disabled during the quarter. At September 30, 2002, 22,253 shares have been allocated to participants, 604 shares have been released, but not allocated and 33,416 shares are unallocated.

Cabot is the guarantor for the outstanding debt held by the ESOP (See Note J). Cabot contributed $3 million, $2 million and $2 million in 2002, 2001 and 2000, respectively, to the ESOP. Dividends on ESOP shares used for debt services in 2002, 2001 and 2000 were $4 million, $5 million and $5 million, respectively. In addition, actual interest incurred on debt associated with the ESOP was $4 million, $5 million and $5 million in 2002, 2001 and 2000, respectively.

Cabot recognized expenses related to all defined contribution plans in the amounts of $7 million in 2002, $6 million in 2001, and $10 million in 2000.

3.110

THE SHERWIN-WILLIAMS COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Thousands of dollars unless otherwise indicated)

Note 1 (In Part): Significant Accounting Policies

Employee Stock Purchase and Savings Plan and Preferred Stock

The Company accounts for the Employee Stock Purchase and Savings Plan in accordance with Statement of Position (SOP) No. 93-6. The Company recognizes compensation expense for amounts contributed to the plan and the plan uses dividends on unallocated preferred shares to service debt. Unallocated preferred shares held by the plan are not considered outstanding in calculating earnings per share of the Company. See Note 9.

Note 9: Stock Purchase Plan and Preferred Stock

As of December 31, 2002, 12,744 employees contributed to the Company's Employee Stock Purchase and Savings Plan (ESOP), a voluntary defined contribution plan available to all eligible salaried employees. Effective January 1, 2002, the ESOP was amended to allow participants to contribute, on a pre-tax basis only, the lesser of 20 percent of their annual compensation or the maximum dollar amount allowed under the Internal Revenue Code. Such participant contributions may be invested in a variety of mutual funds or a Company common stock fund. The ESOP was further amended to permit participants to diversify employee contributions previously allocated to the Company common stock fund into a variety of mutual funds in twenty percent (20%) increments over a five-year period. The Company matches current contributions up to 6 percent of annual compensation. Company match contributions are required to be invested in the Company common stock fund. Prior to January 1, 2002, participants in the ESOP were allowed to contribute up to 11 percent of their annual compensation, up to 7 percent of which could be made on a pre-tax basis, to purchase common shares of the Company or invest in a government fund. Employees making contributions to purchase Company common stock received a matching contribution from the Company of 50 percent of the employee's pre and post tax contributions, up to a maximum of 7 percent of their annual compensation, plus an additional variable match based on the Company's return on equity (54 percent for the year ended 2001). See Note 5 for information related to changes in other annual contributions from the Company effective January 1, 2002.

The Company made contributions to the ESOP on behalf of participating employees, representing amounts authorized by employees to be withheld from their earnings on a pre-tax basis, of $38,921, $27,374, and $26,636 in 2002, 2001, and 2000, respectively. The Company's matching contributions to the ESOP charged to operations were $27,916, $33,744, and $28,070 for 2002, 2001, and 2000, respectively.

At December 31, 2002, there were 23,796,694 shares of the Company's common stock being held by the ESOP, representing 16.0 percent of the total number of voting shares outstanding. Shares of Company common stock credited to each member's account under the ESOP are voted by the trustee under instructions from each individual plan member. Shares for which no instructions are received, along with any unallocated shares held in the ESOP, are voted by the trustee in the same proportion as those for which instructions are received.

On April 18, 2001, the Company issued 250,000 shares of convertible participating serial preferred stock, no par value with cumulative quarterly dividends of ten dollars per share, for $250,000 to the ESOP. The ESOP financed the acquisition of the preferred stock by borrowing $250,000 from the Company at the rate of 8 percent per annum. This borrowing is payable over ten years in equal quarterly installments. Each share of preferred stock is entitled to one vote upon all matters presented to the Company's shareholders and generally vote with the common stock together as one class. The

preferred stock is held in an unallocated account by the ESOP until compensation expense related to the Company's contributions is earned at which time contributions will be credited to the members' accounts. At December 31, 2002 and 2001, there were no allocated or committed-to-be-released preferred shares outstanding. The value of the preferred stock is redeemable and convertible into the Company's common stock at the option of the ESOP based on the relative fair value of the preferred and common stock at time of conversion. The ESOP redeemed 126,499 shares and 81,695 shares of preferred stock for cash in 2002 and 2001, respectively.

Deferred Compensation Plans

3.111

FEDERATED DEPARTMENT STORES, INC. (JAN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

13 (In Part): Retirement Plans

Deferred Compensation Plan

The Company has a deferred compensation plan wherein eligible executives may elect to defer a portion of their compensation each year as either stock credits or cash credits. The Company transfers shares to a trust to cover the number management estimates will be needed for distribution on account of stock credits currently outstanding. At February 1, 2003 and February 2, 2002, the liability under the plan, which is reflected in other liabilities, was $37 million and $34 million, respectively. Expense for the 52 weeks ended February 1, 2003, the 52 weeks ended February 2, 2002 and the 53 weeks ended February 3, 2001 was immaterial.

Profit Sharing Plans

3.112

BOWNE & CO., INC. AND SUBSIDIARIES (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (In thousands)

Note 8 (In Part): Employee Benefit Plans

Defined Contribution Plan (In Part)

Through December 31, 2002, the Company and its domestic financial printing subsidiaries were participating in a qualified profit sharing plan covering most employees of those subsidiaries who are not covered by union agreements. Amounts charged to income for the Profit Sharing Plan were $363, $2,781 and $6,511 for the years ended December 31, 2002, 2001 and 2000, respectively. Effective December 31, 2002, this Plan has been closed to employee contributions, and employees previously covered by this plan can participate in the qualified 401 (k) Plan discussed below.

The remaining domestic subsidiaries had been participating in a qualified 401 (k) Plan that is available to substantially all their non-union employees. Through December 31, 2002, the Company matched 50% of a participating employee's pre-tax contribution up to a maximum of 6% of the participant's compensation. Effective January 1, 2003, substantially all of the Company's eligible non-union employees can participate in the 401(k) Plan, and the Company will match 100% of the first 3% of the participant's compensation plus 50% of the next 2% of compensation. Amounts charged to income for the 401(k) Plan, representing the Company's matching contributions, were $966, $837, and $556 for the years ended December 31, 2002, 2001 and 2000, respectively.

3.113

W.W. GRAINGER, INC., AND SUBSIDIARIES (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 13 (In Part): Employee Benefits

Retirement Plans

A majority of the Company's employees are covered by a noncontributory profit sharing plan. This plan provides for annual employer contributions based upon a formula related primarily to earnings before federal income taxes, limited to 25% of the total compensation paid to all eligible employees. The Company also sponsors additional defined contribution plans, which cover most of the other employees. Provisions under all plans were $50.0 million, $47.6 million, and $42.4 million, for the years ended December 31, 2002, 2001, and 2000, respectively.

Incentive Compensation Plans

3.114

AVNET, INC. AND SUBSIDIARIES (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

12 (In Part): Stock-Based Compensation Plans

Incentive Stock

The Company has an Incentive Stock Program wherein a total of 157,890 shares were still available for award at June 28, 2002 based upon operating achievements. Delivery of incentive shares is spread equally over a four-year period and is subject to the employee's continuance in the Company's employ. As of June 28, 2002, 149,302 shares previously awarded have not yet been delivered. The program will terminate on December 31, 2004.

Other Stock-Based Compensation Information (In Part)

At June 28, 2002, there were 13,137,709 common shares reserved for stock options (including the ESPP) and incentive stock programs.

Participation Shares

3.115

KIMBERLY-CLARK CORPORATION AND SUBSIDIARIES (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 7 (In Part): Stock Compensation Plans

Participation Shares

Prior to 1999, the Corporation awarded key employees participation shares that are payable in cash at the end of the vesting period. The amount of cash paid to participants is based on the increase in the book value of the Corporation's common stock during the award period. Participants do not receive dividends on the participation shares, but their accounts are credited with dividend shares payable in cash at the maturity of the award. Neither participation nor dividend shares are shares of common stock. Amounts expensed related to participation shares were $13.1 million, $15.0 million and $44.5 million in 2002, 2001 and 2000, respectively. The Corporation will continue recognizing expense related to existing participation shares through 2003, and will make the final payment to participants in February 2004. The Corporation ceased issuing participation shares after 1998.

Data concerning participation and dividend shares follows:

(Thousands of shares)	2002	2001	2000
Outstanding—beginning of year	4,475	6,608	10,229
Dividend shares credited—net	245	377	602
Matured	(2,238)	(2,356)	(4,015)
Forfeited	(103)	(154)	(208)
Outstanding—end of year	2,379	4,475	6,608

Share Value Trust

3.116

THE BOEING COMPANY AND SUBSIDIARIES (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Share-Based Compensation

The Company uses a fair value based method of accounting for stock-based compensation provided to its employees in accordance with Statement of Financial Accounting Standards (SFAS) 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 distributions from the ShareValue Trust described in Note 17 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 17 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 period.

Note 17 (In Part): Share-Based Compensation

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.

Certain deferred stock compensation plans are reflected in general and administrative expense. The Company has issued 7,244,094 stock units as of December 31, 2002, that are convertible to either stock or a cash equivalent, of which 6,639,457 are vested, and the remainder vest with employee service. These stock units principally represent a method of deferring employee compensation by which a liability is established based upon the current stock price. An expense or reduction in expense is recognized associated with the change in that liability balance. The reduction in expense (expense) related to deferred stock compensation was $42, $163 and $(75) in 2002, 2001 and 2000, respectively.

The following summarizes share-based expense for the years ended December 31, 2002, 2001 and 2000, respectively:

	2002	2001	2000
Performance Shares	$295	$227	$147
ShareValue Trust	71	72	72
Stock options, other	81	79	97
	$447	$378	$316

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, 2002, the Trust held 40,373,809 shares of the Company's common stock, split equally between two funds, "fund 1" and "fund 2." If on June 30, 2004, the market value of fund 2 exceeds $913 (the threshold representing a 3% per annum rate of return), the amount in excess of the threshold will be distributed to employees. The June 30, 2004, market value of fund 2 after distribution (if any) will be the basis for determining any potential distribution on June 30, 2008. Similarly, if on June 30, 2006, the market value of fund 1 exceeds $1,004, the amount in excess of the threshold will be distributed to employees. Shares held by the Trust on June 30, 2010, after final distribution will revert back to the Company.

The ShareValue Trust is accounted for as a contra-equity account and stated at market value. Market value adjustments are offset to additional paid-in capital.

• • • • • •

The Company has determined the weighted average fair values of stock-based arrangements granted, including ShareValue Trust, during 2002, 2001 and 2000 to be $16.78, $21.35 and $18.18, 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	Option Term	Expected Volatility	Dividend Yield	Risk Free Interest Rate
2002	7/19/02	9 years	30%	1.1%	4.5%
2001	7/20/01	9 years	23%	1.1%	5.1%
2000	6/21/00	9 years	22%	1.1%	6.1%
	10/9/00	9 years	23%	1.1%	5.8%
	10/10/00	9 years	23%	1.1%	5.8%

DEPRECIATION EXPENSE

3.117 Paragraph 5 of APB Opinion No. 12, *Omnibus Opinion—1967,* 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 of Accounting Research Bulletin (ARB) No. 43, Chapter 9C, *Emergency Facilities: Depreciation, Amortization, and Income Taxes,* 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."

3.118 Table 3-13 summarizes the methods of depreciation used to allocate the cost of productive facilities. Examples of depreciation expense disclosures follow.

3.119

TABLE 3-13: DEPRECIATION METHODS

	Number of Companies			
	2002	**2001**	**2000**	**1999**
Straight-line	579	579	576	577
Declining-balance	22	22	22	27
Sum-of-the-years'-digits	5	6	7	7
Accelerated method—not specified	44	49	53	53
Units-of-production	32	32	34	31
Other	7	9	10	6

Straight-Line Method

3.120

METTLER-TOLEDO INTERNATIONAL INC. (DEC)

Consolidated Statements of Cash Flows

(In thousands)	2002	2001	2000
Cash flows from operating activities:			
Net earnings	$100,421	$72,264	$70,119
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation	25,392	22,858	21,690
Amortization	9,332	14,114	11,564
Other	2,950	1,055	1,890

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(In thousands unless otherwise stated)

2 (In Part): Summary of Significant Accounting Policies

Long-Lived Assets (In Part)

a) Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation. Depreciation is charged on a straight-line basis over the estimated useful lives of the assets as follows:

Buildings and improvements	15 to 50 years
Machinery and equipment	3 to 12 years
Computer software	3 to 5 years
Leasehold improvements	Shorter of useful life or lease term

6. Property, Plant and Equipment, Net

Property, plant and equipment, net, consisted of the following at December 31:

	2002	2001
Land	$ 45,421	$ 38,690
Buildings and leasehold improvements	128,711	102,308
Machinery and equipment	193,802	155,777
Computer software	4,934	4,673
	372,868	301,448
Less accumulated depreciation and amortization	(155,114)	(109,176)
	$ 217,754	$ 192,272

3.121

VARCO INTERNATIONAL, INC. (DEC)

Consolidated Statements of Cash Flows

(In thousands)	2002	2001	2000
Cash flows from operating activities:			
Net income	$79,807	$82,968	$21,055
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	59,246	67,900	56,518
Non-cash merger and transaction costs	—	—	12,101
Provision for losses on accounts receivable	2,894	6,326	4,895
Provision for losses on inventory	7,702	9,507	5,772
Provision (benefit) for deferred taxes	7,219	(8,146)	5,826
Write off investments	—	1,986	—
Stock compensation	—	—	2,176
Other non-cash charges	(607)	408	(352)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 (In Part): Summary of Significant Accounting Policies

Property and Equipment

Property and equipment is stated at cost, net of accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives for financial reporting purposes and generally by the accelerated or modified accelerated costs recovery systems for income tax reporting purposes. Estimated useful lives are 30 years for buildings and 5–12 years for machinery and equipment. The cost of repairs and maintenance is charged to income as incurred. Major repairs and improvements are capitalized and depreciated over the remaining useful life of the asset. The depreciation of fixed assets recorded under capital lease agreements is included in depreciation expense. Property and equipment depreciation expense was $54,889,000, 53,781,000, and $44,789,000 for the years ended December 31, 2002, 2001, and 2000, respectively.

5. Property, Plant and Equipment

At December 31, property, plant, and equipment consist of the following:

(In thousands)	2002	2001
Land and buildings	$ 172,196	$ 138,330
Operating equipment	379,295	353,548
Rental equipment	230,890	198,169
	782,381	690,047
Less accumulated depreciation	(332,250)	(289,631)
	$ 450,131	$ 400,416

Accelerated Methods

3.122

ALLIANT TECHSYSTEMS INC. (MAR)

Consolidated Statements of Cash Flows

(Amounts in thousands)	2002	2001	2000
Operating activities			
Net income	$69,327	$67,921	$73,902
Adjustments to net income to arrive at cash provided by operating activities:			
Depreciation	53,928	36,533	39,389
Amortization of intangible assets and unearned compensation	24,745	8,447	8,433
Deferred income tax	(4,387)	11,714	21,395
Minority interest expense, net of income taxes	1,240		
Loss on disposal of discontinued operations, net of income taxes	4,660		
Extraordinary loss on early extinguishment of debt, net of income taxes	12,116		
Loss (gain) on disposal of property	1,894	(251)	(1,890)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands)

4. Property, Plant, and Equipment

Property, plant, and equipment is stated at cost and depreciated over estimated useful lives. Machinery and test equipment is depreciated using the double declining balance method, converting to straight-line depreciation near the end of the asset's life at most of the Company's subsidiaries; and using straight-line depreciation at the newly-acquired SEG facilities. Other depreciable property is depreciated using the straight-line method. Depreciation expense was $53,928, $36,533, and $39,389 in fiscal 2002, 2001, and 2000, respectively.

The Company periodically reviews property, plant, and equipment for impairment. When such an impairment is identified, it is recorded as a loss in that period.

The major categories of property consist of the following:

	2002	2001
Land	$ 30,023	$ 19,427
Buildings and improvements	214,903	151,632
Machinery and equipment	494,547	375,749
Property not yet in service	16,935	7,822
Gross property, plant, and equipment	756,408	554,630
Less accumulated depreciation	(291,578)	(251,442)
Net property, plant, and equipment	$ 464,830	$ 303,188

3.123

THE BOEING COMPANY AND SUBSIDIARIES (DEC)

Consolidated Statements of Cash Flows

(Dollars in millions)	2002	2001	2000
Cash flows—operating activities:			
Net earnings	$ 492	$2,827	$2,128
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Non-cash items:			
Cumulative effect of accounting change, net of tax	1,827	(1)	
Share-based plans expense	447	378	316
Depreciation	1,409	1,441	1,317
Amortization of goodwill and intangibles	88	302	162
Amortization of debt discount/ premium and issuance costs	12	9	1
Pension income	(526)	(802)	(355)
In-process research and development expense			557
Non-cash investment/asset impairment charges	357	438	
Other non-cash charges and credits, net	(17)		
Customer and commercial financing valuation provision	219	42	13
Gain on dispositions, net	(44)	(21)	(34)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Property, Plant and Equipment

Property, plant and equipment are recorded at cost, including applicable construction-period interest, and depreciated principally over the following estimated useful lives: new buildings and land improvements, from 20 to 45 years; and machinery and equipment, from 3 to 18 years. The principal methods of depreciation are as follows: buildings and land improvements, 150% declining balance; and machinery and equipment, sum-of-the-years' digits. The Company periodically evaluates the appropriateness of remaining depreciable lives assigned to long-lived assets subject to a management plan for disposition.

Note 11 (In Part): Property, Plant and Equipment

Property, plant and equipment at December 31 consisted of the following:

	2002	2001
Land	$ 461	$ 489
Buildings	9,081	8,598
Machinery and equipment	11,105	10,642
Construction in progress	837	1,099
	21,484	20,828
Less accumulated depreciation	(12,719)	(12,369)
	$ 8,765	$ 8,459

Depreciation expense was $1,094, $1,140 and $1,159 for the years ended December 31, 2002, 2001 and 2000, respectively. Interest capitalized as construction-period property, plant and equipment costs amounted to $71, $72 and $70 for the years ended December 31, 2002, 2001 and 2000, respectively.

Units-of-Production Method

3.124

FREEPORT-MCMORAN COPPER & GOLD INC. (DEC)

(In thousands)	2002	2001	2000
Revenues	$1,910,462	$1,838,866	$1,868,610
Cost of sales:			
Production and delivery	938,462	943,439	1,012,962
Depreciation and amortization	260,446	283,889	283,556
Total cost of sales	1,198,908	1,227,328	1,296,518
Exploration expenses	3,112	9,190	8,849
General and administrative expenses	68,305	59,422	70,950
Total costs and expenses	1,270,325	1,295,940	1,376,317
Operating income	640,137	542,926	492,293
Equity in PT Smelting losses	(4,181)	(5,137)	(13,593)
Interest expense, net	(171,209)	(173,595)	(205,346)
Other expense, net	(15,085)	(5,418)	(114)
Income before income taxes and minority interests	449,662	358,776	273,240
Provision for income taxes	(245,518)	(202,979)	(159,573)
Minority interests in net income of consolidated subsidiaries	(36,441)	(42,772)	(36,680)
Net income before cumulative effect of accounting change	167,703	113,025	76,987
Cumulative effect of accounting change, net	(3,049)	—	—
Net income	$ 164,654	$ 113,025	$ 76,987

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Property, Plant, Equipment and Development Costs

Property, plant, equipment and development costs are carried at cost. Mineral exploration costs are expensed as incurred, except in the year when proven and probable reserves have been established for a given property, in which case all exploration costs for that property incurred since the beginning of that year are capitalized. Refer to Note 13 for the definition of proven and probable reserves. No exploration costs were capitalized during the years presented. Development costs are capitalized beginning after proven and probable reserves have been established. Additionally, interest expense allocable to the cost of developing mining properties

and to constructing new facilities is capitalized until assets are ready for their intended use. Expenditures for replacements and improvements are capitalized. Costs related to periodic scheduled maintenance (turnarounds) are expensed as incurred. Depreciation for mining and milling life-of-mine assets is determined using the unit-of-production method based on estimated recoverable proven and probable copper reserves. Other assets are depreciated on a straight-line basis over estimated useful lives of 15 to 20 years for buildings and 3 to 25 years for machinery and equipment.

For 2001, PT Freeport Indonesia changed the estimated depreciable lives of certain of its assets, primarily its power generation assets, which decreased depreciation expense for 2001 by $25.6 million, $12.5 million to net income ($0.09 per share), and had increased estimates of future development costs related to its undeveloped ore bodies, which increased depreciation expense for 2001 by $39.8 million, $19.4 million to net income ($0.13 per share). These changes resulted from a review of recent operating history and current maintenance practices, and from PT Freeport Indonesia's undated comprehensive mine development plan.

Accounting Change—Depreciation and Amortization

Effective January 1, 2002, FCX changed its methodology used in the determination of depreciation associated with PT Freeport Indonesia's mining and milling life-of-mine assets. Prior to January 1, 2002, PT Freeport Indonesia depreciated mining and milling life-of-mine assets on a composite basis. Total historical capitalized costs and estimated future development costs relating to its developed and undeveloped reserves were depreciated using the unit-of-production method based on total developed and undeveloped proven and probable copper reserves. Estimated future development costs, which are significant, are necessary to develop PT Freeport Indonesia's undeveloped ore bodies and are expected to be incurred over the next 20 to 25 years.

After considering the inherent uncertainties and subjectivity relating to the long time frame over which these estimated costs would be incurred, and after consultation with the accounting staff of the Securities and Exchange Commission, management revised its depreciation methodology prospectively. Effective January 1, 2002, depreciation for the mining and milling life-of-mine assets excludes consideration of future development costs. Instead, under the new methodology, PT Freeport Indonesia depreciates only the historical capitalized costs of individual producing mines over the related proven and probable copper reserves. Infrastructure and other common costs will continue to be depreciated over total proven and probable copper reserves. The effect of this change in 2002 was to increase net income by approximately $13 million, $0.09 per share. The cumulative effect of this change through December 31, 2001, was to reduce 2002 net income by $3.0 million (after reduction by $2.7 million for taxes and minority interests), $0.02 per share. Shown below are FCX's actual reported results and pro forma amounts that would have been reported on the income statements had FCX's income statements been adjusted for the retroactive application of this change in depreciation methodology (in thousands, except per share amounts):

	2002	2001	2000
Actual reported results:			
Net income applicable to common stock	$127,050	$ 76,496	$39,500
Basic net income per share of common stock	.88	.53	.26
Diluted net income per share of common stock	.87	.53	.26
Pro forma amounts assuming retroactive application of the revised depreciation method:			
Net income applicable to common stock	$130,099	$105,243	$42,736
Basic net income per share of common stock	.90	.73	.28
Diluted net income per share of common stock	.89	.73	.28

Note 4. Property, Plant, Equipment and Development Costs, Net

The components of net property, plant, equipment and development costs follow (in thousands):

	2002	2001
Exploration, development and other	$ 1,412,079	$ 1,276,456
Buildings and infrastructure	1,406,909	1,365,817
Machinery and equipment	2,103,055	2,028,837
Mobile equipment	668,296	617,402
Construction in progress	105,263	244,239
Property, plant, equipment and development costs	5,695,602	5,532,751
Accumulated depreciation and amortization	(2,375,041)	(2,123,064)
Property, plant, equipment and development costs, net	$ 3,320,561	$ 3,409,687

Exploration, development and other include excess costs related to investments in consolidated subsidiaries. Excess costs consist of $69.5 million related to FCX's purchase in December 1992 of 49 percent of the capital stock of PT Indocopper Investama, $34.5 million related to PT Freeport Indonesia's issuance of its shares to FCX in 1993 and 1994 to settle a convertible loan due to FCX and $268.4 million related to FCX's acquisition of the remaining approximate 51 percent of the capital stock of PT Indocopper Investama in February 2002 (see Note 2). These costs are amortized using the unit-of-production method based on estimated recoverable proven and probable copper reserves. Additionally, excess costs include $20.8 million related to FCX's acquisition of Atlantic Copper in 1993. These costs are amortized using the straight-line method based on the estimated life of Atlantic Copper's smelter assets.

Production Variable Method

3.125

WEIRTON STEEL CORPORATION (DEC)

(Dollars in thousands)	2002	2001	2000
Net sales	$1,036,159	$ 960,358	$1,117,829
Operating costs:			
Cost of sales	1,046,707	1,041,501	1,052,867
Selling, general and administrative expenses	26,621	34,515	41,673
Depreciation	65,185	65,194	63,968
Restructuring charges	—	141,326	—
Total operating costs	1,138,513	1,282,536	1,158,508
Loss from operations	$ (102,354)	$ (322,178)	$ (40,679)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (In thousands of dollars, or in millions of dollars where indicated)

Note 3 (In Part): Significant Accounting Policies

Property, Plant and Equipment

Property, plant and equipment is valued at cost. Major additions are capitalized, while the cost of maintenance and repairs, which do not improve or extend the lives of the respective assets, is charged to expense in the year incurred. Interest costs applicable to facilities under construction are capitalized. Gains or losses on property dispositions are credited or charged to income.

Production variable depreciation is applied by establishing production capacity at the steel-making facility and the finishing facility. Actual forecasted production is then used to establish a percent of peak capacity or base capacity. The percent of peak capacity or base capacity is then applied as an adjustment factor to the unadjusted actual steel-making and finishing depreciation to arrive at the adjusted actual steel-making and finishing depreciation. All other depreciable assets are depreciated on a straight-line basis.

Note 5. Property, Plant and Equipment

Property, plant and equipment consisted of the following:

	2002	2001
Land	$ 1,508	$ 1,508
Building	51,852	51,796
Machinery, equipment and other	931,000	927,734
Construction-in-progress	17,805	13,225
	1,002,165	994,263
Less: Allowances for depreciation	(625,407)	(561,383)
	$ 376,758	$ 432,880

Capitalized interest applicable to facilities under construction for the year ended December 31, 2000 amounted to $0.2 million. There was no capitalized interest applicable to facilities under construction for the years ended December 31, 2002 and 2001.

Included within construction-in-progress was $11.2 million and $11.1 million for idle equipment related to a new polymer coating process for the years ended December 31, 2002 and 2001, respectively. Currently, the Company is actively seeking various alternatives in order to start its polymer project, including a strategic partnership or additional financing. The Company estimates that an additional investment of approximately $46.3 million is needed before the polymer project can be started. The polymer coating equipment will start being depreciated when it is placed into production.

Depletion

3.126

SONOCO PRODUCTS COMPANY AND SUBSIDIARIES (DEC)

Consolidated Statements of Cash Flows

(Dollars in thousands)	2002	2001	2000
Cash flows from operating activities			
Net income	$135,316	$ 91,609	$166,298
Adjustments to reconcile net income to net cash provided by operating activities			
Restructuring reserve (noncash)	360	16,919	3,967
Depreciation, depletion and amortization	159,256	158,574	150,816
Equity in (earnings) loss of affiliates/minority interest in subsidiaries	(7,437)	1,214	(7,702)
Cash dividends from affiliated companies	3,626	7,925	5,017
Loss on disposition of assets	100	7,116	4,989
Gain on assets held for sale			(5,277)
Deferred taxes	27,956	22,005	20,182

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars in thousands)

6 (In Part): Property, Plant and Equipment

Plant assets represent the original cost of land, buildings and equipment less depreciation computed under the straight-line method over the estimated useful life of the asset and are reviewed for impairment whenever events indicate the carrying value may not be recoverable.

Equipment lives range from 3 to 11 years, buildings from 15 to 40 years.

Timber resources are stated at cost. Depletion is charged to operations based on the number of units of timber cut during the year.

Depreciation and depletion expense amounted to $155,543 in 2002, $146,020 in 2001 and $138,648 in 2000. Details at December 31 are as follows:

	2002	2001
Land	$ 44,285	$ 44,190
Timber resources	35,672	35,183
Buildings	335,450	324,996
Machinery and equipment	1,833,141	1,753,916
Construction in progress	62,722	72,460
	2,311,270	2,230,745
Accumulated depreciation and depletion	(1,335,902)	(1,221,801)
Property, plant and equipment, net	$ 975,368	$ 1,008,944

Estimated costs for completion of authorized capital additions under construction totaled approximately $49,674 at December 31, 2002.

3.127

THE WILLIAMS COMPANIES, INC. (DEC)

Consolidated Statement of Cash Flows

(Millions)	2002	2001	2000
Operating activities:			
Income (loss) from continuing operations:	$(501.5)	$802.7	$820.4
Adjustments to reconcile to cash provided (used) by operations:			
Depreciation, depletion and amortization	775.1	628.2	520.4
Provision (benefit) for deferred income taxes	(122.1)	326.7	376.9
Payments of guarantees and payment obligations related to Williams Communications Group, Inc.	(753.9)	—	—
Provision for loss on property and other assets	455.2	157.4	57.3
Net gain on dispositions of assets	(193.6)	(91.8)	(11.5)
Provision for uncollectible accounts:			
Williams Communications Group, Inc.	268.7	188.0	—
Other	10.2	13.7	3.4
Accrual for interest included in RMT note payable	32.2	—	—
Amortization of deferred set-up fee and fixed rate interest on RMT note payable	110.9	—	—
Minority interest in income and preferred returns of consolidated subsidiaries	79.3	80.7	56.8
Tax benefit received and amortization of stock-based awards	32.3	48.4	36.7

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Property, Plant and Equipment

Property, plant and equipment is recorded at cost. The carrying value of these assets is also based on estimates, assumptions and judgments relative to capitalized costs, useful lives and salvage values. Depreciation is provided primarily on the straight-line method over estimated useful lives. Gains or losses from the ordinary sale or retirement of property, plant and equipment for regulated pipelines are credited or charged to accumulated depreciation; other gains or losses are recorded in net income (loss).

Oil and gas exploration and production activities are accounted for under the successful efforts method of accounting. Costs incurred in connection with the drilling and equipping of exploratory wells are capitalized as incurred. If proved reserves are not found, such costs are charged to expense. Other exploration costs, including lease rentals, are expensed as incurred. All costs related to development wells, including related production equipment and lease acquisition costs, are capitalized when incurred. Unproved properties are evaluated annually, or as conditions warrant, to determine any impairment in carrying value. Depreciation, depletion and amortization are provided under the units of production method.

Proved properties, including developed and undeveloped, and costs associated with probable reserves, are assessed for impairment using estimated future cash flows. Estimating future cash flows involves the use of complex judgments such as estimation of the proved and probable oil and gas reserve quantities, risk associated with the different categories of oil and gas reserves, timing of development and production, expected future commodity prices, capital expenditures and production costs.

Note 9. Property, Plant and Equipment

Property, plant and equipment at December 31, 2002 and 2001, is as follows:

(Millions)	2002	2001
Cost:		
Energy Marketing & Trading	$ 420.9	$ 362.6
Gas Pipeline	8,152.5	7,760.1
Exploration & Production	3,417.0	3,348.0
Midstream Gas & Liquids	5,181.4	4,868.2
Williams Energy Partners	1,348.1	1,304.8
Petroleum Services	291.0	506.2
Other	228.8	285.4
	19,039.7	18,435.3
Accumulated depreciation, depletion and amortization	(4,322.0)	(4,046.4)
	$14,717.7	$14,388.9

Depreciation, depletion and amortization expense for property, plant and equipment was $770.9 million, $622.2 million and $511 million, respectively, in 2002, 2001 and 2000.

Included in gross property, plant and equipment at December 31, 2002 and 2001, is approximately $1 billion and $940 million, respectively, of construction in progress which is not yet subject to depreciation. In addition, property of Exploration & Production includes approximately

$774 million and $839 million at December 31, 2002 and 2001, respectively, of capitalized costs from the Barrett acquisition related to properties with probable reserves not yet subject to depletion.

Commitments for construction and acquisition of property, plant and equipment are approximately $448 million at December 31, 2002.

Included in net property, plant and equipment is approximately $1.6 billion and $1.7 billion at December 31, 2002 and 2001, respectively, related to amounts in excess of the original cost of the regulated facilities within Gas Pipeline as a result of Williams' and prior acquisitions. This amount is being amortized over the estimated remaining useful lives of these assets at the date of acquisition. Current FERC policy does not permit recovery through rates for amounts in excess of original cost of construction.

INCOME TAXES

PRESENTATION OF INCOME TAXES

3.128 SFAS No. 109, *Accounting for Income Taxes,* 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.

3.129 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.

3.130

TABLE 3-14: INCOME TAX EXPENSE

	2002	**2001**	**2000**	**1999**
Descriptive Terms				
Income taxes	583	575	580	577
Federal income taxes	11	10	13	14
United States (U.S.) income taxes	1	1	1	3
	595	**586**	**594**	**594**
Other or no current year amount	5	14	6	6
Total Companies	**600**	**600**	**600**	**600**

Expense Provision

3.131

MURPHY OIL CORPORATION AND CONSOLIDATED SUBSIDIARIES (DEC)

(Thousands of dollars)	2002	2001	2000
Revenues			
Sales and other operating revenues	$3,966,516	$3,743,986	$3,630,195
Gain on sale of assets	9,148	105,504	4,010
Interest and other income	8,663	16,478	23,981
Total revenues	3,984,327	3,865,968	3,658,186
Cost and expenses			
Crude oil, natural gas and product purchases	2,676,012	2,370,550	2,324,591
Operating expenses	540,019	479,336	412,822
Exploration expenses, including undeveloped lease amortization	159,429	156,919	125,629
Selling and general expenses	98,562	97,835	85,474
Depreciation, depletion and amortization	300,022	226,621	210,906
Amortization of goodwill	—	3,120	—
Impairment of properties	31,640	10,478	27,916
Interest expense	51,504	39,289	29,936
Interest capitalized	(24,536)	(20,283)	(13,599)
Total costs and expenses	3,832,652	3,363,865	3,203,675
Income from continuing operations before income taxes	151,675	502,103	454,511
Income tax expense	54,165	173,673	155,985
Income from continuing operations	$ 97,510	$ 328,430	$ 298,526

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note A (In Part): Significant Accounting Policies

Income Taxes

The Company accounts for income taxes using the asset and liability method. Under this method, income taxes are provided for amounts currently payable and for amounts deferred as tax assets and liabilities based on differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities. Deferred income taxes are measured using the enacted tax rates that are assumed will be in effect when the differences reverse. Petroleum revenue taxes are provided using the estimated effective tax rate over the life of applicable U.K. properties. The Company uses the deferral method to account for Canadian investment tax credits associated with the Hibernia and Terra Nova oil fields.

Note H: Income Taxes

The components of income from continuing operations before income taxes for each of the three years ended December 31, 2002 and income tax expense (benefit) attributable thereto were as follows.

(Thousands of dollars)	2002	2001	2000
Income (loss) from continuing operations before income taxes			
United States	$(128,523)	$157,251	$ 91,696
Foreign	280,198	344,852	362,815
	$ 151,675	$502,103	$454,511
Income tax expense (benefit) from continuing operations			
Federal—Current[1]	$ (41,531)	$ 28,821	$ 15,427
Deferred	(1,349)	33,167	5,665
Noncurrent	(6,824)	(4,136)	(2,261)
	(49,704)	57,852	18,831
State—Current	(529)	4,710	3,129
Foreign—Current	90,304	60,090	76,184
Deferred[2]	16,982	50,916	59,776
Noncurrent	(2,888)	105	(1,935)
	104,398	111,111	134,025
Total	$ 54,165	$173,673	$155,985

[1] Net of benefit of $10,939 in 2002 and $3,150 in 2000 for alternative minimum tax credits.

[2] Includes a charge of $1,997 in 2002 for an increase in the U.K. tax rate for North Sea oil production and a benefit of $5,540 in 2001 for a reduction in a provincial tax rate in Canada.

Income tax benefits attributable to employee stock option transactions of $3,833,000 in 2002 and $1,685,000 in 2001 were included in Capital in Excess of Par Value in the Consolidated Balance Sheets and income tax (benefits) charges of $(8,885,000) in 2002 and $2,447,000 in 2001 relating to derivatives were included in AOCL.

Total income tax expense in 2002, 2001 and 2000, including taxes associated with discontinued operations and the cumulative effect of accounting change, was $61,702,000, $175,005,000, and $155,887,000, respectively.

Noncurrent taxes, classified in the Consolidated Balance Sheets as a component of Deferred Credits and Other Liabilities, relate primarily to matters not resolved with various taxing authorities.

The following table reconciles income taxes based on the U.S. statutory tax rate to the Company's income tax expense from continuing operations and before cumulative effect of accounting change.

(Thousands of dollars)	2002	2001	2000
Income tax expense based on the U.S. statutory tax rate	$53,086	$175,736	$159,079
Foreign income subject to foreign taxes at a rate different than the U.S. statutory rate	11,240	2,498	13,010
State income taxes	(344)	3,062	2,034
Settlement of U.S. taxes	(8,134)	(1,446)	(17,016)
Settlement of foreign taxes	—	(1,915)	—
Changes in foreign tax rates	1,997	(5,540)	—
Other, net	(3,680)	1,278	(1,122)
Total	$54,165	$173,673	$155,985

An analysis of the Company's deferred tax assets and deferred tax liabilities at December 31, 2002 and 2001 showing the tax effects of significant temporary differences follows.

(Thousands of dollars)	2002	2001
Deferred tax assets		
Property and leasehold costs	$ 101,734	$ 72,390
Liabilities for dismantlements and major repairs	83,072	68,755
Postretirement and other employee benefits	29,595	29,345
Federal alternative minimum tax credit carryforward	10,939	—
Foreign tax operating losses	20,989	26,844
Other deferred tax assets	29,413	22,029
Total gross deferred tax assets	275,742	219,363
Less valuation allowance	(89,574)	(67,745)
Net deferred tax assets	186,168	151,618
Deferred tax liabilities		
Property, plant and equipment	(52,993)	(53,494)
Accumulated depreciation, depletion and amortization	(394,726)	(343,925)
Other deferred tax liabilities	(47,105)	(37,290)
Total gross deferred tax liabilities	(494,824)	(434,709)
Net deferred tax liabilities	$(308,656)	$(283,091)

At December 31, 2002, the Company had tax loses and other carryforwards of $72,735,000 associated with its operations in Ecuador. The losses, available only to Ecuador operations, have a carryforward period of no more than five years, with certain losses limited to 25% of each year's taxable income. These losses expire in 2003 to 2007.

In management's judgment, the net deferred tax assets in the preceding table will more likely than not be realized as reductions of future taxable income or by utilizing available tax planning strategies. The valuation allowance for deferred tax assets relates primarily to tax assets arising in foreign tax jurisdictions, and in the judgment of management, these tax assets are not likely to be realized. The valuation allowance increased $21,829,000 and $6,787,000 in 2002 and 2001, respectively; the change in each year primarily offset the change in certain deferred tax assets. Any subsequent reductions of the valuation allowance will be reported as

reductions of tax expense assuming no offsetting change in the deferred tax asset.

The Company has not recorded a deferred tax liability of $31,584,000 related to undistributed earnings of certain foreign subsidiaries at December 31, 2002 because the earnings are considered permanently invested.

Tax returns are subject to audit by various taxing authorities. In 2002, 2001 and 2000, the Company recorded benefits to income of $14,737,000, $3,361,000 and $25,618,000, respectively, from settlements of U.S. and foreign tax issues primarily related to prior years. Although the Company believes that adequate accruals have been made for unsettled issues, additional gains or losses could occur in future years from resolution of outstanding matters.

3.132

REEBOK INTERNATIONAL LTD. (DEC)

(Amounts in thousands)	2002	2001	2000
Net sales	$3,127,872	$2,992,878	$2,865,240
Costs and expenses:			
Cost of sales	1,957,827	1,894,497	1,779,686
Selling, general and administrative expenses	954,596	913,941	915,387
Special charges (credits)	(407)	(532)	3,289
Interest expense	23,848	30,982	38,271
Interest income	(9,319)	(13,352)	(16,145)
Other expenses, net	5,940	11,536	8,947
	2,932,485	2,837,072	2,729,435
Income before income taxes, minority interest and cumulative effect of change in accounting principle	195,387	155,806	135,805
Income taxes	60,570	48,300	49,000
Income before minority interest and cumulative effect of change in accounting principle	$ 134,817	$ 107,506	$ 86,805

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollar amounts in thousands)

1 (In Part): Summary of Significant Accounting Policies

Income Taxes

The Company accounts for income taxes in accordance with the liability method. Tax provisions and credits are recorded at statutory rates for taxable items included in the consolidated statements of income regardless of the period for which such items are reported for tax purposes. Deferred income taxes are recognized for temporary differences between financial statement and income tax bases of assets and liabilities.

11. Income Taxes

The components of income before income taxes, minority interest and cumulative effect of change in accounting principle are as follows:

	2002	2001	2000
Domestic	$ 25,136	$ 5,623	$ 28,467
Foreign	170,251	150,183	107,338
	$195,387	$155,806	$135,805

The provision for income taxes on income before the cumulative effect of change in accounting principle consists of the following:

	2002	2001	2000
Current:			
Federal	$ 7,095	$ 2,339	$ 3,547
State	1,383	663	668
Foreign	51,411	45,847	32,615
	59,889	48,849	36,830
Deferred:			
Federal	(39)	1,795	8,374
State	(447)	(398)	880
Foreign	1,167	(1,946)	2,916
	681	(549)	12,170
	$60,570	$48,300	$49,000

Undistributed earnings of the Company's foreign subsidiaries amounted to approximately $496,820, $506,115 and $495,688 at December 31, 2002, 2001 and 2000, respectively. The Company has provided for the estimated residual U.S. tax on a portion of these earnings, which may not be indefinitely reinvested. The remaining earnings are considered to be indefinitely reinvested. Upon distribution of those earnings in the form of dividends or otherwise, some portion of the distribution would be subject to both U.S. income taxes and foreign withholding taxes, less an adjustment for applicable foreign tax credits. Determination of the amount of U.S. income tax liability that would be incurred is not practicable because of the complexities associated with its hypothetical calculation; however, unrecognized tax credits may be available to reduce some portion of any U.S. income tax liability.

Income taxes computed at the federal statutory rate differ from amounts provided as follows:

	2002	2001	2000
Tax at statutory rate	35.0%	35.0%	35.0%
State taxes, net of federal effect	0.5	0.2	1.1
Effect of tax rates of foreign subsidiaries	(3.6)	(5.6)	(1.5)
Other, net	(0.9)	1.4	1.5
Provision for income taxes	31.0%	31.0%	36.1%

Deferred income taxes reflect the expected utilization of tax net operating loss carryforwards, tax credit carryforwards and the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

Net deferred tax assets are attributable to the following:

	2002	2001
Inventory	$ 49,116	$ 44,391
Accounts receivable	33,783	30,556
Liabilities	25,636	29,633
Depreciation and amortization	32,613	16,989
Net unrealized hedging loss	17,349	2,319
Tax loss carryforwards	19,618	22,962
Tax credit carryforwards	22,619	42,306
Other, net	9,120	7,805
Gross deferred tax assets	209,854	196,961
Less: Valuation allowance	(6,624)	
Net deferred tax assets	203,230	196,961
Undistributed earnings of foreign subsidiaries	(66,190)	(76,587)
Total	$137,040	$120,374

At December 31, 2002, the Company had state tax loss carryforwards and foreign tax loss carryforwards for certain foreign subsidiaries, the tax effect of which, after reduction by the associated valuation allowance, is $12,994. The Company also has available tax credit carryforwards of $22,619. These tax loss and tax credit carryforwards expire at various dates. The valuation allowance at December 31, 2002, applies to certain foreign and state and local tax loss carryforwards that, in the opinion of management, are more likely than not to expire before the Company can use them.

3.133

WAUSAU•MOSINEE PAPER CORPORATION AND SUBSIDIARIES (DEC)

(All dollar amounts in thousands)	2002	2001	2000
Net sales	$948,698	$943,729	$990,924
Cost of sales	836,314	847,588	886,322
Restructuring charge—inventory	—	—	599
Total cost of sales	836,314	847,588	886,921
Gross profit	112,384	96,141	104,003
Operating expenses:			
Selling and administrative	64,962	67,862	64,503
Restructuring	—	—	21,715
Operating profit	47,422	28,279	17,785
Other income (expense):			
Interest expense	(10,845)	(14,416)	(15,713)
Interest income	25	262	138
Other	16	18	115
Earnings before provision for income taxes	36,618	14,143	2,325
Provision for income taxes	13,550	5,230	860
Net earnings	$ 23,068	$ 8,913	$ 1,465

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Income Taxes

Deferred income taxes have been provided under the liability method. Deferred tax assets and liabilities are determined based upon the estimated future tax effects of temporary differences between the financial statement and tax bases of assets and liabilities, as measured by the current enacted tax rates. Deferred tax expense is the result of changes in the deferred tax asset and liability.

Note 7. Income Taxes

Deferred tax assets and liabilities are determined based on the estimated future tax effects of temporary differences between the financial statement and tax bases of assets and liabilities, as measured by the current enacted tax rates. Deferred tax expense (benefit) is the result of changes in the deferred tax asset and liability.

The provision (benefit) for income taxes is comprised of the following:

(All dollar amounts in thousands)	2002	2001	2000
Current tax expense (benefit):			
Federal	$(4,104)	$3,308	$ —
State	1,546	1,328	1,042
Total current	(2,558)	4,636	1,042
Deferred tax expense (benefit):			
Federal	15,718	1,342	827
State	390	(748)	(1,009)
Total deferred	16,108	594	(182)
Total provision for income taxes	$13,550	$5,230	$ 860

A reconciliation between taxes computed at the federal statutory rate and the Company's effective tax rate follows:

(All dollar amounts in thousands)	2002		2001		2000	
Federal statutory tax rate	$12,820	35.0%	$4,935	35.0%	$814	35.0%
State taxes (net of federal tax benefits)	1,528	4.2	295	2.0	46	1.9
Other	(798)	(2.2)	—	—	—	—
Effective tax	$13,550	37.0%	$5,230	37.0%	$860	36.9%

At the end of 2002, $103,557,851 of unused state operating loss and credit carryovers existed, which may be used to offset future state taxable income in various amounts through the year 2017. Because separate state tax returns are filed, the Company is not able to offset consolidated income with the subsidiaries losses. Under the provisions of SFAS No. 109, the benefits of state tax losses are recognized as a deferred tax asset, subject to appropriate valuation allowances.

The major temporary differences that give rise to the deferred tax assets and liabilities at December 31, 2002, and 2001, are as follows:

(All dollar amounts in thousands)	2002	2001
Deferred tax assets:		
Allowances on accounts receivable	$ 979	$ 2,741
Accrued compensated absences	4,092	3,975
Stock appreciation rights plans	113	1,022
Stock options	1,328	1,314
Pensions	11,756	8,923
Inventories	2,087	3,143
Post-retirement benefits	23,772	23,589
Restructuring reserve	5,202	5,209
Post-employment benefits	274	274
Other accrued liabilities	7,532	8,091
State net operating loss carry forward	6,651	6,151
Other	384	512
Gross deferred tax asset	64,170	64,944
Less valuation allowance	(3,259)	(3,713)
Net deferred tax assets	60,911	61,231
Deferred tax liabilities:		
Property, plant, and equipment	(148,017)	(143,283)
Other	(11,459)	(9,475)
Gross deferred tax liability	(159,476)	(152,758)
Net deferred tax liability	$ (98,565)	$ (91,527)

The total deferred tax assets (liabilities) as presented in the accompanying consolidated balance sheets are as follows:

(All dollar amounts in thousands)	2002	2001
Net deferred tax assets	$ 12,812	$ 14,111
Net long-term deferred tax liabilities	(111,377)	(105,638)
Net deferred tax liability	$ (98,565)	$ (91,527)

A valuation allowance has been recognized for a subsidiary's state loss carry forward and future deductible items, as cumulative losses create uncertainty about the realization of the tax benefits in future years.

Credit Provision

3.134

LYONDELL CHEMICAL COMPANY (DEC)

(Millions of dollars)	2002	2001	2000
Sales and other operating revenues	$3,262	$3,193	$4,003
Operating costs and expenses:			
Cost of sales	2,898	2,862	3,403
Selling, general and administrative expenses	160	157	194
Research and development expense	30	32	35
Amortization of goodwill	—	30	32
	3,088	3,081	3,664
Gain on sale of assets	—	—	(590)
Operating income	174	112	929
Interest expense	(384)	(386)	(514)
Interest income	11	17	52
Other income (expense), net	(6)	(4)	27
Income (loss) before equity investments, income taxes and extraordinary items	(205)	(261)	494
Income (loss) from equity investments:			
Equistar Chemicals, LP	(117)	(77)	101
Lyondell-Citgo Refining LP	135	129	86
Other	(4)	(12)	12
	14	40	199
Income (loss) before income taxes and extraordinary items	(191)	(221)	693
Provision for (benefit from) income taxes	(58)	(76)	223
Income (loss) before extraordinary items	$ (133)	$ (145)	$ 470

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 (In Part): Summary of Significant Accounting Policies

Income Taxes

Deferred income taxes result from temporary differences in the recognition of revenues and expenses for tax and financial reporting purposes. Valuation allowances are provided against deferred tax assets when it is more likely than not that some portion or all of the deferred tax asset will not be realized.

17. Income Taxes

The significant components of the provision for (benefit from) income taxes were as follows for the years ended December 31:

(Millions of dollars)	2002	2001	2000
Current:			
Federal	$ (34)	$ (92)	$154
Foreign	(3)	15	8
State	3	(2)	6
Total current	(34)	(79)	168
Deferred:			
Federal	(52)	(35)	71
Foreign	26	52	(31)
State	2	(14)	15
Total deferred	(24)	3	55
Income tax (benefit) provision before tax effects of extraordinary items and other comprehensive income	$ (58)	$ (76)	$223
Tax effect of extraordinary items	(8)	(2)	(17)
Tax effects of elements of other comprehensive income:			
Minimum pension liability	(34)	(46)	(5)
Net unrealized losses on derivative instruments	—	(1)	—
Total income tax (benefit) provision on comprehensive income	$(100)	$(125)	$201

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 Lyondell's deferred tax liabilities and assets were as follows as of December 31:

(Millions of dollars)	2002	2001
Deferred tax liabilities:		
Accelerated tax depreciation	$ 687	$ 587
Investments in joint venture partnerships	846	505
Goodwill	61	53
Other	29	20
Total deferred tax liabilities	1,623	1,165
Deferred tax assets:		
Net operating loss carryforwards	443	318
Employee benefit plans	187	145
Deferred charges and revenues	63	70
Federal benefit attributable to deferred foreign taxes	43	25
Alternative minimum tax credit carryforwards	—	42
Other	70	68
Total deferred tax assets	806	668
Deferred tax asset valuation allowance	(29)	(16)
Net deferred tax assets	777	652
Net deferred tax liabilities	846	513
Add current portion of deferred tax assets	35	277
Long-term deferred income taxes	$ 881	$ 790

Lyondell has federal, state and foreign tax loss carryforwards, the tax benefit of which would be $443 million at the current statutory rate. The federal loss carryforward benefits of $366 million would begin expiring in 2014 and the foreign tax loss carryforward benefits in excess of the valuation reserve have no expiration date. The state tax loss carryforward benefits are $2 million.

During 2002, Lyondell converted certain intercompany debt of a French partnership into equity, thereby creating French taxable income that absorbed approximately 41 million euros, or $42 million, of French five-year loss carryforwards. The new equity can be reconverted into debt over the next 10 years, assuming business results improve. Such reconversion will give rise to French tax losses equal to any equity reconverted to debt. Lyondell has recognized a deferred tax asset and a related valuation reserve of $15 million at December 31, 2002 in connection with this transaction.

Management believes that it is more likely than not that the $777 million of deferred tax assets in excess of the valuation reserve of $29 million at December 31, 2002 will be realized. This conclusion is supported by the significant excess of total deferred tax liabilities over net deferred tax assets. These deferred tax liabilities, primarily related to depreciation, will reverse over the next 15 to 20 years. In addition, as discussed above, certain carryforwards either have no expiration dates or have long carryforward periods prior to their expiration.

The domestic and non-U.S. components of income (loss) before income taxes and extraordinary items and a reconciliation of the income tax provision to theoretical income tax computed by applying the U.S. federal statutory tax rate are as follows:

(Millions of dollars)	2002	2001	2000
Income (loss) before income taxes and extraordinary items:			
Domestic	$ (254)	$ (280)	$ 759
Non-U.S.	63	59	(66)
Total	$ (191)	$ (221)	$ 693
Theoretical income tax at U.S. statutory rate	$ (67)	$ (77)	$ 243
Increase (reduction) resulting from:			
Reorganization of non-U.S. operations	—	—	(37)
Other effects of non-U.S. operations	11	17	(18)
Changes in estimates for prior year items	(2)	(23)	—
Goodwill and other permanent differences	(3)	3	11
State income taxes, net of federal	3	1	14
Other, net	—	3	10
Income tax (benefit) provision	$ (58)	$ (76)	$ 223
Effective income tax rate, including extraordinary items	(31.0)%	(34.0)%	32.2%

The change in estimate for prior year items in 2001 primarily represents certain tax effects related to the sale of assets to Bayer.

3.135

SPECTRUM CONTROL, INC. AND SUBSIDIARIES (NOV)

(Amounts in thousands)	2002	2001	2000
Net sales	$57,213	$89,260	$132,639
Cost of products sold	47,291	75,845	94,707
Gross margin	9,922	13,415	37,932
Operating expenses			
Selling, general and administrative expense	12,102	17,901	21,482
Restructuring charges	—	485	—
	12,102	18,386	21,482
Income (loss) from operations	(2,180)	(4,971)	16,450
Other income (expense)			
Interest expense	(140)	(209)	(1,788)
Other income and expense, net	1,117	473	657
	977	264	(1,131)
Income (loss) before provision for income taxes	(1,203)	(4,707)	15,319
Provision for income taxes (benefit)	(466)	(1,789)	5,816
Net income (loss)	$ (737)	$ (2,918)	$ 9,503

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Income Taxes

The Company uses the liability method in accounting for income taxes. Deferred tax assets and liabilities are recorded for temporary differences between the tax basis of assets and liabilities and their reported amounts in the financial statements, using statutory tax rates in effect for the year in which the differences are expected to reverse. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the results of operations in the period that includes the enactment date. A valuation allowance is recorded to reduce the carrying amounts of deferred tax assets unless it is more likely than not that such assets will be realized.

17. Income Taxes

For the years ended November 30, 2002, 2001, and 2000, income (loss) before income taxes consists of the following (in thousands):

	2002	2001	2000
U.S. operations	$(1,215)	$(5,433)	$14,936
Foreign operations	12	726	383
	$(1,203)	$(4,707)	$15,319

For the years ended November 30, 2002, 2001, and 2000, the provision for income taxes (benefit) consists of the following (in thousands):

	2002	2001	2000
Current			
U.S. Federal	$(714)	$(1,100)	$4,460
Foreign	169	297	46
State	—	16	623
Deferred			
U.S. Federal	123	(645)	400
State	(44)	(357)	287
	$(466)	$(1,789)	$5,816

The difference between the provision for income taxes (benefit) and the amount computed by applying the U.S. federal income tax rate in effect for the years ended November 30, 2002, 2001, and 2000 consists of the following (in thousands):

	2002	2001	2000
Statutory federal income tax (benefit)	$(409)	$(1,600)	$5,208
State income taxes, net of federal tax effect	(29)	(225)	411
Foreign tax rates	(6)	50	50
Other items	(22)	(14)	147
	$(466)	$(1,789)	$5,816

Significant components of the Company's net deferred tax assets and liabilities are as follows:

(In thousands)	2002	2001
Deferred tax assets:		
Inventory valuation	$ 1,235	$ 1,214
Accrued compensation	321	335
Allowance for doubtful accounts	317	253
Amortization of intangible assets	266	327
Net operating loss carryforwards	179	142
Other	18	10
Deferred tax assets	2,336	2,281
Deferred tax liabilities:		
Depreciation of plant and equipment	2,069	2,377
Investment in subsidiaries	1,271	1,271
Amortization of intangible assets	703	265
Other	4	—
Deferred tax liabilities	4,047	3,913
Net deferred tax liabilities	$(1,711)	$(1,632)
Net deferred tax assets:		
Current	$ 1,869	$ 1,802
Net deferred tax liabilities:		
Noncurrent	(3,580)	(3,434)
	$(1,711)	$(1,632)

The Company has not recorded deferred income taxes on the undistributed earnings of its foreign subsidiaries because of management's intent to indefinitely reinvest such earnings. At November 30, 2002, the undistributed earnings of the foreign subsidiaries amounted to approximately $3,612,000. Upon distribution of these earnings in the form of dividends or otherwise, the Company may be subject to U.S. income taxes and foreign withholding taxes. It is not practical, however, to estimate the amount of taxes that may be payable on the eventual remittance of these earnings.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which the temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income, management believes it is more likely than not the Company will realize the benefits of the deferred tax assets. Accordingly, no deferred tax asset valuation allowance was recorded at November 30, 2002 or 2001.

At November 30, 2002, the Company had state net operating loss carryforwards of $2,713,000 expiring at varying amounts in 2011 and 2012.

No Provision

3.136

XO COMMUNICATIONS, INC. (DEC)

(Dollars in thousands)	2002	2001	2000
Revenue	$ 1,259,853	$ 1,258,567	$ 723,826
Costs and expenses:			
Cost of service	522,924	527,698	302,666
Selling, operating and general (excludes stock-based compensation)	736,925	971,714	730,604
Stock-based compensation	28,928	37,173	48,328
Depreciation and amortization	699,806	1,162,671	617,714
Restructuring and asset write-downs	480,168	509,202	—
In-process research and development	—	—	36,166
Total costs and expenses	2,468,751	3,208,458	1,735,478
Loss from operations	(1,208,898)	(1,949,891)	(1,011,652)
Interest income	16,478	77,938	180,905
Interest expense, net (contractual interest was $501,118 for the year ended December 31, 2002)	(226,451)	(465,401)	(434,122)
Other income (loss), net	(200)	(93,781)	163,570
Reorganization expense, net	(91,121)	—	—
Net loss before extraordinary item and cumulative effect of accounting change	(1,510,192)	(2,431,135)	(1,101,299)
Extraordinary gain on repurchases of debt, net	—	345,010	—
Cumulative effect of accounting change	(1,876,626)	—	—
Net loss	$(3,386,818)	$(2,086,125)	$(1,101,299)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4 (In Part): Summary of Significant Accounting Policies

Income Taxes

The Company accounts for income taxes in accordance with the provisions of SFAS No. 109, "Accounting for Income Taxes," ("SFAS No. 109") which requires that deferred income taxes be determined based on the estimated future tax effects of differences between the financial statement and tax bases of assets and liabilities given the provisions of the enacted tax laws. Valuation allowances are used to reduce deferred tax assets to the amount considered likely to be realized.

14. Income Taxes

Components of deferred tax assets and liabilities were as follows (dollars in thousands):

	2002	2001
Deferred tax assets:		
Provisions not currently deductible	$ 123,280	$ 41,954
Property, equipment and other long-term assets (net)	367,208	348,582
Net operating loss and capital loss carryforwards	1,863,336	1,313,477
Total deferred tax assets	2,353,824	1,704,013
Valuation allowance	(2,028,331)	(1,390,017)
Net deferred tax assets	325,493	313,996
Deferred tax liabilities:		
Property, equipment and other long-term assets (net)	(101,402)	(72,108)
Other identifiable intangibles	(222,537)	(238,465)
Other	(1,554)	(3,423)
Total deferred tax liabilities	(325,493)	(313,996)
Net deferred taxes	$ —	$ —

The net change in valuation allowance for the year ended December 31, 2002 was an increase of $638.3 million. The net change in the valuation allowance for years ended December 31, 2001 and 2000 was an increase of $591.2 million and $521.2 million, respectively.

As of December 31, 2002, the Company has capital loss carryforwards of approximately $0.5 billion and net operating loss carryforwards of approximately $4.0 billion. As discussed in notes 2 and 3, upon consummation of the Plan of Reorganization during the first quarter of 2003, the Company will recognize a substantial amount of cancellation of indebtedness income. Accordingly, a substantial portion of the Company's $4.5 billion of capital and net operating loss carryforwards are expected to be eliminated. Other tax attributes, including property bases, could also be reduced. Any surviving capital or net operating loss carryforwards will be subject to limitations imposed under the ownership change rules in the U.S. Internal Revenue Code.

The Company will join with the affiliated group of corporations controlled by Mr. Icahn in filing a consolidated federal income tax return. As such, the Company entered into a Tax Allocation Agreement with Starfire Holding Corporation ("Starfire"), the Parent entity of the affiliated group of corporations controlled by Mr. Icahn. Generally, the Tax Allocation Agreement provides that Starfire will pay all consolidated federal income taxes on behalf of the consolidated group that includes XO, and XO will make payments to Starfire in an amount equal to the tax liability, if any, that it would have if it were to file as a consolidated group separate and apart from Starfire.

A reconciliation of the Company's effective income tax rate and the U.S. federal and state tax rate is as follows:

	2002	2001
Statutory U.S. federal rate	35.0 %	35.0 %
State income taxes, net of federal benefit	6.0 %	6.0 %
Valuation allowance for deferred tax assets	(18.3)%	(29.4)%
Other identifiable intangibles	(22.7)%	(11.6)%
Effective income tax rate	— %	— %

OPERATING LOSS AND TAX CREDIT CARRYFORWARDS

3.137 Paragraph 48 of *SFAS 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.

3.138

BOWATER INCORPORATED (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the Consolidated Statement of Operations in the period that includes the enactment date. Bowater has not provided income taxes on the undistributed earnings of certain of its subsidiaries, as it has specific plans for the reinvestment of such earnings.

Note 15 (In Part): Income Taxes

The components of deferred income taxes at December 31, 2002 and 2001, in the accompanying Consolidated Balance Sheet are as follows:

(In millions)	2002	2001
Timber and timberlands[1]	$ (53.6)	$ (72.4)
Fixed assets, net	(677.3)	(627.2)
Deferred gains	(115.1)	(84.6)
Other assets	(8.3)	(36.0)
Deferred tax liabilities	(854.3)	(820.2)
Current assets[2]	2.6	2.6
Current liabilities[2]	8.5	18.2
Employee benefits and other long-term liabilities	193.7	138.3
United States tax credit carryforwards	110.7	39.4
Canadian investment tax credit carryforwards	14.8	12.9
Ordinary loss carryforwards	42.2	49.3
Valuation allowance	(25.3)	(19.7)
Deferred tax assets	347.2	241.0
Net deferred tax liability	$(507.1)	$(579.2)

(1) Includes the deferred tax impact of the capitalization of lease payments, management fees and property taxes of approximately $116.6 million and $112.9 million at December 31, 2002 and 2001, respectively.

(2) Included in "Other current assets" in the accompanying Consolidated Balance Sheet.

The increase in the valuation allowance during 2002, of $5.6 million was due primarily to foreign tax credit expected realization. As of December 31, 2002, $3.4 million of the valuation allowance is attributable to the acquisition of Avenor and will reduce goodwill upon reversal.

At December 31, 2002, we had United States federal and state net operating loss carryforwards of $26.5 million and $425.8 million, respectively, and Canadian federal and provincial net operating loss carryforwards of $17.7 million and $119.1 million, respectively. In addition, $14.8 million of Canadian investment tax credit carryforwards and $110.7 million of United States tax credit carryforwards were available to reduce future income taxes. The United States federal and state loss carryforwards expire at various dates up to 2022. The Canadian noncapital loss and investment tax credit carryforwards expire at various dates between 2003 and 2012. Of the United States tax credit carryforwards, $102.8 million consists of alternative minimum tax credits that have no expiration. We believe that deferred tax assets, net of the existing valuation allowance of $25.3 million at December 31, 2002, will be ultimately realized.

The cumulative amount of CNC's undistributed earnings through 1992, on which we have not provided income taxes, was $14.3 million as of December 31, 2002. Distribution of these earnings would qualify for the 80% dividend exclusion.

At December 31, 2002, unremitted earnings of subsidiaries outside the United States totaling $128.9 million were deemed to be permanently invested. No deferred tax liability has been recognized with regard to such earnings. It is not practicable to estimate the income tax liability that might be incurred if such earnings were remitted to the United States.

3.139

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES (OCT)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Taxes on Earnings

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 enacted tax rates in effect for the year the differences are expected to reverse. HP records a valuation allowance to reduce the deferred tax assets to the amount that is more likely than not to be realized.

Note 11 (In Part): Taxes on Earnings

The significant components of deferred tax assets and deferred tax liabilities were as follows at October 31, 2002 and 2001:

	2002		2001	
(In millions)	Deferred Tax Assets	Deferred Tax Liabilities	Deferred Tax Assets	Deferred Tax Liabilities
Loss carryforwards	$ 1,204	$ —	$ 525	$ —
Credit carryforwards	1,352	—	636	—
Unremitted earnings of foreign subsidiaries	—	2,044	—	874
Inventory	466	38	196	—
Fixed assets	300	8	158	7
Warranty	484	2	291	—
Employee and retiree benefits	1,355	273	472	160
Intracompany sales	1,805	—	2,248	—
Accounts receivable	303	6	231	—
Capitalized research and development	849	—	—	—
Purchased intangible assets	134	1,373	—	31
Restructuring	551	—	47	—
Equity investments	423	—	44	—
Other	821	142	265	90
Gross deferred tax assets and liabilities	10,047	3,886	5,113	1,162
Valuation allowance	(887)	—	(74)	—
Total deferred tax assets and liabilities	$ 9,170	$3,886	$5,039	$1,162

The current portion of the deferred tax asset, which is included in other current assets, was $3.3 billion at October 31, 2002 and $3.1 billion at October 31, 2001.

HP recorded gross deferred tax assets of $4.4 billion and gross deferred tax liabilities of $2.3 billion upon the acquisition of Compaq. The gross deferred tax assets are composed primarily of loss and tax credit carryforwards, capitalized research and development costs and other temporary differences. The gross deferred tax liabilities are composed primarily of provisions made on foreign earnings that are not intended to be indefinitely reinvested and timing differences related to purchased intangible assets. The gross deferred tax assets recorded were reduced by a valuation allowance of $774 million. If HP determines that it will realize the tax attributes related to Compaq in the future, the related decrease in the valuation allowance will reduce goodwill instead of the provision for taxes.

At October 31, 2002, HP had federal net operating loss carryforwards of approximately $1.1 billion, which will expire in 2022. HP also had foreign net operating loss carryforwards totaling $1.3 billion, of which $513 million will expire between 2003 and 2012. The remainder of the foreign net operating loss carryforwards have an unlimited carryforward period. Total capital loss carryforwards of $1.1 billion will expire in 2006. Foreign tax credit carryforwards of approximately $767 million will expire between 2003 and 2007, with approximately $505 million expiring in 2006 and $242 million expiring in 2007. Alternative minimum tax credit carryforwards of approximately $305 million have an unlimited carryforward period. General business credit carryforwards of approximately $280 million will expire between 2003 and 2022, with approximately $142 million of this amount expiring between 2019 and 2022. All carryforwards expire as of October 31 of the year indicated.

The gross deferred tax assets as of October 31, 2002 were reduced by valuation allowances of $877 million, principally on tax loss carryforwards and credit carryforwards, both primarily associated with the Compaq acquisition that management has determined are more likely than not to expire unused. The valuation allowance increased by $803 million in fiscal 2002 and $74 million in fiscal 2001.

Tax benefits of $21 million in fiscal 2002, $16 million in fiscal 2001 and $495 million in fiscal 2000 associated with the exercise of employee stock options and other employee stock programs were allocated to stockholders' equity.

HP has not provided for U.S. federal income and foreign withholding taxes on $14.5 billion of undistributed earnings from non-U.S. and Puerto Rican operations as of October 31, 2002 because such earnings are intended to be reinvested indefinitely. If these earnings were distributed, foreign tax credits may become available under current law to reduce or eliminate the resulting U.S. income tax liability. Where excess cash has accumulated in HP's non-U.S. subsidiaries and it is advantageous for business operations, tax or foreign exchange reasons, subsidiary earnings are remitted.

As a result of certain employment actions and capital investments undertaken by HP, income from manufacturing activities in certain countries is subject to reduced tax rates, and in some cases is wholly exempt from taxes, for years through 2013. The income tax benefits attributable to the tax status of these subsidiaries are estimated to be $389 million ($0.16 per share) in fiscal 2000, $457 million ($0.24 per share) in fiscal 2001 and $969 million ($0.49 per share) in fiscal 2000.

3.140

VISHAY INTERTECHNOLOGY, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5 (In Part): Income Taxes

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 for income tax purposes. Significant components of the Company's deferred tax assets and liabilities are as follows:

(In thousands)	2002	2001
Deferred tax assets:		
Pension and other retiree obligations	$ 47,710	$ 41,500
Net operating loss carryforwards	112,770	38,869
Tax credit carryforwards	11,766	13,080
Restructuring reserves	13,093	23,678
Other accruals and reserves	55,699	51,348
Total deferred tax assets	241,038	168,475
Less valuation allowance	(63,192)	(10,256)
	177,846	158,219
Deferred tax liabilities:		
Tax over book depreciation	87,483	88,377
Non-amortizable intangible assets	24,454	26,412
Other—net	30,359	16,284
Total deferred tax liabilities	142,296	131,073
Net deferred tax assets	$ 35,550	$ 27,146

At December 31, 2002, the Company had the following significant net operating loss carryforwards for tax purposes *(in thousands):*

		Expires
Czech Republic	$ 608	2005–2007
France	8,720	2005–2007
Germany	50,560	No expiration
Israel	153,442	No expiration
Portugal	3,550	2005–2007
United States	58,236	2021

Approximately $25,280,000 of the carryforward in Germany resulted from the Company's acquisition of Roederstein, GmbH in 1993. Valuation allowances of $6,208,000 and $7,324,000 have been recorded at December 31, 2002 and 2001, respectively, for deferred tax assets related to foreign net operating loss carryforwards. In 2002 and 2001, respectively, tax benefits recognized through reductions of the valuation allowance had the effect of reducing goodwill of acquired companies by $491,000 and $4,901,000. If additional tax benefits are recognized in the future through further reduction of the valuation allowance, $2,523,000 of such benefits will reduce goodwill.

In addition, as part of the BCcomponents acquisition, the Company has the following estimated pre-acquisition NOL carryforwards for tax purposes *(in thousands):*

		Expires
Austria	$ 4,329	No expiration
Belgium	60,504	No expiration
Netherlands	74,688	No expiration

The Company has recorded valuation allowances against the deferred tax assets arising from these net operating loss carryforwards. If the Company recognizes future tax benefits through the use of these pre-acquisition losses, the benefit of such utilization will be recorded as a reduction to goodwill.

At December 31, 2002, the Company had the following tax credit carryforwards available *(in thousands):*

		Expires
Federal alternative minimum tax	$5,802	No expiration
California investment credit	5,644	2003–2009
California research credit	3,402	No expiration

At December 31, 2002, no provision had been made for U.S. federal and state income taxes on approximately $897,550,000 of foreign earnings, which are expected to be reinvested indefinitely. Upon distribution of those earnings in the form of dividends or otherwise, the Company would be subject to U.S. income taxes (subject to an adjustment for foreign tax credits), state income taxes, and withholding taxes payable to the various foreign countries. Detemination of the amount of unrecognized deferred U.S. income tax liability is not practicable because of the complexities associated with its hypothetical calculation.

TAXES ON UNDISTRIBUTED EARNINGS

3.141 *SFAS 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

3.142

BAKER HUGHES INCORPORATED (DEC)

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

Income Taxes (In Part)

The Company uses the liability method for reporting income taxes, under which current and deferred tax liabilities and assets are recorded in accordance with enacted tax laws and rates. Under this method, the amounts of deferred tax liabilities and assets at the end of each period are determined using the tax rate expected to be in effect when taxes are actually paid or recovered. Future tax benefits are recognized to the extent that realization of such benefits is more likely than not.

Deferred income taxes are provided for the estimated income tax efffect of temporary differences between financial and tax bases in assets and liabilities. Deferred tax assets are also provided for certain tax credit carryforwards. A valuation allowance to reduce deferred tax assets is established when it is more likely than not that some portion or all of the deferred tax assets will not be realized.

The Company intends to indefinitely reinvest earnings of certain non-U.S. subsidiaries in operations outside the United States; accordingly, the Company does not provide U.S. income taxes for such earnings.

The Company operates in more than 70 countries under many legal forms. As a result, the Company is subject to many domestic and foreign tax jurisdictions and to many tax agreements and treaties among the various taxing authorities. The Company's operations in these different jurisdictions are taxed on various bases: income before taxes, deemed profits (which is generally determined using a percentage of revenues rather than profits) and withholding taxes based on revenue. Determination of taxable income in any jurisdiction requires the interpretation of the related tax laws and regulations and the use of estimates and assumptions regarding significant future events. Changes in tax laws, regulations, agreements and treaties, foreign currency exchange restrictions or the Company's level of operations or profitability in each taxing jurisdiction could have an impact upon the amount of income taxes that the Company provides during any given year.

Note 5 (In Part): Income Taxes

During 2000, as a result of the repatriation of the proceeds from the formation of the WesternGeco venture, the Company incurred $3.4 million of foreign withholdings and other taxes and provided $6.0 million of additional U.S. taxes. In addition, the formation of the venture reduced the expected amount of foreign source income available in the future to utilize the Company's foreign tax credit carryover; accordingly, the Company provided $35.6 million for additional U.S. taxes with respect to future repatriation of earnings necessary to utilize the foreign tax credit carryover. Such amounts, aggregating $45.0 million, are presented in the above income tax rate reconciliation table under the caption "Formation-related taxes for WesternGeco."

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, as well as operating loss and tax credit carryforwards. The tax effects of the Company's temporary differences and carryforwards are as follows at December 31:

	2002	2001
Deferred tax assets:		
Receivables	$ 9.4	$ 15.8
Inventory	106.9	100.7
Employee benefits	27.5	20.3
Other accrued expenses	43.0	47.0
Operating loss carryforwards	69.4	59.3
Tax credit carryforwards	95.8	186.9
Other	59.1	61.7
Subtotal	411.1	491.7
Valuation allowances	(45.9)	(45.4)
Total	365.2	446.3
Deferred tax liabilities:		
Property	151.6	141.0
Other assets	78.3	97.5
Goodwill	85.7	108.7
Undistributed earnings of foreign subsidiaries	24.0	74.9
Other	57.1	30.4
Total	396.7	452.5
Net deferred tax liability	$ 31.5	$ 6.2

A valuation allowance is recorded when it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of the deferred tax assets depends on the ability to generate sufficient taxable income of the appropriate character in the future and in the appropriate taxing jurisdictions. The Company has provided a valuation allowance for operating loss carryforwards in certain non-U.S. jurisdictions where its operations have decreased, currently ceased or the Company has withdrawn entirely.

Provision has been made for U.S. and additional foreign taxes for the anticipated repatriation of certain earnings of foreign subsidiaries of the Company. The Company considers the undistributed earnings of its foreign subsidiaries above the amount already provided to be indefinitely reinvested. These additional foreign earnings could become subject to additional tax if remitted, or deemed remitted, as a dividend; however, the additional amount of taxes payable is not practicable to estimate.

At December 31, 2002, the Company had approximately $8.7 million of foreign tax credits and $61.5 million of general business credits available to offset future payments of federal income taxes, expiring in varying amounts between 2005 and 2023. The Company's $25.6 million alternative minimum tax credits may be carried forward indefinitely under current U.S. law. The operating loss carryforwards without a valuation allowance will expire in varying amounts over the next twenty years.

3.143

COMMERCIAL METALS COMPANY AND SUBSIDIARIES (AUG)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Income Taxes

The Company and its U.S. subsidiaries file a consolidated federal income tax return, and federal income taxes are allocated to subsidiaries based upon their respective taxable income or loss. Deferred income taxes are provided for temporary differences between financial and tax reporting. The principal differences are described in footnote 6, Income Taxes. Benefits from tax credits are reflected currently in earnings. The Company provides for taxes on unremitted earnings of foreign subsidiaries.

Note 6 (In Part): Income Taxes

Deferred taxes arise from temporary differences between the tax basis of an asset or liability and its reported amount in the financial statements. The sources and deferred long-term tax liabilities (assets) associated with these differences are:

(In thousands)	2002	2001
Tax on difference between tax and book depreciation	$ 38,457	$ 33,873
U.S. taxes provided on foreign income and foreign taxes	11,857	11,586
Net operating losses (less allowances of $780 and $2,035)	(561)	(1,090)
Alternative minimum tax credit	(1,713)	(1,713)
Other accruals	(9,183)	(6,330)
Other	(6,044)	(5,921)
Total	$ 32,813	$ 30,405

Current deferred tax assets of $12.3 and $11.0 million at August 31, 2002 and 2001, respectively, were included in other assets on the consolidated balance sheets. These deferred taxes were largely due to different book and tax treatments of various allowances and accruals. No valuation allowances were required at August 31, 2002 or 2001 for the current deferred tax assest.

The Company uses substantially the same depreciable lives for tax and book purposes. Changes in deferred taxes relating to depreciation are mainly attributable to differences in the basis of underlying assets recorded under the purchase method of accounting. As noted above, the Company provides United States taxes on unremitted foreign earnings. Net operating losses consist of $120 million of state net operating losses that expire during the tax years ending from 2006 to 2022. These assets will be reduced as tax expense is recognized in future periods. The $1.7 million alternative minimum tax credit is available indefinitely. The FSC Repeal and Extraterritorial Income Exclusion Act of 2000 replaced the Foreign Sales Corporation (FSC) tax benefits with the "extraterritorial income" exemption (ETI) for fiscal year 2002 and the years thereafter. The ETI exclusion maintains the same level of tax benefit for current FSC users.

Taxes Not Accrued on Undistributed Earnings

3.144

JACOBS ENGINEERING GROUP INC. AND SUBSIDIARIES (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

11 (In Part): Income Taxes

United States income taxes, net of applicable credits, have been provided on the undistributed earnings of foreign subsidiaries, except in those instances where the earnings are expected to be permanently reinvested. At September 30, 2002, $7.8 million of such undistributed earnings was expected to be permanently reinvested. Should these earnings be repatriated, approximately $2.1 million of income taxes would be payable.

3.145

SEARS, ROEBUCK AND CO. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 13 (In Part): Income Taxes

U.S. income and foreign withholding taxes were not provided on certain unremitted earnings of international affiliates which the Company considers to be permanent investments. The cumulative amount of unremitted income for which income taxes have not been provided totaled $429 million at December 28, 2002. If these earnings were to be remitted, taxes of $55 million would be due.

3.146

WOLVERINE WORLD WIDE, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7 (In Part): Income Taxes

No provision has been made for U.S. federal and state income taxes or foreign taxes that may result from future remittances of the undistributed earnings ($59,374,000 at December 28, 2002 and $47,889,000 at December 29, 2001) of foreign subsidiaries because it is expected that such earnings will be reinvested overseas indefinitely. Determination of the amount of any unrecognized deferred income tax liability on these unremitted earnings is not practicable.

LONG-TERM CONTRACTS

3.147 Accounting and disclosure requirements for long-term contracts are discussed in ARB No. 43, Chapter 11, *Government Contracts,* ARB No. 45, *Long-Term Construction-Type Contracts,* and American Institute of Certified Public Accountants (AICPA) Statement of Position (SOP) 81-1, *Accounting for Performance of Construction-Type and Certain Production-Type Contracts.*

3.148 Table 3-15 shows that usually the percentage of completion method or a modification of this method, the units-of-delivery method is used to recognize revenue on long-term contracts. 16 companies used both of the aforementioned methods. Examples of disclosures for long-term contracts follow.

3.149

TABLE 3-15: METHOD OF ACCOUNTING FOR LONG-TERM CONTRACTS

	Number of Companies			
	2002	**2001**	**2000**	**1999**
Percentage-of-completion	82	80	71	72
Units-of-delivery	26	21	19	18
Completed contract	5	3	5	6
Not determinable	—	—	—	1

3.150

FOSTER WHEELER LTD. (DEC)

NOTES TO FINANCIAL STATEMENTS
(In thousands of dollars)

2 (In Part): Summary of Significant Accounting Policies

Revenue Recognition on Long-Term Contracts

Revenues and profits in long term fixed price contracts are recorded under the percentage of completion method. Progress towards completion is measured using the cost to cost method, the efforts expended method or variations thereof. These methods are applied consistently to all contracts having similar characteristics in similar circumstances. Under the cost to cost method, revenues and profits are recognized based on the ratio that costs incurred bear to total estimated costs. Under the efforts expended method, revenue and profits are recognized based on the ratio that incurred labor hours bear to total estimated labor hours. Variations of these two methods are used on multiyear contracts that require significant engineering effort and multiple delivery of units. These methods are subject to physical verification of actual progress towards completion.

Revenues and profits on costs reimbursable contracts are recorded as the costs are incurred. The Company includes flow-through costs consisting of materials, equipment and subcontractor costs as revenue on cost-reimbursable contracts when the Company is responsible for the engineering specifications and procurement for such costs.

Contracts in progress are stated at cost increased for profits recorded on the completed effort or decreased for estimated losses, less billings to the customer and progress payments on uncompleted contracts. Negative balances are presented as "estimated costs to complete long term contracts."

The Company has numerous contracts that are in various stages of completion. Such contracts require estimates to determine the appropriate cost and revenue recognition. However, current estimates may be revised as additional information becomes available. If estimates of costs to complete long-term contracts indicate a loss, provision is made currently for the total loss anticipated. The elapsed time from award of a contract to completion of performance may be up to four years.

Claims are amounts in excess of the agreed contract price (or amounts not included in the original contract price) that a contractor seeks to collect from customers or others for delays, errors in specifications and designs, contract terminations, change orders in dispute or unapproved as to both scope and price or other causes of unanticipated additional costs. The Company records claims in accordance with paragraph 65 of the American Institute of Certified Public Accountants Statement of Position 81-1, "Accounting for Performance of Construction—Type and Certain Production—Type Contracts." This statement of position states that recognition of amounts as additional contract revenue related to claims is appropriate only if it is probable that the claims will result in additional contract revenue and if the amount can be reliably estimated. Those two requirements are satisfied by the existence of all of the following conditions: the contract or other evidence provides a legal basis for the claim; additional costs are caused by circumstances that were unforeseen at the contract date and are not the result of deficiencies in the contractor's performance; costs associated with the claim are identifiable or otherwise determinable and are reasonable in view of the work performed; and the evidence supporting the claim is objective and verifiable. If such requirements are met, revenue from a claim is recorded only to the extent that contract costs relating to the claim have been incurred. Costs attributable to claims are treated as costs of contract performance as incurred. Such claims are currently in various stages of negotiation, arbitration and other legal proceedings.

Certain special-purpose subsidiaries in the Energy Group are reimbursed by customers for their costs, including amounts related to principal repayments of non-recourse project debt, for building and operating certain facilities over the lives of the non-cancelable service contracts. The Company records revenues relating to debt repayment obligations on these contracts on a straight-line basis over the lives of the service contracts, and records depreciation of the facilities on a straight-line basis over the estimated useful lives of the facilities, after consideration of the estimated residual value.

4 (In Part): Accounts and Notes Receivable

The following tabulation shows the components of trade accounts and notes receivable:

	2002	2001
From long-term contracts:		
Amounts billed due within one year	$410,214	$452,367
Retention:		
Billed:		
Estimated to be due in:		
2002	—	65,631
2003	58,042	18,059
2004	25,481	22,246
2005	4,978	2,485
Total billed	88,501	108,421
Unbilled:		
Estimated to be due in:		
2002	—	127,046
2003	97,997	9,538
2004	4	—
Total unbilled	98,001	136,584
Total retentions	186,502	245,005
Total receivables from long-term contracts	596,716	697,372
Other trade accounts and notes receivable	19,387	32,172
	616,103	729,544
Less, allowance for doubtful accounts	16,597	2,988
	$599,506	$726,556

Provisions for non-payments of customer balances are normally addressed within the overall profit calculation of the contracts and are not specifically covered by allowances for doubtful accounts. As a result, the amount considered to be in the receivable qualifying account (allowance for doubtful accounts) does not represent the full allowance.

5 (In Part): Contracts in Process and Inventories

The following tabulation shows the elements included in contract in process as related to long-term contracts:

	2002	2001
Contracts in process		
Costs plus accrued profits less earned revenues on contracts currently in process	$346,183	$638,238
Less, progress payments	65,582	144,639
	$280,601	$493,599

3.151

GENCORP INC. (NOV)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

H. Revenue Recognition/Long-Term Contracts

Generally, sales are recorded when products are shipped, customer acceptance has occurred, all other significant customer obligations have been met and collection is reasonably assured. In certain circumstances, the Company's Fine Chemicals segment records sales when products are shipped, before customer acceptance has occurred because adequate controls are in place to ensure compliance with contractual product specifications and a substantial history of performance has been established. In addition, the Fine Chemicals segment recognizes revenue under two contracts before the finished product is delivered to the customers. These customers have specifically requested that AFC invoice for the finished product and hold the finished product in inventory until a later date.

Sales and income under most government fixed-price and fixed-price-incentive production type contracts are recorded as deliveries are made. Sales and income under some of the fixed price contracts are recorded based on a measurement of costs incurred to date as compared to total costs to be incurred, plus any applicable profit. For contracts where relatively few deliverable units are produced over a period of more than two years, revenue and income are recognized at the completion of measurable tasks, rather than upon delivery of the individual units. If at any time expected costs exceed the value of the contract, the loss is recognized immediately. Sales under cost reimbursement contracts are recorded as costs are incurred, and include estimated earned fees in the proportion that costs incurred to date bear to total estimated costs.

Certain government contracts contain cost or performance incentive provisions that provide for increased or decreased fees or profits based upon actual performance against established targets or other criteria. Penalties and cost incentives are considered in estimated sales and profit rates. Performance incentives are recorded when earned or measurable. Provisions for estimated losses on contracts are recorded when such losses become evident. The Company uses the full absorption costing method for government contracts which includes direct costs, allocated overhead and general and administrative expense. Work-in-process on fixed-price contracts includes full cost absorption, less the average estimated cost of units or items delivered.

2 (In Part): Inventories

(Millions)	2002	2001
Raw materials and supplies	$ 32	$ 31
Work-in-process	16	20
Finished goods	15	17
Approximate replacement cost of inventories	63	68
LIFO reserves	(4)	(5)
Long-term contracts at average cost	164	121
Progress payments	(56)	(17)
Inventories	$167	$167

Inventories applicable to government contracts, related to the Company's Aerospace and Defense segment, include general and administrative costs. The total of such costs incurred in fiscal 2002 and 2001 was $50 million and $76 million, respectively, and the amount in inventory is estimated to be $24 million and $36 million at November 30, 2002 and 2001, respectively.

3.152

GENERAL DYNAMICS CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars in millions)

A (In Part): Summary of Significant Accounting Policies

Revenue Recognition

The company accounts for sales and earnings under long-term defense contracts and programs using the percentage-of-completion method of accounting in accordance with AICPA, Statement of Position 81–1, "Accounting for Performance of Construction-Type and Certain Production-Type Contracts." The company applies earnings rates to all contract costs, including general and administrative expenses, to determine sales and operating earnings. The company reviews earnings rates periodically to assess revisions in contract values and estimated costs at completion. Based on these assessments, any changes in earnings rates are made prospectively.

The company charges any anticipated losses on contracts and programs to earnings when indentified. Such losses encompass all costs, including general and administrative expenses, allocable to the contracts. The company recognizes revenue arising from a claims process either as income or as an offset against a potential loss only when the claim can be reliably estimated and its realization is probable.

The company accounts for contracts for aircraft certified by the Federal Aviation Administration in accordance with Statement of Position 81–1. These contracts usually provide for two major milestones: the manufacture of the "green" aircraft and its completion, which includes exterior painting and installation of customer-selected interiors and optional avionics. The company records revenue at two points: when green aircraft are delivered to and accepted by the customer and when the customer accepts final delivery of the fully outfitted aircraft. The company recognizes sales of all other aircraft products and services when the product is delivered or the service is performed.

Accounts Receivable and Contracts in Process

Accounts receivable represent only amounts billed and currently due from customers. Recoverable costs and accrued profit related to long-term defense contracts and programs on which revenue has been recognized, but billings have not yet been presented to the customer (unbilled receivables), are included in contracts in process.

E. Contracts in Process

Contracts in process primarily represent costs and accrued profit related to defense contracts and programs, and consisted of the following:

	2002	2001
Contract costs and estimated profits	$15,301	$13,568
Other contract costs	711	639
	16,012	14,207
Less advances and progress payments	14,098	12,475
	$ 1,914	$ 1,732

Contract costs include production costs and related overhead, such as general and administrative expenses, as well as contract recoveries for such issues as contract changes, negotiated settlements and claims for unanticipated contract costs, which totaled $29 and $9 as of December 31, 2002 and 2001, respectively. The company records revenue associated with these issues as either income or as an offset against a potential loss only when recovery can be reliably estimated and its realization is probable. Other contract costs primarily represent amounts required to be recorded under GAAP that are not currently allocable to contracts, such as a portion of the company's estimated workers' compensation, other insurance-related assessments, retirement benefits and environmental expenses. These costs will become allocable to contracts when they are paid. The company expects to recover these costs through on-going business, including both existing backlog and probable follow-on contracts. These efforts consist of numerous contracts for which the company is the sole source or one of two suppliers on long-term defense programs. If the level of backlog in the future does not support the continued deferral of these costs, the profitability of the company's remaining contracts could be adversely affected.

3.153

PEERLESS MFG. CO. AND SUBSIDIARIES (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars in thousands)

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

Revenue Recognition

The Company uses a combination of the percentage-of-completion method and the completed contract method of accounting for revenue recognition. As the Company continues to market its SCR Systems, the order size and delivery cycles have increased from the Company's traditional product line, thereby leading to the increased use of the percentage-of-completion method of revenue recognition. The method is applied on an order-by-order basis with stage of completion determined by the relevant characteristics of each order.

All orders with revenue over a specified amount are accounted for using the percentage-of-completion method, which incorporates the increased SCR business. These orders have estimates that are reasonably dependable, and the contracts meet the guidelines outlined in SOP 81-1.

The percentage-of-completion is estimated on factors appropriate to the specific order. Revenue and cost are recognized in the Statements of Earnings based on the resulting percentage of total anticipated revenue and cost.

The completed contract method is applied to relatively short-term contracts where the financial statement presentation does not vary materially from the presentation under the percentage-of-completion method. All orders with revenue under a specified amount are assumed to be short-term and are accounted for under the completed contract method.

Note F. Costs and Estimated Earnings on Uncompleted Contracts

The components of uncompleted contracts are as follows:

	2002	2001
Costs incurred on uncompleted contracts and estimated earnings	$ 42,371	$ 30,716
Less billings to date	(37,384)	(34,006)
	$ 4,987	$ (3,290)

The components of uncompleted contracts are reflected in the balance sheet at December 21, 2002 and 2001 as follows:

	2002	2001
Costs and earnings in excess of billings on uncompleted contracts	$ 9,218	$ 6,328
Billings in excess of costs and earnings on uncompleted contracts	(4,231)	(9,618)
	$ 4,987	$(3,290)

3.154

PEROT SYSTEMS CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Amounts in thousands)

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

Revenue Recognition

The Company provides services under level-of-effort, unit-price, fixed-price, and risk/reward contracts, with the length of contracts ranging up to twelve years. Four basic criteria must be met before revenue can be recognized: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred or services rendered; (3) the fee is fixed and determinable; and (4) collectibility is reasonably assured. The Company determines whether criteria (3) and (4) are met based on its judgments regarding the nature of the fee charged for services rendered and products delivered and the collectibility of those fees.

Revenue from level-of-effort contracts is based on time and materials, direct costs plus a fee (which may be either a fixed amount or a percentage of direct costs incurred), or a combination of these methods and may be based on a set fee for a specified level of resources that is adjusted for incremental resource usage. Revenue from unit-price contracts is recognized based on units utilized or by number of transactions processed during a given period. For unit-price contracts, the Company establishes a per-unit fee based on the cost structure associated with the delivery of that unit of service. For risk/reward contracts, the Company recognizes revenue primarily at the time there is reasonable assurance as to how much will ultimately be collected.

For fixed-price contracts, the Company uses the percentage-of-completion method to recognize revenue and profit as work progresses. This approach relies on estimates of total expected direct costs at completion, which are compared to actual direct costs incurred to date to arrive at an estimate of revenue and profit earned to date. Recognized revenue and profit are subject to revisions as the contract progresses to completion. If the Company does not accurately estimate the resources required or the scope of work to be performed, or does not complete its projects within the planned periods of time, or does not satisfy its obligations under the contracts, then profit may be significantly and negatively affected or losses may need to be recognized. Revisions to profit estimates are reflected in income in the period in which the facts that give rise to the revision become known.

As discussed below under "Accounting Standards Issued," as a result of the issuance of Financial Accounting Standards Board Emerging Issues Task Force ("Emerging Issues Task Force" or "EITF") Issue No. 00-21, "Accounting for Revenue Arrangements with Multiple Deliverables" ("EITF 00-21"), the Company plans to change its method of accounting for revenue from fixed-price contracts in 2003.

As Part of the Company's on-going operations to provide services to its customers, incidental expenses, which are commonly referred to as "out-of-pocket" expenses, are billed to customers. For 2002, these expenses totaled $24,800 and were recorded as both revenue and direct cost of services in accordance with the provisions of EITF 01-14, "Income Statement Characterization of Reimbursements Received for

'Out-of-Pocket' Expenses Incurred," and include expenses such as airfare, mileage, hotel stays, out-of-town meals, and telecommunication charges. Due to the immateriality of such reimbursements in years prior to 2002, previously reported revenue and expenses were not restated upon adoption of EITF 01–14.

Billings for products or services for which the Company acts as an agent on behalf of the customer are excluded from the Company's revenue and expense, except to the extent of any mark-up.

Deferred revenue comprises payments from customers for which services have not yet been performed or prepayments against development work in process. These unearned revenues are deferred and recognized as future contract costs are incurred and as contract services are rendered.

Accounting Standards Issued (In Part)

Emerging Issues Task Force Issue No. 00–21

The Company has long-term fixed-price contracts that include certain deliverables and ongoing service elements. The Company recognizes revenue on these contracts under the percentage-of-completion method using incurred costs as a measure of progress towards completion. On November 21, 2002, the EITF reached a consensus on EITF 00–21 regarding when and how to separate elements of a contract into separate units of accounting. The Company is required to adopt EITF 00–21 for all new revenue arrangements entered into in fiscal periods beginning after June 15, 2003. Alternatively, the Company may also apply EITF 00–21 to existing contracts and record the effect of adoption as the cumulative effect of a change in accounting principle.

The Company plans to adopt EITF 00–21 as of January 1, 2003, for both existing and prospective customer contracts. This voluntary adoption for existing contracts will result in a charge for the cumulative effect of a change in accounting principle of between $.25 and $.32 per share, which includes a charge of between $.10 and $.15 per share to recognize a loss on a contract element included in an otherwise profitable contract.

2. Accounts Receivable

Accounts receivable consists of the following as of December 31:

	2002	2001
Amounts billed	$111,357	$120,998
Amounts to be invoiced	45,964	41,316
Recoverable costs and profits	4,893	2,484
Other	13,702	11,959
Allowance for doubtful accounts	(13,549)	(15,850)
	$162,367	$160,907

With regard to amounts billed, allowances for doubtful accounts are provided based on specific identification where less than full recovery of accounts receivable is expected. Amounts to be invoiced represent revenue contractually earned for services performed that are invoiced to the customer in the following month. Recoverable costs and profits represent amounts recognized as revenue that have not yet been billed in accordance with the contract terms but are anticipated to be billed within one year. Included in allowance for doubtful accounts at December 31, 2002, is an allowance of $8,717 related to the pre-petition receivables from ANC Rental Corporation ("ANC"), which was primarily charged to expense in 2001 when ANC filed for protection from its creditors under Chapter 11 of the United States Bankruptcy Code in November of 2001.

6 (In Part): Other Non-Current Assets

Long-Term Accrued Revenue

Long-term accrued revenue was $74,489 and $34,003 at December 31, 2002 and 2001, respectively. These amounts represent revenue earned under long-term service contracts, recognized under the percentage-of-completion method of accounting. These revenues will be billed in the future as specified in the terms of the related contracts.

At December 31, 2002, long-term accrued revenue included $20,814 from a customer for whom the Company is providing IT infrastructure and software development services. The estimated actual cost of this software development project will significantly exceed the fee as specified in the contract. While the contract enables the Company to collect for some of the overages above the specified fee, the Company believes that it will not fully recover all of the overages. The Company expects the IT outsourcing contract with this customer to be profitable over the full term of the agreement even after considering the expected loss on the software development project. The estimated billings and costs related to this project are included in the Company's estimates of revenue and costs for the entire IT outsourcing contract that were used to recognize revenue for 2002 under the percentage-of-completion method. As discussed in Note 1 regarding the adoption of EITF 00–21, in the first quarter of 2003 the Company expects to record a loss on this separate development project in the amount of $0.10 to $0.15 per share. However, the actual losses with respect to this development effort may eventually exceed the Company's current estimates.

As discussed above in Note 1, the Company will adopt EITF 00–21 as of January 1, 2003, for both existing and prospective customer contracts. This adoption will result in a charge for the cumulative effect of a change in accounting principle and will result in a reduction in the long-term accrued revenue balance of approximately $35,000.

7 (In Part): Accrued and Other Current Liabilities

Accrued and other current liabilities consist of the following as of December 31:

	2002	2001
Operating expenses	$75,956	$102,503
Taxes other than income, insurance, rents, licenses and maintenance	7,304	5,834
Contract-related and other	9,942	13,391
	$93,202	$121,728

• • • • • •

Contract-Related and Other

Contract-related and other accrued liabilities includes liabilities recorded for both corporate and contract-related needs. Contract-related accrued liabilities include claims made by customers for services that require additional effort, costs or settlements by the Company to satisfy contractual requirements. The Company continually monitors contract performance in light of customer expectations, the complexity of work, project plans, delivery schedules and other relevant factors. Provisions for estimated losses, if any, are made in the period in which the loss first becomes probable and reasonably estimable. At December 31, 2001, the Company had recorded $4,200 for expenses associated with ANC's bankruptcy. During the second quarter of 2002, the Company received a payment for $3,000 of these contract-related expenses, which was recorded as a reduction of direct cost of services in the second quarter of 2002.

13 (In Part): Commitments and Contingencies

Contract-Related Contingencies

The Company has certain contingent liabilities that arise in the ordinary course of providing services to its customers. These contingencies are generally the result of contracts that require the Company to comply with certain level-of-effort or performance measurements, certain cost-savings guarantees or the delivery of certain services by a specified deadline. Except for the software development project discussed below, the Company believes that the ultimate liability, if any, incurred under these contract provisions will not have a material adverse effect on the Company's consolidated financial condition, results of operations or cash flows.

The Company is currently working on a significant software development project for which the actual cost of development will significantly exceed the fee as specified in the contract. While the contract enables the Company to collect for some of the overages above the specified fee, the Company believes that it will not fully recover all of the overages. Therefore, the Company expects to suffer a loss on this development project. The Company expects the IT outsourcing contract with this customer to be profitable over the full term of the agreement even after considering the expected loss on the software development project. The estimated billings and costs related to this project are included in the Company's estimates of revenue and costs for the entire IT outsourcing contract that we used to recognize revenue for 2002 under the percentage-of-completion method. The amount of long-term accrued revenue at December 31, 2002, related to this entire contract was $20,814. As discussed in Note 1 regarding the adoption of EITF 00–21, in the first quarter of 2003 the Company expects to record a loss on this separate development project in the amount of $0.10 to $0.15 per share. However, the actual losses with respect to this development effort may eventually exceed the Company's current estimates.

3.155

TEXTRON INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Revenue Recognition (In Part)

Revenue is generally recognized when products are delivered or services are performed. With respect to aircraft, delivery is upon completion of manufacturing, customer acceptance and the transfer of the risk and rewards of ownership.

Revenue under fixed-price contracts is generally recorded as deliveries are made. Certain long-term fixed-price contracts provide for 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. 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 to estimated sales value or costs are made. Estimated contract losses are recorded when identified.

Revenues under the V-22 low-rate initial production contract are recorded as costs are incurred, primarily due to the significant engineering effort required over a lengthy period of time during the initial development stage in relation to total contract volume. Under the low-rate production releases, Textron continues to manufacture aircraft which may subsequently be modified for engineering changes. Beginning with new production releases in 2003, the development effort will be substantially completed. As a result, revenue on new production releases will be recognized as units are delivered.

Note 4. Inventories

(In million)	2002	2001
Finished goods	$ 777	$ 719
Work in process	811	856
Raw materials	209	377
	1,797	1,952
Less progress payments and customer deposits	186	225
	$1,611	$1,727

Inventories aggregating $1.1 billion and $1.0 billion at the end of 2002 and 2001, respectively, were valued by the last-in, first-out (LIFO) method. Had such LIFO inventories been valued at current costs, their carrying values would have been approximately $228 million and $188 million higher at those respective dates. The remaining inventories, other than those related to certain long-term contracts, are valued primarily by the first-in, first-out method. Inventories related to long-term contracts, net of progress payments and customer deposits, were $11 million at the end of 2002 and $105 million at the end of 2001.

Note 5. Long-Term Contracts

Long-term contract receivables at the end of 2002 and 2001 totaled $201 million and $264 million, respectively. This includes $161 million and $220 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 billed but unpaid due to contractual retainage provisions or subject to collection uncertainty. During the second half of 2001, program reviews on certain long-term development and production contracts indicated reduced profitability expectations resulting in a $124 million charge to earnings. The reduced profitability expectations reflected the clarification of several matters including extended development schedules and planned design changes on a number of programs, as well as ongoing development efforts.

DISCONTINUED OPERATIONS

3.156 APB Opinion No. 30, *Reporting the Results of Operations—Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions,* addresses the financial accounting and reporting requirements for a segment of a business accounted for as a discontinued operation. Under *APB Opinion No. 30,* discontinued operations were reported separately from continuing operations.

3.157 Effective for fiscal years beginning after December 15, 2001, with early application encouraged, SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets,* supersedes the accounting and reporting provisions of *APB Opinion No. 30.* Paragraphs 41–44 of *SFAS No. 144* set forth the reporting for discontinued operations.

3.158 While retaining the basic provisions of APB Opinion No. 30 for the presentation of discontinued operations, the statement broadens the presentation to include a component of an entity (rather than a segment of a business). A component of an entity comprises operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity. A component of an entity may be a reportable segment or operating segment (as defined by SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information*), a reporting entity (as defined by SFAS No. 142, *Goodwill and Other Intangible Assets*), or an asset group (as defined by paragraph 4 of *SFAS No. 144*).

3.159 *SFAS No. 144* uses a single accounting model, based on the framework established in SFAS No. 121, *Accounting for Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of,* to account for all long-lived assets to be disposed of (by sale, abandonment, or a distribution to owners). This includes asset disposal groups meeting the criteria for presentation as a discontinued operation as specified in paragraph 43 of *SFAS No. 144.* A long-lived asset group classified as held for sale shall be measured at the lower of its carrying amount or fair value less cost to sell. Additionally, in accordance with paragraph 37 of *SFAS No. 144,* a loss shall be recognized for any write-down to fair value less cost to sell. A gain shall be recognized for any subsequent recovery of cost. Lastly, a gain or loss not previously recognized that results from the sale of the asset disposal group should be recognized at the date of sale. Therefore, discontinued operations are no longer measured on a net realizable value basis, and future operating losses are no longer recognized before they occur.

3.160 The conditions for determining whether discontinued operation treatment is appropriate and the required income statement presentation are stated in paragraphs 42 and 43 of *SFAS No. 144* as follows:

> 42. The results of operations of a component of an entity that either has been disposed of or is classified as held for sale shall be reported in discontinued operations in accordance with paragraph 43 if both of the following conditions are met: (a) the operations and cash flow of the component have been (or will be) eliminated from the ongoing operations of the enterprise as a result of the disposal transaction and (b) the entity will not have any significant continuing involvement in the operations of the component after the disposal transaction.
>
> 43. In a period in which a component of an entity either has been disposed of or is classified as held for sale, the income statement of a business enterprise for current and prior periods shall report the results of operations of the component, including any gain or loss recognized in accordance with paragraph 37, in discontinued operations. The results of operations of a component classified as held for sale shall be reported in discontinued operations in the period(s) in which they occur. The results of discontinued operations, less applicable income taxes (benefit), shall be reported as a separate component of income before extraordinary items and the cumulative effect of accounting changes (if applicable). For example, the results of discontinued operations may be reported in the income statement of a business enterprise as follows:

Income from continuing operations before income taxes	$XXXX	
Provision for income taxes	XXX	
Income from continuing operations		$XXXX
Discontinued operations (Note—):		
Loss from operations of component X (including loss on disposal of $—)		$XXXX
Income tax benefit		XXXX
Loss on discontinued operations		XXXX
Net income		$XXXX

> A gain or loss recognized on the disposal shall be disclosed either on the face of the income statement or in the notes to the financial statements.

3.161 Illustrations of transactions which should and should not be accounted for as business segment disposals are presented in FASB *Accounting Standards—Current Text,* Section I13, *Income Statement Presentation: Discontinued Operations.*

3.162 In 2002, 89 survey companies discontinued or planned to discontinue the operations of a component of an entity. 84 of the survey companies reported a gain or loss recognized on the disposal of a component of an entity. 58 of those survey companies presented the disposal gain or loss on the face of the income statement. Examples of discontinued operations accounted for separately from continuing operations follow.

Business Segment Disposals

3.163

ALBERTSON'S, INC. (JAN)

(In millions)	2003	2002	2001
Earnings from continuing operations before taxes	$1,405	$863	$1,243
Income tax expense	540	367	497
Earnings from continuing operations	865	496	746
Discontinued operations:			
Operating (loss) income	(50)	10	31
Loss on disposition	(379)	—	—
Tax (benefit) expense	(143)	5	12
Net (loss) earnings from discontinued operations	(286)	5	19
Earnings before cumulative effect of change in accounting principle	579	501	765
Cumulative effect of change in accounting principle (net of tax of $60)	(94)	—	—
Net earnings	$ 485	$501	$ 765

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

Note E—Discontinued Operations/Market Exits

On March 13, 2002, the Company's Board of Directors approved the second phase of the Company's restructuring plan designed to improve future financial results and to drive future competitiveness. This phase of the plan included the complete exit of four underperforming markets: Memphis, Tennessee; Nashville, Tennessee; Houston, Texas; and San Antonio, Texas. This involved the sale or closure of 95 stores and two distribution centers, and reduction of division offices from 15 to 11. These sales and closures were evaluated for lease liability or asset impairment, including goodwill, in accordance with the Company's policy. The prior years operating activities for these 95 stores and two distribution centers, and reduction of division offices from 15 to 11 have been reclassified to discontinued operations: "Operating (loss) income" in the accompanying earnings statement.

The discontinued operations generated sales of $290, $1,326, and $1,261, in 2002, 2001, and 2000, respectively, and an operating loss of $429, operating profit of $10 and operating profit of $31, respectively. The discontinued operations operating loss of $429 in 2002 consisted of a loss from operations of $50 and asset impairments, lease settlements and other costs of $379 as described in the following table:

	Noncash Charges	Accruals	Total Charges (Credits)
Asset impairments	$401	$ —	$401
Lease settlements	—	26	26
Severance and outplacement	—	23	23
Other	—	2	2
Gain on asset sales	(63)	—	(63)
Favorable lease settlements	—	(10)	(10)
Loss on disposal			$379
Cash payments during 2002		(30)	
Reserve balance at January 31, 2003		$ 11	

The reserve balance of $11 as of January 30, 2003 is included with "other current liabilities" in the Company's Consolidated Balance Sheet.

Asset impairment adjustments resulted from the Company realizing sales proceeds in excess of amounts originally estimated on stores disposed of and increases to net realizable values for stores under contract for sale. Lease liability adjustments represent more favorable negotiated settlements than had been originally estimated.

Assets related to discontinued operations are recorded at their estimated net realizable value of $25 as of January 30, 2003 and are reported as Assets held for sale in the Company's Consolidated Balance Sheet. These assets include land, buildings, equipment and leasehold improvements and are being actively marketed. As of January 30, 2003, all 95 stores and both distribution centers were closed. In addition, the Company had either sold or terminated the leases related to 82 of the 95 stores and both distribution centers as of January 30, 2003.

Other costs consist of amounts paid in connection with notification regulations and negotiated contract terminations.

3.164

CITIZENS COMMUNICATIONS COMPANY AND SUBSIDIARIES (DEC)

($ in thousands)	2002	2001	2000
Loss from continuing operations before income taxes, dividends on convertible preferred securities, extraordinary expense and cumulative effect of change in accounting principle	$(1,231,640)	$(72,521)	$(49,993)
Income tax benefit	(414,874)	(14,805)	(16,132)
Loss from continuing operations before dividends on convertible preferred securities, extraordinary expense and cumulative effect of change in accounting principle	(816,766)	(57,716)	(33,861)
Dividends on convertible preferred securities, net of income tax benefit of $(3,853)	6,210	6,210	6,210
Loss from continuing operations before extraordinary expense and cumulative effect of change in accounting principle	(822,976)	(63,926)	(40,071)
Income (loss) from discontinued operations, net of income tax (benefit) of $(554), $8,947 and $5,721, respectively	(1,478)	17,875	11,677
Gain on disposal of water segment, net of income taxes of $135,303	181,369	—	—
Total income from discontinued operations, net of income taxes of $134,749, $8,947 and $5,721, respectively	179,891	17,875	11,677
Loss before extraordinary expense and cumulative effect of change in accounting principle	(643,085)	(46,051)	(28,394)
Extraordinary expense—discontinuation of Statement of Financial Accounting Standards No. 71, net of tax	—	43,631	—
Cumulative effect of change in accounting principle	39,812	—	—
Net loss	$ (682,897)	$(89,682)	$(28,394)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

a (In Part): Description of Business

In 1999 we announced plans to divest our public utilities services segments. During 2001 we sold two of our four natural gas transmission and distribution businesses and during 2002 we sold our entire water distribution and wastewater treatment business and one of our three electric businesses. We have contracts to sell three of our four remaining properties. We are seeking a buyer for our one remaining utility property, which provides electricity to approximately 21,000 customers in Vermont. Pending these divestitures, we continue to provide gas and electric utility services (see Note 7).

7 (In Part): Discontinued Operations and Net Assets Held for Sale

On August 24, 1999, our Board of Directors approved a plan of divestiture for our public utilities services businesses, which included gas, electric and water and wastewater businesses.

Water and Wastewater

On January 15, 2002, we completed the sale of our water and wastewater operations to American Water Works, Inc. for $859,100,000 in cash and $122,500,000 of assumed debt and other liabilities. The pre-tax gain on the sale recognized in 2002 was $316,672,000.

• • • • • •

Discontinued operations in the consolidated statements of operations reflect the results of operations of the water/wastewater properties sold in January 2002 including allocated interest expense for the periods presented. Interest expense was allocated to the discontinued operations based on the outstanding debt specifically identified with these businesses.

• • • • • •

Summarized financial information for the water/wastewater operations (discontinued operations) is set forth below:

($ in thousands)	2002	2001	2000
Revenue	$ 4,650	$116,868	$105,202
Operating income (loss)	(415)	37,211	27,415
Income taxes (benefit)	(554)	8,947	5,721
Net income (loss)	(1,478)	17,875	11,677
Gain on disposal of water segment, net of tax	181,369	—	—

3.165

MILACRON INC. AND SUBSIDIARIES (DEC)

(In millions)	2002	2001	2000
Earnings (loss) from continuing operations before income taxes and cumulative effect of change in method of accounting	$ (36.6)	$(51.0)	$68.2
Provision (benefit) for income taxes	(18.2)	(22.3)	19.4
Earnings (loss) from continuing operations before cumulative effect of change in method of accounting	(18.4)	(28.7)	48.8
Discontinued operations net of income taxes			
Earnings (loss) from operations	(25.2)	(7.0)	23.5
Net gain on divestitures	8.4	—	—
Total discontinued operations	(16.8)	(7.0)	23.5
Cumulative effect of change in method of accounting	(187.7)	—	—
Net earnings (loss)	$(222.9)	$(35.7)	$72.3

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Discontinued Operations

In 2002, the company announced a strategy of focusing its capital and resources on building its position as a premier supplier of plastics processing technologies and strengthening its worldwide industrial fluids business. In connection with this strategy, during 2002 the company sold two businesses that had been included in its former metal-working technologies segment and initiated efforts to seek strategic alternatives for two other businesses of the segment.

On August 30, 2002, the company completed the sale of its Widia and Werkö metalcutting tools businesses to Kennametal, Inc. for €188 million in cash (approximately $185 million), subject to post-closing adjustments. In a separate but contingent transaction, the company purchased an additional 26% of the shares of Widia India, thereby increasing its ownership interest from 51% to 77%. The entire 77% of the Widia India shares was included in the sale transaction. After deducting post-closing adjustments that will be paid in the first quarter of 2003, transaction costs and expenses and the cost to increase the company's ownership interest in Widia India, the ultimate net cash proceeds from the sale will total approximately $135 milliion, most of which has been used to repay bank borrowings. The sale resulted in an after-tax loss of $14.9 million. Approximately $7 million of the loss resulted from the recognition of the cumulative foreign currency translation adjustments that had been recorded in accumulated other comprehensive loss since the acquisition of Widia in 1995.

On August 9, 2002, the company completed the sale of its Valenite metalcutting tools business to Sandvik AB for $175 million in cash. After deducting post-closing adjustments that will be paid in the first quarter of 2003, transaction costs and sale-related expenses, the net cash proceeds from the sale will be approximately $145 million, a majority of which has been used to repay bank borrowings. The company recorded an after-tax gain on the sale of $31.3 million.

During the third quarter of 2002, the company retained advisors to explore strategic alternatives for its round metalcutting tools and grinding wheels businesses and in the fourth quarter initiated plans for their sale. Both businesses are being actively marketed and the sales are expected to be completed in the first half of 2003. Completion of the sales is currently expected to result in after-tax losses totaling approximately $9.9 million which were recorded as charges to earnings in the fourth quarter of 2002.

All of the businesses discussed above are reported as discontinued operations and the consolidated financial statements for all prior periods have been adjusted to reflect this presentation. Operating results for all of the businesses included in discontinued operations are presented in the following table.

(In millions)

Earnings (Loss) From Discontinued Operations	2002	2001	2000
Sales	$325.0	$507.5	$609.7
Operating earnings (loss) including restructuring costs	(26.8)	(13.1)	50.6
Allocated interest expense	(10.9)	(16.7)	(18.6)
Earnings (loss) before income taxes and minority shareholders' interests	(37.7)	(29.8)	32.0
Provision (benefit) for income taxes	(10.4)	(23.6)	6.0
Earnings (loss) before minority shareholders' interests	(27.3)	(6.2)	26.0
Minority shareholders' interests	(2.1)	.8	2.5
Earnings (loss) from discontinued operations	$ (25.2)	$ (7.0)	$ 23.5

As reflected in the preceding table, allocated interest expense includes interest on debt assumed or expected to be assumed by the respective buyers, interest on borrowings that were required to be repaid using a portion of the proceeds from the Widia and Werkö transaction and the Valenite transaction, and an allocated portion of other consolidated interest expense based on the ratio of net assets sold or to be sold to consolidated assets.

As presented in the Consolidated Statement of Earnings for 2002, the line captioned "Net gain on divestitures" includes the following components.

(In millions)

Gain (Loss) on Divestiture of Discontinued Operations	2002
Gain on sale of Valenite	$ 31.3
Loss on sale of Widia and Werkö	(14.9)
Estimated loss on divestitures of round metalcutting tools and grinding wheels businesses	(9.9)
Adjustment of reserves related to the 1998 divestiture of the company's machine tools segment	1.9
Net gain on divestitures	$ 8.4

The major classes of assets and liabilities of discontinued operations in the Consolidated Balance Sheets as of December 31, 2002 and December 31, 2001 are as follows:

(In millions)

Assets and Liabilities of Discontinued Operations	2002	2001
Cash and cash equivalents	$ —	$ 20.3
Notes and accounts receivable	1.4	66.6
Inventories	7.9	140.6
Other current assets	.1	20.7
Property, plant and equipment—net	6.6	129.7
Goodwill and other noncurrent assets	—	77.8
Total assets	16.0	455.7
Amounts payable to banks and current portion of long-term debt	.4	14.6
Trade accounts payable	4.4	33.7
Other current liabilities	1.4	60.5
Long-term debt	2.7	12.2
Long-term accrued liabilities and minority shareholders' interests	2.0	45.8
Total liabilities	10.9	166.8
Net assets	$ 5.1	$288.9

Adjustment of Gain/Loss Reported in Prior Period

3.166

IMC GLOBAL INC. (DEC)

(In millions)	2002	2001	2000
Earnings (loss) from continuing operations before income taxes	$ 16.9	$(30.7)	$ 131.1
Provision (benefit) for income taxes	30.1	(2.8)	46.8
Earnings (loss) from continuing operations	(13.2)	(27.9)	84.3
Loss from discontinued operations	(96.4)	—	(429.3)
Loss before extraordinary item and cumulative effect of a change in accounting principle	(109.6)	(27.9)	(345.0)
Extraordinary charge—debt retirement	(0.6)	(14.1)	—
Cumulative effect of a change in accounting principle	—	(24.5)	—
Net loss	$(110.2)	$(66.5)	$(345.0)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (In millions)

4. Discontinued Operations

Salt and Ogden

On November 29, 2001, the Company completed the sale of Salt and Ogden to a third party. IMC received approximately $580.0 million of cash, as well as a minority economic interest in the resulting company. The minority economic interest was recorded at no value due to significant restrictions on the Company's ability to realize a return on this investment in the future. Value can be achieved if the new company exceeds certain minimum targeted returns. IMC recorded an additional $21.1 million loss in connection with the sale before 2001 earnings from discontinued operations of $22.2 million. No tax benefit was recorded with this loss as the loss was considered a capital loss. The Company had previously recorded an estimated loss on disposal in 2000 of $611.7 million, $402.7 million after tax. In 2002, the Company recorded an adjustment to the loss on disposal of $3.0 million, $1.9 million after tax.

For 2001 and 2000, Salt and Ogden's combined revenues were $450.0 million and $494.2 million, respectively. The operations of Salt and Ogden resulted in pre-tax earnings of $46.7 million and $19.7 million or $22.2 million and $11.0 million after tax, in 2001 and 2000, respectively.

Interest expense was allocated to discontinued operating results based on the portion of third party debt that was specifically attributable to Salt and Ogden and amounted to $12.3 million and $47.1 million in 2001 and 2000, respectively.

Chemicals

In December 1999, the Company received approval from the Board of Directors for a plan to sell the entire Chemicals business unit. On November 5, 2001, the Company sold Penrice Soda Products Pty. Ltd. (Penrice), an Australian unit of Chemicals. The Company recorded a gain of $0.7 million in 2001 from the Penrice sale.

During 2002, the Company increased the previously recorded estimated loss on disposal of the remaining parts of Chemicals by $147.9 million, or $85.9 million after tax, including forecasted operating results through June 30, 2003 as well as revised estimates of sales proceeds. The Company had previously recorded estimated losses on disposal in 2001, 2000 and 1999 of $10.0 million, $49.1 million and $138.1 million or $4.6 million, $32.1 million and $85.6 million after tax, respectively.

For 2002, 2001 and 2000, Chemicals' revenues were $253.3 million, $305.1 million and $329.6 million, respectively. The operations of Chemicals resulted in pre-tax losses of $9.7 million, $34.3 million and $16.5 million or $8.6 million, $15.9 million and $6.1 million after tax, in 2002, 2001 and 2000, respectively. Interest expense was allocated to discontinued operating results based on the portion of third party debt that is specifically attributable to Chemicals and amounted to $10.8 million, $39.6 million and $19.2 million in 2002, 2001 and 2000, respectively.

The Company is actively pursuing sales transactions for the remaining parts of Chemicals and targets completion of all or a substantial portion of the remaining parts by June 30, 2003. Subsequent to December 31, 2002, the Company has announced the sale of the sodium bicarbonate portion of Chemicals for approximately $20.6 million. On January 1, 2002, the Company adopted SFAS No. 144. SFAS No. 144 provides that long-lived assets classified as held for disposal as a result of disposal activities initiated prior to its adoption shall continue to be accounted for in accordance with the prior pronouncement applicable to those assets so long as certain criteria in SFAS No. 144 were met as of December 31, 2002. The Company has determined the SFAS No. 144 criteria were met for Chemicals and will continue to account for Chemicals in accordance with Accounting Principles Board Opinion No. 30.

Oil and Gas Operations

In the fourth quarter of 1999, the Company decided to discontinue its oil and gas business, which primarily consisted of PLP's interest in a multi-year oil and natural gas exploration program (Exploration Program). The Company sold its interest, through PLP, in the Exploration Program for proceeds of $32.0 million. A loss on disposal of $22.4 million, $6.7 million after tax and minority interest of $4.6 million and $11.1 million, respectively, was recorded in the fourth quarter of 1999. In the fourth quarter of 2001, the Company recorded a gain of $24.0 million, $18.7 million after tax, from the disposal of its remaining oil and gas interests.

For financial reporting purposes, the net assets of the Chemicals discontinued operations held for sale have been classified in Other current assets in 2002 and Other assets in 2001 and consisted of the following:

	2002	2001
Assets:		
Receivables, net	$44.5	$ 46.4
Inventories, net	43.2	43.2
Other current assets	1.0	8.4
Property, plant and equipment, net	2.2	119.2
Other assets	6.3	6.2
Total assets	97.2	223.4
Liabilities:		
Accounts payable	26.9	32.8
Accrued liabilities	27.9	29.3
Other noncurrent liabilities	19.1	16.9
Total liabilities	73.9	79.0
Net assets of discontinued operations held for sale	$23.3	$144.4

3.167

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

($ in millions)	2002	2001	2000
Income/(loss) from continuing operations before income taxes	$584	$203	$(886)
Income taxes	213	89	(318)
Income/(loss) from continuing operations	$371	$114	$(568)
Income from discontinued operations (net of income tax of $0, $0 and $90)	—	—	159
Gain/(loss) on sale of discontinued operations (net of income tax of $(34), $(6) and $200)	34	(16)	(296)
Net income/(loss)	$405	$ 98	$(705)

2. Discontinued Operations

In June 2001, JCP closed on the sale of its Direct Marketing Services (DMS) business and received cash of approximately $1.3 billion ($1.1 billion after tax). Upon completion of the transaction, the loss was increased from the original estimate by $16 million, from $296 million to $312 million. The $296 million was reflected in the 2000 consolidated financial statements as the estimated net loss on the sale. The additional net loss of $16 million was reflected in 2001 as a loss on the sale of discontinued operations.

During 2002, new federal income tax regulations were issued that entitled the Company to additional tax benefits on the transaction from increased capital loss deductions. The Internal Revenue Service reviewed this transaction and concurred with the Company's treatment of the capital loss amounts based on the new regulations. The Internal Revenue Service and the Company entered into an agreement confirming this treatment. The $34 million reduction of the tax liability from the original tax provision on the sale is presented as a gain on the sale of discontinued operations in the accompanying 2002 consolidated statement of operations.

Concurrent with the closing, JCP entered into a 15-year strategic marketing arrangement with AEGON, N.V. whereby JCP will receive cash payments based on the marketing and sale of various financial and membership services products to JCPenney customers.

DMS net revenues were $553 million and $1,164 million for 2001 and 2000, respectively.

CHARGES OR CREDITS SHOWN AFTER INCOME TAX CAPTION

3.168 Table 3-16 indicates the nature of charges of 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 for credits shown after the caption for income taxes applicable to income from continuing operations follow.

3.169

TABLE 3-16: CHARGES OR CREDITS SHOWN AFTER INCOME TAX CAPTION

	Number of Companies			
	2002	**2001**	**2000**	**1999**
Cumulative effect of accounting change	179	103	43	41
Minority interest	95	98	91	97
Equity in earnings or losses of investees	38	41	43	44
Distributions on trust preferred securities	4	4	8	4
Other	1	4	3	2

3.170

AT&T CORP. AND SUBSIDIARIES (DEC)

(Dollars in millions)	2002	2001	2000
Income from continuing operations before income taxes, minority interest income, and net (losses) earnings related to equity investments	$ 2,836	$ 7,666	$12,480
(Provision) for income taxes	(1,587)	(2,890)	(4,487)
Minority interest income	114	131	41
Equity (losses) earnings from Liberty Media Group	—	(2,711)	1,488
Net (losses) earnings related to other equity investments	(400)	(4,836)	10
Income (loss) from continuing operations	963	(2,640)	9,532
Net (loss) from discontinued operations (net of income tax benefits of $6,014, $3,715, and $1,364	(14,513)	(4,052)	(4,863)
Gain on disposition of discontinued operations (net of income tax benefit of $61 in 2002)	1,324	13,503	—
(Loss) income before cumulative effect of accounting changes	(12,226)	6,811	4,669
Cumulative effect of accounting changes (net of income taxes of $530 and $(578))	(856)	904	—
Net (loss) income	$(13,082)	$ 7,715	$ 4,669

3.171

GOODRICH CORPORATION (DEC)

(Dollars in millions)	2002	2001	2000
Income from continuing operations before income taxes and trust distributions	$269.6	$281.7	$367.0
Income tax expense	(93.2)	(94.3)	(121.3)
Distributions on trust preferred securities	(10.5)	(10.5)	(10.5)
Income from continuing operations	165.9	176.9	235.2
Income (loss) from discontinued operations—net of taxes	(11.9)	112.3	90.7
Cumulative effect of change in accounting	(36.1)	—	—
Net income	$117.9	$289.2	$325.9

EXTRAORDINARY ITEMS

3.172 *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." *APB Opinion No. 30* and related AICPA Accounting Interpretation. *Reporting the Results of Operations,* illustrate events and transactions which should and should not be classified as extraordinary items. These examples are reprinted in FASB *Accounting Standards—Current Text,* Section I17, *Income Statement Presentation: Extraordinary items.* SFAS No. 4, *Reporting Gains and Losses From Extinguishment of Debt,* specifies that material debt extinguishment gains and losses be classified as extraordinary items. Under *SFAS No. 4,* all gains and losses from extinguishment of debt were required to be aggregated and, if material, classified as an extraordinary item, net of related income tax effect. Effective for fiscal years beginning after May 15, 2002, SFAS No. 145, *Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections,* rescinds *SFAS No. 4.* Since the issuance of *SFAS No. 4,* the use of debt extinguishment has become part of the risk management strategy of many companies. *SFAS No. 145* stipulates that only debt extinguishments, which meet the criteria in *APB Opinion No. 30* for classification as extraordinary items, are classified as extraordinary.

3.173 Table 3-17 shows the nature of items classified as extraordinary by the survey companies. As shown in Table 3-17, most of the transactions classified as an extraordinary item in 2002 by the survey companies were debt extinguishments—10 at a gain, 30 at a loss. Examples of the presentation and disclosure of extraordinary items follow.

3.174

TABLE 3-17: EXTRAORDINARY ITEMS

	2002	2001	2000	1999
Nature				
Debt extinguishments	40	70	48	56
Other	2	8	7	6
Total Extraordinary Items	**42**	**78**	**55**	**62**
Number of Companies				
Presenting extraordinary items	41	78	55	61
Not presenting extraordinary items	559	522	545	539
Total Companies	**600**	**600**	**600**	**600**

Debt Extinguishments

3.175

THE GREAT ATLANTIC & PACIFIC TEA COMPANY, INC. (FEB)

(Dollars in thousands)	2002	2001	2000
(Loss) income before income taxes and extraordinary item	$(108,274)	$(30,236)	$62,855
Benefit from (provision for) income taxes	43,590	10,736	(27,542)
(Loss) income before extraordinary item	(64,684)	(19,500)	35,313
Extraordinary loss on early extinguishment of debt, net of income tax benefit of $5,230	(7,222)	—	—
Net (loss) income	$ (71,906)	$(19,500)	$35,313

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 6 (In Part): Indebtedness

On December 14, 2001, the Company issued $275 million 9⅛% Senior Notes due December 15, 2011. These notes pay interest semi-annually on June 15 and December 15 and are callable beginning December 15, 2006. The Company used the proceeds from the issuance of these notes to repay approximately $178 million of the total $200 million 7.70% Senior Notes due January 15, 2004 and for general corporate purposes including repayment of borrowings under the Company's secured revolving credit agreement. The repayment of approximately $178 million of the 7.70% Senior Notes due January 15, 2004 took place in the form of a tender offer whereby the Company paid a 6.25% premium to par. In addition, the Company repurchased in the open market $20 million of its 7.75% Notes due April 15, 2007. The net cost of this tender and open market repurchase resulted in an extraordinary loss due to the early extinguishment of debt of $7.2 million after tax ($12.5 million pretax). The Company has the right to make additional repurchases and intends to do so from time to time in the future.

3.176

SPRINT CORPORATION (DEC)

(Millions)	2002	2001	2000
Income (loss) from continuing operations before income taxes	$429	$(2,274)	$(963)
Income tax (expense) benefit	39	722	231
Income (loss) from continuing operations	468	(1,552)	(732)
Discontinued operations, net	159	150	831
Extraordinary items, net	3	(1)	(4)
Cumulative effect of changes in accounting principles, net	—	2	(2)
Net income (loss)	$630	$(1,401)	$ 93

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

11 (In Part): Long-Term Debt and Capital Lease Obligations

In December 2002, Sprint repaid, before scheduled maturities, $67 million of its long-term unsecured debt allocated to the FON Group. These borrowings had interest rates ranging from 6.0% to 7.125% and maturities ranging from 2006 to 2008. This resulted in a $3 million after-tax extraordinary gain for Sprint.

Litigation

3.177

NACCO INDUSTRIES, INC. AND SUBSIDIARIES (DEC)

(In millions)	2002	2001	2000
Income (loss) before income taxes, minority interest, extraordinary gain (loss) and cumulative effect of accounting changes	$59.7	$(45.4)	$60.0
Income tax provision (benefit)	11.3	(9.9)	22.3
Income (loss) before minority interest, extraordinary gain (loss) and cumulative effect of accounting changes	48.4	(35.5)	37.7
Minority interest income	1.2	.8	.1
Income (loss) before extraordinary gain (loss) and cumulative effect of accounting changes	49.6	(34.7)	37.8
Extraordinary gain (loss), net of ($3.9) tax benefit in 2002 and $16.1 tax expense in 2000	(7.2)	—	29.9
Income (loss) before cumulative effect of accounting changes	42.4	(34.7)	67.7
Cumulative effect of accounting changes, net of ($0.8) tax benefit	—	(1.3)	—
Net income (loss)	$42.4	$(36.0)	$67.7

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4—Extraordinary Gain (Loss)

The extraordinary gain of $29.9 million recognized in 2000, net of $16.1 million in taxes, relates to a reduction in the accrual for obligations to UMWA. The obligation to UMWA was initially recognized by Bellaire as an extraordinary charge in 1992 to accrue for the estimated costs associated with the Coal Act, which is discussed in more detail in Note 14. In 2000, the U.S. Court of Appeals for the Sixth Circuit upheld an Opinion by the U.S. District Court in Columbus, Ohio, which ruled that late assignments of beneficiaries made to Bellaire were not allowed as a matter of law. As a result of this event and changes to certain other assumptions, such as the number of beneficiaries and expected health care costs, an extraordinary gain of $29.9 million was recognized in 2000, net of $16.1 million in taxes for the reduction in the estimated obligation to UMWA as of December 31, 2000.

During 2002, the U.S. Supreme Court decided to review circuit court rulings whose decisions in matters relating to

the Coal Act were in conflict. The U.S. Court of Appeals for the Sixth Circuit ruled that the late assignments of beneficiaries made by the Social Security Administration ("SSA") were invalid; while the U.S. Court of Appeals for the Fourth Circuit ruled that the SSA's late assignments of beneficiaries were valid.

On January 15, 2003, the U.S. Supreme Court decided that the SSA's late assignments of beneficiaries, made after October 1, 1993, are valid despite their untimeliness. As a result, the Company increased its estimate of the number of beneficiaries assigned to Bellaire. However, the effect of the assignment of additional beneficiaries from this decision is offset somewhat by a favorable decision from the U.S. Supreme Court in 2002 that assignment of certain retired coal miners to companies defined as "successors in interest to a signatory operator no longer in business" was not permitted under the Coal Act. This decision resulted in a reduction to the estimate of the number of beneficiaries assigned to Bellaire. Changes to the Company's estimate of (i) the number of beneficiaries as a result of these court decisions, (ii) future medical inflation rates and (iii) the amount that will be required to be paid to UMWA for premium payments related to late assignments for the period 1993 through 2002, resulted in an extraordinary charge of $7.2 million, net of $3.9 million of tax, to increase the estimated obligation to UMWA at December 31, 2002.

Management believes that the estimated future cost of this obligation has been adequately accrued. See also Note 3 for a discussion of changes to other closed mine reserves.

EARNINGS PER SHARE

3.178 Effective for periods ending after December 15, 1997, SFAS No. 128, *Earnings Per Share,* supersedes APB Opinion No. 15, *Earnings Per Share.* The reporting and disclosure requirements of *SFAS No. 128* are stated in paragraphs 36–42. Examples of earnings per share presentations follow.

3.179

ARROW ELECTRONICS, INC. (DEC)

(In thousands except per share data)	2002	2001	2000
Income (loss) from continuing operations	$ 12,087	$(75,587)	$351,934
Income (loss) from discontinued operations, net of taxes (including loss from disposal of $6, 120, net of tax benefit of $4,114, in 2002)	(5,911)	1,761	5,997
Income (loss) before extraordinary item	6,176	(73,826)	357,931
Extraordinary loss, net of taxes	(12,949)	—	—
Income (loss) before cumulative effect of change in accounting principle	(6,773)	(73,826)	357,931
Cumulative effect of change in accounting principle	(603,709)	—	—
Net income (loss)	$(610,482)	$(73,826)	$357,931
Net income (loss) per basic share:			
Income (loss) from continuing operations	$ .12	$ (.77)	$ 3.64
Income (loss) from discontinued operations	(.06)	.02	.06
Loss from extraordinary item	(.13)	—	—
Cumulative effect of change in accounting principle	(6.05)	—	—
Net income (loss) per basic share	$ (6.12)	$ (.75)	$ 3.70
Net income (loss) per diluted share:			
Income (loss) from continuing operations	$ .12	$ (.77)	3.56
Income (loss) from discontinued operations	(.06)	.02	.06
Loss from extraordinary item	(.13)	—	—
Cumulative effect of change in accounting principle	(5.97)	—	—
Net income (loss) per diluted share	$ (6.04)	$ (.75)	$ 3.62
Average number of shares outstanding:			
Basic	99,786	98,384	96,707
Diluted	101,068	98,384	98,833

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Income (Loss) Per Share

Basic income (loss) per share is computed by dividing income (loss) available to common shareholders by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflects the potential dilution that would occur if securities or other contracts to issue common stock were exercised or converted into common stock.

11. Income (Loss) Per Share

The following table sets forth the calculation of basic and diluted income (loss) per share ("EPS") for the years ended December 31 (in thousands except per share data):

	2002[(a)]	2001[(b)]	2000
Income (loss) from continuing operations used for basic EPS	$ 12,087	$(75,587)	$351,934
Income (loss) from discontinued operations, net of taxes	(5,911)	1,761	5,997
Income (loss) before extraordinary item	6,176	(73,826)	357,931
Extraordinary loss, net of taxes	(12,949)	—	—
Income (loss) before cumulative effect of change in accounting principle	(6,773)	(73,826)	357,931
Cumulative effect of change in accounting principle	(603,709)	—	—
Net income (loss)	$(610,482)	$(73,826)	$357,931
Weighted average shares outstanding for basic EPS	99,786	98,384	96,707
Net effect of dilutive stock options and restricted stock awards	1,282	—	2,126
Weighted average shares outstanding for diluted EPS	101,068	98,384	98,833
Net income (loss) per basic share:			
Income (loss) from continuing operations	$ .12	$ (.77)	$ 3.64
Income (loss) from discontinued operations	(.06)	.02	.06
Loss from extraordinary item	(.13)	—	—
Cumulative effect of change in accounting principle	(6.05)	—	—
Net income (loss) per basic share	$ (6.12)	$ (.75)	$ 3.70
Net income (loss) per diluted share:			
Income (loss) from continuing operations	$ .12	$ (.77)	$ 3.56
Income (loss) from discontinued operations	(.06)	.02	.06
Loss from extraordinary item	(.13)	—	—
Cumulative effect of change in accounting principle	(5.97)	—	—
Net income (loss) per diluted share [(c)]	$ (6.04)	$ (.75)	$ 3.62

[(a)] Excluding the severance charge of $5,375,000 ($3,214,000 net of related taxes), net income and income per share from continuing operations on a basic and diluted basis would have been $15,301,000 and $.15, respectively, for the year ended December 31, 2002.

[(b)] Excluding the restructuring costs and other special charges of $227,622,000 ($145,079,000 net of related taxes) and the integration charge of $9,375,000 ($5,719,000 net of related taxes), net income and income per share from continuing operations on a basic and diluted basis would have been $75,211,000, $.76, and $.75, respectively, for the year ended December 31, 2001.

[(c)] Net income (loss) per diluted share for the years ended December 31, 2002 and 2001 exclude the effect of 18,242,000 and 15,587,000 shares, respectively, related to convertible debentures. In addition, the effect of options to purchase 6,817,730, 1,136,000, and 1,032,740 shares for the years ended December 31, 2002, 2001, and 2000, were excluded from the computation. The impact of such common stock equivalents are excluded from the calculation of net income (loss) per share on a diluted basis as their effect is anti-dilutive.

3.180

DILLARD'S, INC. (JAN)

(Dollars in thousands, except per share data)	2003	2002	2001
Income before extraordinary item and accounting change	$ 136,300	$65,786	$ 96,830
Extraordinary gain (loss), net of income tax expense (benefit) of $(2,461), $3,382 and $15,363	(4,374)	6,012	27,311
Cumulative effect of accounting change, net of tax benefit of $0, $0 and $73,120	(530,331)	—	(129,991)
Net income (loss)	$(398,405)	$71,798	$ (5,850)
Basic earnings per common share:			
Income before extraordinary item and accounting change	$ 1.61	$ .78	$ 1.06
Extraordinary gain (loss)	(.05)	.07	.30
Cumulative effect of accounting change	(6.27)	—	(1.42)
Net income (loss)	$ (4.71)	$ .85	$ (.06)
Diluted earnings per common share:			
Income before extraordinary item and accounting change	$ 1.60	$ .78	$ 1.06
Extraordinary gain (loss)	(.05)	.07	.30
Cumulative effect of accounting change	(6.22)	—	(1.42)
Net income (loss)	$ (4.67)	$ .85	$ (.06)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

10. Earnings Per Share

In accordance with SFAS No. 128, "Earnings Per Share," basic earnings per share has been computed based upon the weighted average of Class A and Class B common shares outstanding. Diluted earnings per share gives effect to outstanding stock options.

Earnings per common share has been computed as follows:

	2003		2002		2001	
(In thousands of dollars, except per share data)	Basic	Diluted	Basic	Diluted	Basic	Diluted
Earnings before extraordinary item and accounting change	$ 136,300	$ 136,300	$65,786	$65,786	$ 96,830	$ 96,830
Extraordinary gain (loss)	(4,374)	(4,374)	6,012	6,012	27,311	27,311
Cumulative effect of accounting change	(530,331)	(530,331)	—	—	(129,991)	(129,991)
Net earnings (loss) available for per-share calculation	$(398,405)	$(398,405)	$71,798	$71,798	$ (5,850)	$ (5,850)
Average shares of common stock outstanding	84,513	84,513	84,020	84,020	91,171	91,171
Stock options	—	803	—	467	—	28
Total average equivalent shares	84,513	85,316	84,020	84,487	91,171	91,199
Per share of common stock:						
Earnings before extraordinary item and accounting change	$ 1.61	$ 1.60	$ 0.78	$ 0.78	$ 1.06	$ 1.06
Extraordinary gain (loss)	(0.05)	(0.05)	0.07	0.07	0.30	0.30
Cumulative effect of accounting change	(6.27)	(6.22)	—	—	(1.42)	(1.42)
Net income (loss)	$ (4.71)	$ (4.67)	$ 0.85	$ 0.85	$ (0.06)	S (0.06)

Total stock options outstanding were 9,669,755, 10,708,646 and 11,270,261 at February 1, 2003, February 2, 2002 and February 3, 2001, respectively. Of these, options to purchase 8,974,174, 9,298,695 and 9,465,383 shares of Class A Common Stock at prices ranging from $18.13 to $40.22, $15.74 to $40.22, $18.13 to $40.22 per share were outstanding in fiscal 2002, 2001 and 2000, respectively, but were not included in the computation of diluted earnings per share because the exercise price of the options exceeds the average market price and would have been antidilutive.

3.181

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

($ in millions, except per share data)	2002	2001	2000
Income/(loss) from continuing operations	$371	$114	$(568)
Income from discontinued operations (net of income tax of $0, $0 and $90)	—	—	159
Gain/(loss) on sale of discontinued operations (net of income tax of $(34), $(6) and $200)	34	(16)	(296)
Net income/(loss)	$405	$ 98	$(705)
Less: preferred stock dividends	27	29	33
Net income/(loss) applicable to common stockholders	$378	$ 69	$(738)
Earnings/(loss) per share from continuing operations:			
Basic	$1.28	$0.32	$(2.29)
Diluted	$1.25	$0.32	$(2.29)
Earnings/(loss) per share:			
Basic	$1.41	$0.26	$(2.81)
Diluted	$1.37	$0.26	$(2.81)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Earnings/(Loss) Per Common Share

Basic EPS is computed by dividing net income/(loos) less dividend requirements on the Series B ESOP Convertible Preferred Stock, net of tax as applicable, by the weighted average number of common shares outstanding for the period. Except when the effect would be anti-dilutive, the diluted EPS calculation includes the impact of restricted stock units and shares that could be issued under outstanding stock options as well as common shares that would result from the conversion of convertible debentures and convertible preferred stock. In addition, the related interest on convertible debentures (net of tax) and preferred stock dividends (net of tax) are added back to income, since these would not be paid if the debentures or preferred stock were converted to common stock.

3. Earnings Per Share

The following potential shares of common stock and their effects on income were excluded from the diluted EPS calculations because the effect would be anti-dilutive:

- At January 25, 2003, January 26, 2002 and January 27, 2001, options to purchase 9 million, 9 million and 18 million shares of common stock at prices ranging from $21 to $71, $23 to $71 and $9 to $71 per share, respectively, were excluded from the 2002, 2001 and 2000 calculations, respectively.
- The $650 million aggregate principal amount of subordinated notes issued in October 2001 and convertible into approximately 22.8 million shares of common stock were excluded from the 2001 calculation. These notes are convertible at any time prior to maturity, unless previously redeemed, at the option of the holders into shares of common stock at a conversion price of $28.50 per share, subject to certain adjustments.
- Outstanding preferred stock convertible into 11 million, 12 million and 13 million common shares at January 25, 2003, January 26, 2002 and January 27, 2001, respectively, were excluded from the 2002, 2001 and 2000 calculations, respectively.
- For 2000, restricted stock units convertible into 1.4 million shares of stock were excluded from the calculations.

The computation of basic and diluted EPS follows:

(In millions, except per share data)	Income/ (Loss)	Average Shares	EPS
2002			
Income from continuing operations	$ 371		
Less: preferred stock dividends	27		
Continuing operations—basic	344	267	$ 1.28
Effect of dilutive securities:			
Stock options and restricted stock units	—	3	
5% convertible debt	23	23	
Continuing operations—diluted	367	293	1.25
Gain on sale of discontinued operations	34		
Basic		267	0.13
Diluted		293	0.12
Net income			
Basic	$ 378	267	$ 1.41
Diluted	$ 401	293	$ 1.37
2001			
Income from continuing operations	$ 114		
Less: preferred stock dividends	29		
Continuing operations—basic	85	263	$ 0.32
Stock options and restricted stock units	—	4	
Continuing operations—diluted	85	267	0.32
(Loss) on sale of discontinued operations	(16)		
Basic		263	(0.06)
Diluted		267	(0.06)
Net income	$ 69		
Basic		263	$ 0.26
Diluted		267	$ 0.26
2000			
(Loss) from continuing operations	$(568)		
Less: preferred stock dividends	33		
Continuing operations—basic/diluted	(601)	262	$(2.29)
Discontinued operations—basic/diluted	159	262	0.61
(Loss) on sale of discontinued operations—basic/diluted	(296)	262	(1.13)
Net (loss)—basic/diluted	$(738)	262	$(2.81)

3.182

SUPERVALU INC. (FEB)

(In thousands, except per share data)	2002	2001	2000
Net earnings	$205,535	$ 81,965	$242,941
Weighted average number of common shares outstanding			
Diluted	133,978	132,829	130,090
Basic	132,940	132,251	129,162
Net earnings per common share—diluted	$ 1.53	$ 0.62	$ 1.87
Net earnings per common share—basic	$ 1.55	$ 0.62	$ 1.88

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (In Part)

Net Earnings Per Share

Basic earnings per share (EPS) is calculated using income available to common shareholders divided by the weighted average of common shares outstanding during the year. Diluted EPS is similar to Basic EPS except that the weighted average of common shares outstanding is increased to include the number of additional common shares that would have been outstanding if the dilutive potential common shares, such as options, had been exercised.

Earnings Per Share

The following table reflects the calculation of basic and diluted earnings per share:

(In thousands, except per share amounts)	2002	2001	2000
Earnings per share—basic			
Earnings available to common shareholders	$205,535	$ 81,965	$242,941
Weighted average shares outstanding	132,940	132,251	129,162
Earnings per share—basic	$ 1.55	$ 0.62	$ 1.88
Earnings per share—diluted			
Earnings available to common shareholders	$205,535	$ 81,965	$242,941
Weighted average shares outstanding	132,940	132,251	129,162
Dilutive impact of options outstanding	1,038	578	928
Weighted average shares and potential dilutive shares outstanding	133,978	132,829	130,090
Earnings per share—diluted	$ 1.53	$ 0.62	$ 1.87

3.183

THOMAS & BETTS CORPORATION AND SUBSIDIARIES (DEC)

(In thousands, except per share data)	2002	2001	2000
Net earnings (loss) from continuing operations before cumulative effect of an accounting change	$ (8,212)	$(138,877)	$(178,686)
Cumulative effect of an accounting change	(44,815)	—	—
Earnings from discontinued operations—net	—	—	14,724
Gain (loss) on sale of discontinued operations—net	—	(7,513)	138,130
Net earnings (loss)	$(53,027)	$(146,390)	$ (25,832)
Basic earnings (loss) per share:			
Earnings (loss) from continuing operations before cumulative effect of an accounting change	$ (0.14)	$ (2.39)	$ (3.08)
Cumulative effect of an accounting change	(0.77)	—	—
Earnings from discontinued operations	—	—	0.25
Gain (loss) on sale of discontinued operations	—	(0.13)	2.38
Net earnings (loss)	$ (0.91)	$ (2.52)	$ (0.45)
Diluted earnings (loss) per share:			
Earnings (loss) from continuing operations before cumulative effect of an accounting change	$ (0.14)	$ (2.39)	$ (3.08)
Cumulative effect of an accounting change	(0.77)	—	—
Earnings from discontinued operations	—	—	0.25
Gain (loss) on sale of discontinued operations	—	(0.13)	2.38
Net earnings (loss)	$ (0.91)	$ (2.52)	$ (0.45)
Average shares outstanding:			
Basic	58,273	58,116	57,950
Diluted	58,273	58,116	57,950

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 (In Part): Summary of Significant Accounting Policies

Earnings Per Share

Basic earnings per share are computed by dividing net earnings (loss) by the weighted-average number of shares of common stock outstanding during the year. Diluted earnings per share are computed by dividing net earnings by the sum of (1) the weighted-average number of shares of common stock outstanding during the period and (2) the dilutive effect of the assumed exercise of stock options using the treasury stock method.

6. Basic and Fully Diluted Earnings Per Share

The following is a reconciliation of the numerators and denominators of the basic and diluted earnings per share computations:

(In thousands, except per share data)	2002	2001	2000
Net earnings (loss) from continuing operations before cumulative effect of an accounting change	$ (8,212)	$(138,877)	$(178,686)
Cumulative effect of an accounting change	(44,815)	—	—
Earnings from discontinued operations—net	—	—	14,724
Gain (loss) on sale of discontinued operations—net	—	(7,513)	138,130
Net earnings (loss)	$(53,027)	$(146,390)	$ (25,832)
Basic shares:			
Average shares outstanding	58,273	58,116	57,950
Basic earnings (loss) per share:			
Net earnings (loss) from continuing operations before cumulative effect of an accounting change	$ (0.14)	$ (2.39)	$ (3.08)
Cumulative effect of an accounting change	(0.77)	—	—
Earnings from discontinued operations—net	—	—	0.25
Gain (loss) on sale of discontinued operations—net	—	(0.13)	2.38
Net earnings (loss)	$ (0.91)	$ (2.52)	$ (0.45)
Diluted shares:			
Average shares outstanding	58,273	58,116	57,950
Additional shares from the assumed exercise of stock options	—	—	—
	58,273	58,116	57,950
Diluted earnings (loss) per share:			
Net earnings (loss) from continuing operations before cumulative effect of an accounting change	$ (0.14)	$ (2.39)	$ (3.08)
Cumulative effect of an accounting change	(0.77)	—	—
Earnings from discontinued operations—net	—	—	0.25
Gain (loss) on sale of discontinued operations—net	—	(0.13)	2.38
Net earnings (loss)	$ (0.91)	$ (2.52)	$ (0.45)

Due to the net losses in 2002, 2001 and 2000, the assumed net exercise of stock options in those years was excluded, as the effect would have been anti-dilutive. Options for 5,150,000, 3,369,000 and 2,949,000 shares of common stock in 2002, 2001, and 2000, respectively, were excluded because their effect was anti-dilutive.

Section 4: Comprehensive Income

PRESENTATION IN ANNUAL REPORT

4.01 Effective for fiscal years beginning after December 15, 1997, Statement of Financial Accounting Standards (SFAS) No. 130, *Reporting Comprehensive Income,* 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, changes in the fair value of certain derivatives, 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.

4.02 *SFAS No. 130* also states that an enterprise shall disclose the amount of income tax expense or benefit allocated to each component of other comprehensive income (including reclassification adjustments), either on the face of the statement in which those components are displayed or in the notes thereto.

4.03 Table 4-1 shows the statement in which comprehensive income and the related tax effect was presented.

4.04

TABLE 4-1: COMPREHENSIVE INCOME—REPORTING STATEMENT

	2002	2001	2000	1999
Reporting format:				
Included in statement of changes in stockholders' equity	469	450	422	406
Separate statement of comprehensive income	68	78	65	65
Combined statement of income and comprehensive income	25	31	32	26
	562	**559**	**519**	**497**
No comprehensive income reported	38	41	81	103
Total Companies	**600**	**600**	**600**	**600**
Tax effect disclosure in any statement:				
Amount of tax effect allocated to some, but not all, components	114	102	47	54
Amount of tax effect allocated to each component	73	74	59	81
Total amount of tax effect	16	9	14	32
	203	**185**	**120**	**167**
Tax effect disclosure in notes:.				
Amount of tax effect allocated to some, but not all, components	67	51	49	N/C*
Amount of tax effect allocated to each component	66	68	75	N/C*
Total amount of tax effect	29	15	6	N/C*
	162	**134**	**130**	**62**
Tax effect not disclosed in any statement	197	240	269	268
	562	**559**	**519**	**497**
No comprehensive income reported	38	41	81	103
Total Companies	**600**	**600**	**600**	**600**

* N/C = Not compiled. Data regarding the allocation (per component) of the tax effect was not compiled.

4.05 Table 4-2 summarizes the titles used to describe comprehensive income.

4.06 Examples of comprehensive income reported in a statement of changes in stockholders' equity, in a separate statement of comprehensive income, and in a combined statement of income and comprehensive income follow.

4.07

TABLE 4-2: COMPREHENSIVE INCOME—REPORTING STATEMENT TITLE

	2002	2001	2000	1999
Comprehensive income reported in a statement of income and comprehensive income, or in a statement of comprehensive income				
Comprehensive income	46	63	68	71
Comprehensive income (loss)	28	28	23	14
Comprehensive loss	7	3	1	3
Comprehensive earnings	2	3	2	1
Statement title does not refer to comprehensive income	11	5	3	2
	94	**102**	**97**	**91**
Comprehensive income reported in a statement of changes in stockholders' equity				
Statement title does not refer to comprehensive income	394	403	362	350
Statement title does refer to comprehensive income	74	54	60	56
	468	**457**	**422**	**406**
No comprehensive income reported	38	41	81	103
Total Companies	**600**	**600**	**600**	**600**

Included in Statement of Changes in Stockholders' Equity

4.08

AIR PRODUCTS AND CHEMICALS, INC. AND SUBSIDIARIES (SEP)

Consolidated Shareholders' Equity

(Millions of dollars, except per share)	Number of Common Shares Outstanding	Common Stock	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock	Shares in Trust	Total
Balance 30 September 1999	213,044,232	$249.4	$341.5	$3,701.8	$(274.4)	$(681.6)	$(375.1)	$2,961.6
Comprehensive income:								
Net income				124.2				124.2
Translation adjustments, net of income tax of $29.3					(137.3)			(137.3)
Net change in unrealized holding gains, net of income tax of $1.0					1.8			1.8
Change in minimum pension liability, net of income tax of $1.3					2.1			2.1
Comprehensive loss								(9.2)
Issuance of treasury shares and shares in trust for stock options and award plans	1,174,477		(7.9)				26.3	18.4
Tax benefit of stock option and award plans			8.6					8.6
Cash dividends ($.74 per share)				(158.1)				(158.1)
Balance 30 September 2000	214,218,709	$249.4	$342.2	$3,667.9	$(407.8)	$(681.6)	$(348.8)	$2,821.3
Comprehensive income:								
Net income				465.6				465.6
Net gain on derivatives, net of income tax of $1.1					1.8			1.8
Translation adjustments, net of income tax of $14.1					(43.3)			(43.3)
Net change in unrealized holding gains, net of income tax of $3.8					6.3			6.3
Change in minimum pension liability, net of income tax of $5.8					(9.5)			(9.5)
Comprehensive income								420.9
Issuance of shares in trust for stock options and award plans	3,362,762		25.0				75.7	100.7
Tax benefit of stock option and award plans			17.7					17.7
Cash dividends ($.78 per share)				(167.6)				(167.6)
Purchase of treasury shares	(2,118,851)					(87.2)		(87.2)
Balance 30 September 2001	215,462,620	$249.4	$384.9	$3,965.9	$(452.5)	$(768.8)	$(273.1)	$3,105.8

(continued)

(Millions of dollars, except per share)	Number of Common Shares Outstanding	Common Stock	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock	Shares in Trust	Total
Balance 30 September 2001	215,462,620	$249.4	$384.9	$3,965.9	$(452.5)	$(768.8)	$(273.1)	$3,105.8
Comprehensive income:								
Net income				525.4				525.4
Net gain on derivatives, net of income tax of $.3					1.1			1.1
Translation adjustments, net of income tax of $29.8					50.1			50.1
Net change in unrealized holding gains, net of income tax of $1.6					(7.4)			(7.4)
Change in minimum pension liability, net of income tax of $81.4					(158.2)			(158.2)
Comprehensive income								411.0
Issuance of treasury shares and shares in trust for stock options and award plans	3,072,503		30.3			1.0	68.9	100.2
Tax benefit of stock option and award plans			21.9					21.9
Cash dividends ($.82 per share)				(178.5)				(178.5)
Balance 30 September 2002	218,535,123	$249.4	$437.1	$4,312.8	$(566.9)	$(767.8)	$(204.2)	$3,460.4

4.09

CHAMPION ENTERPRISES, INC. (DEC)

Consolidated Statements of Shareholders' Equity

(In thousands)	Common Stock Shares	Common Stock Amount	Capital in Excess of Par Value	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income (Loss)	Total	Total Comprehensive Income (Loss)
Balance January 1, 2000	47,304	$47,304	$33,160	$ 364,982	$(1,184)	$ 444,262	
Net loss	—	—	—	(147,332)	—	(147,332)	$(147,332)
Stock option and benefit plans	170	170	702	—	—	872	
Common stock repurchases	(117)	(117)	(746)	—	—	(863)	
Foreign currency translation adjustments	—	—	—	—	(130)	(130)	(130)
Balance December 30, 2000	47,357	47,357	33,116	217,650	(1,314)	296,809	$(147,462)
Net loss	—	—	—	(27,888)	—	(27,888)	$ (27,888)
Preferred stock dividends declared	49	49	451	(500)	—	—	
Stock option and benefit plans	519	519	1,246	—	—	1,765	
Tax benefit of stock options	—	—	954	—	—	954	
Preferred stock issuance costs	—	—	(1,536)	—	—	(1,536)	
Issuance for acquisition deferred purchase price payments	395	395	2,192	—	—	2,587	
Foreign currency translation adjustments	—	—	—	—	(657)	(657)	(657)
Balance December 29, 2001	48,320	48,320	36,423	189,262	(1,971)	272,034	$ (28,545)
Net loss	—	—	—	(255,555)	—	(255,555)	$(255,555)
Preferred stock dividends declared	105	105	707	(1,857)	—	(1,045)	
Stock option and benefit plans	350	350	615	—	—	965	
Tax benefit of stock options	—	—	250	—	—	250	
Amortization of preferred stock issuance costs	—	—	(446)	—	—	(446)	
Preferred stock redemptions	2,648	2,648	12,352	—	—	15,000	
Issuance for acquisition deferred purchase price payments	1,235	1,235	4,765	—	—	6,000	
Foreign currency translation adjustments	—	—	—	—	122	122	122
Balance December 28, 2002	52,658	$52,658	$54,666	$ (68,150)	$(1,849)	$ 37,325	$(255,433)

4.10

TWIN DISC, INCORPORATED AND SUBSIDIARIES (JUN)

Consolidated Statements of Changes in Shareholders' Equity and Comprehensive Income

(In thousands)	2002	2001	2000
Common stock			
Balance, June 30	$ 11,653	$ 11,653	$ 11,653
Retained earnings			
Balance, July 1	87,431	83,228	81,430
Net earnings	2,058	6,169	3,773
Cash dividends	(1,965)	(1,966)	(1,974)
Stock options exercised	—	—	(1)
Balance, June 30	87,524	87,431	83,228
Accumulated other comprehensive (loss) income			
Balance, July 1	(23,181)	799	(8,516)
Foreign currency translation adjustment			
Balance, July 1	(5,420)	799	3,288
Current adjustment	3,900	(6,219)	(2,489)
Balance, June 30	(1,520)	(5,420)	799
Minimum pension liability adjustment, net			
Balance, July 1	(17,761)	—	(11,804)
Current adjustment, net of related income taxes ($2,497 in 2002, $11,356 in 2001 and ($7,547) in 2000)	(3,906)	(17,761)	11,804
Balance, June 30	(21,667)	(17,761)	—
Accumulated other comprehensive (loss) income			
Balance, June 30	(23,187)	(23,181)	799
Treasury stock, at cost			
Balance, July 1	(17,481)	(17,447)	(17,107)
Shares acquired	—	(34)	(343)
Stock options exercised	—	—	3
Balance, June 30	(17,481)	(17,481)	(17,447)
Shareholders' equity balance, June 30	$ 58,509	$ 58,422	$ 78,233
Comprehensive income (loss)			
Net earnings	$ 2,058	$ 6,169	$ 3,773
Other comprehensive income (loss)			
Foreign currency translation adjustment	3,900	(6,219)	(2,489)
Minimum pension liability adjustment	(3,906)	(17,761)	11,804
Other comprehensive (loss) income	(6)	(23,980)	9,315
Comprehensive income (loss)	$ 2,052	$(17,811)	$ 13,088

Separate Statement of Comprehensive Income

4.11

PLAINS RESOURCES INC. (DEC)

Consolidated Statements of Comprehensive Income

(In thousands)	2002	2001	2000
Net income	$ 37,532	$153,331	$40,815
Other comprehensive income (loss):			
From continuing operations:			
Cumulative effect of accounting change, net of tax benefit of $71	—	(111)	—
Commodity hedging contracts:			
Change in fair value, net of taxes of $(223) and $75	(1,003)	766	—
Reclassification adjustment for settled contracts net of tax benefit of $7	(10)	—	—
Interest rate swap, net of taxes of $(13) and $84	(20)	131	—
Minimum pension liability adjustment, net of taxes of $66 and $(272)	106	(421)	—
Equity in other comprehensive income changes of Plains All American Pipeline, L.P., net of taxes of $56 and $(1,500)	19	(2,319)	—
	(908)	(1,954)	—
From discontinued operations:			
Commodity hedging contracts:			
Cumulative effect of accounting change, net of tax benefit of $4,454	—	6,967	—
Change in fair value, net of taxes of $(24,970) and $7,634	(37,298)	10,978	—
Reclassification adjustment for settled contracts net of taxes of $(5,897) and $1,388	8,850	(2,061)	—
Interest rate swap, net of tax benefit of $119	(178)	—	—
Minimum pension liability adjustment, net of tax benefit of $77	(116)	—	—
	(28,742)	15,884	—
Other comprehensive income (loss)	(29,650)	13,930	—
Comprehensive income	$ 7,882	$167,261	$40,815

4.12

VIAD CORP (DEC)

Consolidated Statements of Comprehensive Income

(In thousands)	2002	2001	2000
Net income	$ 76,094	$ 51,134	$140,819
Other comprehensive income (loss):			
Unrealized gains on available-for-sale securities:			
Statement of Financial Accounting Standards ("SFAS") No. 133 transition adjustment, effective January 1, 2001, resulting from the transfer of securities classified as held-to-maturity to securities classified as available-for-sale, net of tax expense of $2,412	—	3,772	—
Holding gains arising during the period, net of tax expense of $44,952, $20,914 and $47,797	70,309	32,711	74,759
Reclassification adjustment for net realized gains included in net income, net of tax expense of $6,435, $4,643 and $2,610	(10,065)	(7,263)	(4,082)
	60,244	29,220	70,677
Unrealized losses on derivative financial instruments:			
Cumulative effect of transition adjustment upon initial application of SFAS No. 133 on January 1, 2001, net of tax benefit of $4,796	—	(7,501)	—
Holding losses arising during the period, net of tax benefit of $113,994 and $50,428	(178,299)	(78,874)	—
Net reclassifications from other comprehensive income to net income, net of tax benefit of $52,182 and $20,779	81,617	32,500	—
	(96,682)	(53,875)	—
Unrealized foreign currency translation gains (losses)	3,556	(4,599)	(3,677)
Minimum pension liability adjustment, net of tax benefit of $11,057, $6,432 and $65	(20,535)	(11,944)	(121)
Other comprehensive income (loss)	(53,417)	(41,198)	66,879
Comprehensive income	$ 22,677	$ 9,936	$207,698

Combined Statement of Net Income and Comprehensive Income

4.13

ABBOTT LABORATORIES (DEC)

Consolidated Statement of Earnings and Comprehensive Income

(Dollars and shares in thousands except per share data)	2002	2001	2000
Net sales	$17,684,663	$16,285,246	$13,745,916
Cost of products sold	8,506,254	7,748,382	6,238,646
Research and development	1,561,792	1,577,552	1,351,024
Acquired in-process research and development	107,700	1,330,400	—
Selling, general and administrative	3,978,776	3,734,880	2,894,178
Gain on sale of agricultural business	—	—	(138,507)
Total operating cost and expenses	14,154,522	14,391,214	10,345,341
Operating earnings	3,530,141	1,894,032	3,400,575
Net interest expense	205,220	234,759	23,221
Income from TAP Pharmaceutical Products Inc. joint venture	(666,773)	(333,767)	(481,340)
Net foreign exchange (gain) loss	74,626	31,351	7,287
Other (income) expense, net	243,655	78,541	35,000
Earnings before taxes	3,673,413	1,883,148	3,816,407
Taxes on earnings	879,710	332,758	1,030,430
Net earnings	$ 2,793,703	$ 1,550,390	$ 2,785,977
Basic earnings per common share	$ 1.79	$ 1.00	$ 1.80
Diluted earnings per common share	$ 1.78	$ 0.99	$ 1.78
Average number of common shares outstanding used for basic earnings per common share	1,560,956	1,550,408	1,548,015
Dilutive common stock options	12,337	15,555	17,564
Average number of common shares outstanding plus dilutive common stock options	1,573,293	1,565,963	1,565,579
Outstanding common stock options having no dilutive effect	22,558	768	1,038
Comprehensive income, net of tax:			
Foreign currency translation adjustments	$ 327,680	$ (5,029)	$ (198,951)
Minimum pension liability adjustments, net of income taxes of $115,992	(203,182)	—	—
Unrealized (losses) gains on marketable equity securities	(20,307)	21,107	18,752
Net (losses) gains on derivative instruments designated as cash flow hedges	(28,774)	11,408	—
Reclassification adjustments for realized (losses)	(489)	(18,984)	(17,712)
Other comprehensive income (loss)	74,928	8,502	(197,911)
Net earnings	2,793,703	1,550,390	2,785,977
Comprehensive income	$ 2,868,631	$ 1,558,892	$ 2,588,066
Supplemental comprehensive income information, net of tax:			
Cumulative foreign currency translation loss adjustments	$ 308,242	$ 635,922	$ 630,893
Minimum pension liability adjustments	203,182	—	—
Cumulative unrealized (gains) on marketable equity securities	(9,008)	(29,804)	(27,681)
Cumulative losses (gains) on derivative instruments designated as cash flow hedges	17,366	(11,408)	—

4.14

NACCO INDUSTRIES, INC. AND SUBSIDIARIES (DEC)

Consolidated Statements of Operations and Comprehensive Income (Loss)

(In millions, except per share data)	2002	2001	2000
Net sales	$2,537.6	$2,613.1	$2,869.4
Other revenues	10.5	24.8	1.9
Revenues	2,548.1	2,637.9	2,871.3
Cost of sales	2,047.8	2,203.4	2,355.1
Gross profit	500.3	434.5	516.2
Selling, general and administrative expenses	355.0	381.0	367.0
Amortization of goodwill	—	15.9	15.7
Restructuring charges	12.3	21.5	15.6
Loss on sale of dealers	1.2	10.4	—
Operating profit	131.8	5.7	117.9
Other income (expense)			
Interest expense	(69.3)	(56.9)	(47.1)
Losses on interest rate swap agreements	(6.5)	(1.4)	—
Closed mine obligations	(1.3)	(1.3)	(5.6)
Insurance recovery	—	8.0	—
Income (loss) from unconsolidated affiliates	.5	2.6	(.2)
Other-net	4.5	(2.1)	(5.0)
	(72.1)	(51.1)	(57.9)
Income (loss) before income taxes, minority interest, extraordinary gain (loss) and cumulative effect of accounting changes	59.7	(45.4)	60.0
Income tax provision (benefit)	11.3	(9.9)	22.3
Income (loss) before minority interest, extraordinary gain (loss) and cumulative effect of accounting changes	48.4	(35.5)	37.7
Minority interest income	1.2	.8	.1
Income (loss) before extraordinary gain (loss) and cumulative effect of accounting changes	49.6	(34.7)	37.8
Extraordinary gain (loss), net of ($3.9) tax benefit in 2002 and $16.1 tax expense in 2000	(7.2)	—	29.9
Income (loss) before cumulative effect of accounting changes	42.4	(34.7)	67.7
Cumulative effect of accounting changes, net of ($0.8) tax benefit	—	(1.3)	—
Net income (loss)	42.4	(36.0)	67.7
Other comprehensive income (loss)			
Foreign currency translation adjustment	16.6	(9.4)	(15.8)
Cumulative effect of change in accounting for derivatives and hedging, net of ($2.0) tax benefit in 2001	—	(3.4)	—
Reclassification of hedging activities into earnings, net of $3.7 tax expense in 2002 and $1.5 tax expense in 2001	6.2	2.6	—
Current period cash flow hedging activity, net of ($4.5) tax benefit in 2002 and ($6.5) tax benefit in 2001	(7.7)	(11.0)	—
Minimum pension liability adjustment, net of ($13.2) tax benefit in 2002; ($8.1) tax benefit in 2001; ($1.0) tax benefit in 2000	(19.7)	(13.4)	(1.4)
	(4.6)	(34.6)	(17.2)
Comprehensive income (loss)	$ 37.8	$ (70.6)	$ 50.5
Earnings per share:			
Income (loss) before extraordinary gain (loss) and cumulative effect of accounting changes	$ 6.05	$ (4.24)	$ 4.63
Extraordinary gain (loss), net-of-tax	(.88)	—	3.66
Cumulative effect of accounting changes, net-of-tax	—	(.16)	—
Net income (loss)	$ 5.17	$ (4.40)	$ 8.29

TAX EFFECT DISCLOSURE

4.15

DELUXE CORPORATION (DEC)

Consolidated Statements of Comprehensive Income

(Dollars in thousands)	2002	2001	2000
Net income	$214,274	$185,900	$161,936
Other comprehensive (loss) income, net of tax:			
Loss on derivative instruments:			
Loss on derivative instruments arising during the year	(2,496)	—	—
Less reclassification of loss on derivative instruments from other comprehensive income to net income	10	—	—
Unrealized gains on securities:			
Unrealized holding gains arising during the year	—	417	728
Less reclassification adjustments for gains included in net income	—	(244)	(486)
Foreign currency translation adjustments	—	—	867
Other comprehensive (loss) income	(2,486)	173	1,109
Comprehensive income	$211,788	$186,073	$163,045
Related tax benefit (expense) of other comprehensive (loss) income:			
Loss on derivative instruments:			
Loss on derivative instruments arising during the year	$ 1,530	$ —	$ —
Less reclassification of loss on derivative instruments from other comprehensive income to net income	(6)	—	—
Unrealized gains on securities:			
Unrealized holding gains arising during the year	—	(225)	(392)
Less reclassification adjustments for gains included in net income	—	131	262
Foreign currency translation adjustments	—	—	132

4.16

THE DOW CHEMICAL COMPANY (DEC)

Consolidated Statements of Comprehensive Income

(In millions)	2002	2001	2000
Net income (loss) available for common stockholders	$ (338)	$(385)	$1,675
Other comprehensive income (loss), net of tax (tax amounts shown below for 2002, 2001, 2000)			
Unrealized gains (losses) on investments:			
Unrealized holding gains (losses) during the period (less tax of $(12), $(34), $20)	(21)	(60)	35
Less: reclassification adjustments for net amounts included in net income (loss) (less tax of $(5), $(152), $(4))	(8)	(259)	(8)
Cumulative translation adjustments (less tax of $175, $(21), $(33))	333	(148)	(188)
Minimum pension liability adjustments (less tax of $(729), $(8), $5)	(1,307)	(21)	12
Net loss on cash flow hedging derivative instruments (less tax of $(11) for 2002, $(13) for 2001)	(24)	(22)	—
Total other comprehensive loss	(1,027)	(510)	(149)
Comprehensive income (loss)	$(1,365)	$(895)	$1,526

4.17

TENET HEALTHCARE CORPORATION AND SUBSIDIARIES (MAY)

Consolidated Statements of Comprehensive Income

(Dollars in millions)	2000	2001	2002
Net income	$ 302	$643	$785
Other comprehensive income (loss):			
Unrealized gains (losses) on securities held as available for sale:			
Unrealized net holding gains (losses) arising during period	(142)	80	31
Less: reclassification adjustment for (gains) losses included in net income	(92)	(39)	1
Foreign currency translation adjustments	(1)	(3)	(4)
Losses on derivative instruments designated and qualifying as cash flow hedges	—	—	(28)
Other comprehensive income (loss), before income taxes	(235)	38	—
Income tax benefit (expense) related to items of other comprehensive income	88	(12)	—
Other comprehensive income (loss)	(147)	26	—
Comprehensive income	$ 155	$669	$785

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 19. Supplemental Disclosure for Other Comprehensive Income

The following table sets forth the tax effects allocated to each component of other comprehensive income for the years ended May 31, 2000, 2001 and 2002.

(Dollars in millions)

Tax Effects of Other Comprehensive Income	Before-Tax Amount	Tax (Expense) or Benefit	Net-of-Tax Amount
Year ended May 31, 2000			
Foreign currency translation adjustment	$ (1)	$ 1	$ —
Unrealized losses on securities held as available-for-sale	(142)	53	(89)
Less: reclassification adjustment for realized gains included in net income	(92)	34	(58)
	$(235)	$ 88	$(147)
Year ended May 31, 2001			
Foreign currency translation adjustment	$ (3)	$ 1	$ (2)
Unrealized gains on securities held as available-for-sale	80	(28)	52
Less: reclassification adjustment for realized gains included in net income	(39)	15	(24)
	$ 38	$(12)	$ 26
Year ended May 31, 2002			
Foreign currency translation adjustments	$ (4)	$ 2	$ (2)
Losses on derivatives designated and qualifying as cash flow hedges	(28)	10	(18)
Unrealized gains on securities held as available-for-sale	31	(12)	19
Less: reclassification adjustment for realized losses included in net income	1	—	1
	$ —	$ —	$ —

COMPONENTS OF OTHER COMPREHENSIVE INCOME

4.18 *SFAS No. 130* requires that items included in other comprehensive income shall be classified based on their nature. For example, under existing pronouncements, other comprehensive income shall be classified separately into foreign currency items, minimum pension liability adjustments, changes in fair value of derivatives, and unrealized gains and losses on certain debt and equity securities.

4.19 *SFAS No. 130* also requires that adjustments shall be made to avoid double counting, in comprehensive income, items that are displayed as part of net income for a period that also had been displayed as part of other comprehensive income in that period or earlier periods. For example, gains on investment securities that were realized and included in net income of the current period, that also had been included in other comprehensive income as unrealized holding gains in the period in which they arose, must be deducted through other comprehensive income of the period in which they are included in net income to avoid including them in comprehensive income twice. These adjustments are called reclassification adjustments. An enterprise may display reclassification adjustments on the face of the financial statement in which comprehensive income is reported or it may disclose them in the notes to the financial statements.

4.20 Table 4-3 lists the components of other comprehensive income disclosed by survey companies in the statement used to present comprehensive income for the period reported. Table 4-3 includes 2002, 2001 and 2000 data only. None of the data in Table 4-3 was compiled for 1999.

4.21 Examples showing the presentation of components of other comprehensive income follow.

4.22

TABLE 4-3: OTHER COMPREHENSIVE INCOME—COMPONENTS

	2002	2001	2000
Cumulative translation adjustments	468	462	455
Minimum pension liability adjustments	373	254	192
Changes in fair value of derivatives	325	287	12
Unrealized losses/gains on certain investments	268	273	224
Other	4	4	27

Cumulative Translation Adjustments

4.23

HARRIS CORPORATION (JUN)

Consolidated Statement of Comprehensive Income and Shareholders' Equity

					Accumulated Other Comprehensive Income (Loss)			
					Net Unrealized Gain (Loss) From			
(In millions except per share amounts)	Common Stock	Other Capital	Retained Earnings	Unearned Comp.	Marketable Securities	Hedging Derivatives	Currency Translation	Total
Balance at July 2, 1999	$ 79.7	$271.5	$1,246.7	$(4.0)	$ 7.3	$ —	$(11.7)	$1,589.5
Net income	—	—	18.0	—	—	—	—	18.0
Foreign currency translation	—	—	—	—	—	—	(4.8)	(4.8)
Net unrealized gain on securities net of income taxes of $132.3	—	—	—	—	225.2	—	—	225.2
Comprehensive income								238.4
Shares issued under stock option plan (74,392 shares)	0.1	1.9	—	—	—	—	—	2.0
Shares granted under stock incentive plans (63,500 shares)	0.1	1.6	—	(1.7)	—	—	—	—
Compensation expense	—	—	—	(3.6)	—	—	—	(3.6)
Termination and award of shares granted under stock incentive plans (202,768 shares)	(0.2)	(7.2)	—	6.1	—	—	—	(1.3)
Shares sold under employee stock purchase plans (23,653 shares)	—	0.7	—	—	—	—	—	0.7
Purchase and retirement of common stock for treasury (10,652,100 shares)	(10.7)	(40.1)	(182.0)	—	—	—	—	(232.8)
Cash dividends ($.39 per share)	—	—	(29.9)	—	—	—	—	(29.9)
Non-cash dividends related to the spin-off of Lanier Worldwide	—	—	(188.7)	—	—	—	—	(188.7)
Balance at June 30, 2000	69.0	228.4	864.1	(3.2)	232.5	—	(16.5)	1,374.3
Net income	—	—	21.4	—	—	—	—	21.4
Foreign currency translation	—	—	—	—	—	—	(12.0)	(12.0)
Net unrealized loss on hedging derivatives net of income taxes of $(0.6)	—	—	—	—	—	(1.0)	—	(1.0)
Net unrealized loss on securities net of income taxes of $(97.1)	—	—	—	—	(165.4)	—	—	(165.4)
Comprehensive loss								(157.0)
Shares issued under stock option plan (80,245 shares)	0.1	1.9	—	—	—	—	—	2.0
Shares granted under stock incentive plans (57,500 shares)	—	1.6	—	(1.6)	—	—	—	—
Compensation expense	—	—	—	1.1	—	—	—	1.1
Options granted in connection with the WavTrace acquisition (179,900 shares)	—	4.9	—	(3.7)	—	—	—	1.2
Termination and award of shares granted under stock incentive plans (73,803 shares)	(0.1)	(3.7)	—	2.9	—	—	—	(0.9)
Purchase and retirement of common stock for treasury (3,175,800 shares)	(3.2)	(19.1)	(69.9)	—	—	—	—	(92.2)
Cash dividends ($.20 per share)	—	—	(13.3)	—	—	—	—	(13.3)
Balance at June 29, 2001	$ 65.8	$214.0	$ 802.3	$(4.5)	$ 67.1	$(1.0)	$(28.5)	$1,115.2

(continued)

(In millions except per share amounts)	Common Stock	Other Capital	Retained Earnings	Unearned Comp.	Accumulated Other Comprehensive Income (Loss) — Net Unrealized Gain (Loss) From — Marketable Securities	Hedging Derivatives	Currency Translation	Total
Balance at June 29, 2001	$ 65.8	$214.0	$ 802.3	$(4.5)	$ 67.1	$(1.0)	$(28.5)	$1,115.2
Net income	—	—	82.6	—	—	—	—	82.6
Foreign currency translation	—	—	—	—	—	—	5.7	5.7
Net unrealized gain on hedging derivatives net of income taxes of $0.7	—	—	—	—	—	1.1	—	1.1
Net unrealized loss on securities net of income taxes of $(31.9)	—	—	—	—	(54.3)	—	—	(54.3)
Comprehensive income								35.1
Shares issued under stock option plan (458,719 shares)	0.5	8.9	—	—	—	—	—	9.4
Shares granted under stock incentive plans (64,500 shares)	—	1.9	—	(1.9)	—	—	—	—
Compensation expense	—	—	—	3.6	—	—	—	3.6
Termination and award of shares granted under stock incentive plans (26,782 shares)	—	(0.9)	—	0.7	—	—	—	(0.2)
Cash dividends ($.20 per share)	—	—	(13.2)	—	—	—	—	(13.2)
Balance at June 28, 2002	$ 66.3	$223.9	$ 871.7	$(2.1)	$ 12.8	$ 0.1	$(22.8)	$1,149.9

4.24

W.W. GRAINGER, INC., AND SUBSIDIARIES (DEC)

Consolidated Statements of Comprehensive Earnings

(In thousands of dollars)	2002	2001	2000
Net earnings	$211,567	$174,530	$192,903
Other comprehensive earnings (losses) net of income taxes:			
Foreign currency translation adjustments, net of tax benefit (expense) on a designated hedge of $551, $(5,455) and $0, respectively	(170)	(15,457)	(9,487)
(Losses) gains on investment securities:			
Unrealized holding (losses) gains, net of tax benefit (expense) of $1,523, $(3,069) and $39,711, respectively	(2,383)	4,820	(60,066)
Reclassifications for net (gains) losses included in earnings, net of tax expense of $2,325, $54 and $11,947, respectively	(3,636)	(84)	(18,070)
	(6,189)	(10,721)	(87,623)
Comprehensive earnings	$205,378	$163,809	$105,280

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (In Part): Background and Basis of Presentation

Foreign Currency Translation

The financial statements of the Company's foreign subsidiaries are generally measured using the local currency as the functional currency. Net exchange gains or losses resulting from the translation of financial statements of foreign operations and related long-term debt are recorded as a separate component of shareholders' equity.

Note 14 (In Part): Long-Term Debt

During the third quarter of 2002, the Company refinanced a C$180.4 million bank loan that had been designated as a non-derivative hedge of the net investment in the Company's Canadian subsidiary. The bank loan was replaced with commercial paper. Concurrently, the Company entered into a cross-currency swap. This derivative instrument was designated as a hedge of the net investment in the Company's Canadian subsidiary and is recognized on the balance sheet at its fair value.

The two-year cross-currency swap matures on September 27, 2004. The cross-currency swap is based on notional principal amounts of C$180.4 million and U.S.$113.7 million, respectively. Initially the Company gave the counterparty U.S.$113.7 million and received from the counterparty C$180.4 million. The Company receives interest based on the 30-day U.S. commercial paper rate. At December 31, 2002, this rate was 1.31%. The Company pays interest to the counterparty based on the 90-day Canadian Bankers' Acceptances rate plus 14 basis points. At December 31, 2002, this rate was 2.98%. The outstanding underlying commercial paper was $113.8 million with an interest rate of 1.40% at

December 31, 2002. The fair value of the cross-currency swap was $1.0 million as of December 31, 2002, and is included in commercial paper. The Company has the intent and the ability to refinance the underlying commercial paper issued in connection with the cross-currency swap with its credit lines up to and through the swap's maturity. At maturity of this cross-currency swap, the Company will pay the counterparty C$180.4 million and will receive U.S. $113.7 million.

The Company formally assesses, on a quarterly basis, whether the cross-currency swap is effective at offsetting changes in the fair value of the underlying exposure. Because of the high degree of effectiveness between the hedging instrument and the underlying exposure being hedged, fluctuations in the value of the cross-currency swap are generally offset by changes in the net investment due to exchange rates. Under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," changes in the fair value of this instrument are recognized in foreign currency translation adjustment, a component of accumulated other comprehensive earnings, to offset the change in the value of the net investment of the Canadian investment being hedged. During 2002, the Company included a $1.0 million loss in the accumulated translation adjustment related to this hedge. Any ineffective portion of a financial instrument's change in fair value is recognized in earnings. The impact to 2002 earnings resulting from the ineffective portion of the hedge was immaterial. The cross-currency swap is an over-the-counter instrument with a liquid market. The Company has established strict counterparty credit guidelines and entered into the transaction with an investment grade financial institution. The Company does not enter into derivative financial instruments for trading purposes.

Minimum Pension Liability Adjustments

4.25

CITIZENS COMMUNICATIONS COMPANY AND SUBSIDIARIES (DEC)

Consolidated Statements of Comprehensive Income (Loss)

($ in thousands, except for per-share amounts)	2002	2001	2000
Net loss	$(682,897)	$(89,682)	$(28,394)
Other comprehensive income (loss), net of tax and reclassifications adjustments*	(107,076)	4,489	(14,505)
Total comprehensive loss	$(789,973)	$(85,193)	$(42,899)

* Consists of unrealized holding (losses)/gains of marketable securities and minimum pension liability (see Note 22).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

22. Comprehensive Income (Loss)

Comprehensive income consists of net income and other gains and losses affecting shareowners' investment and minimum pension liability that, under GAAP, are excluded from net income.

Our other comprehensive income (loss) for the years ended December 31, 2002, 2001 and 2000 is as follows:

($ in thousands)	Before-Tax Amount	Tax Expense/ (Benefit)	Net-of-Tax Amount
2002			
Net unrealized losses on securities:			
Net unrealized holding losses arising during period	$(101,137)	$(38,078)	$ (63,059)
Minimum pension liability	(180,799)	(69,210)	(111,589)
Add: Reclassification adjustments for net gain/ losses realized in net loss	108,376	40,804	67,572
Other comprehensive loss	$(173,560)	$(66,484)	$(107,076)
2001			
Net unrealized losses on securities:			
Net unrealized holding losses arising during period	$ (70,771)	$(27,015)	$ (43,756)
Add: Reclassification adjustments for net losses realized in net loss	78,168	29,923	48,245
Other comprehensive income	$ 7,397	$ 2,908	$ 4,489
2000			
Net unrealized gains on securities:			
Net unrealized holding gains arising during period	$ (40,377)	$(15,457)	$ (24,920)
Less: Reclassification adjustments for net gains realized in net income	16,875	6,460	10,415
Other comprehensive loss	$ (23,502)	$ (8,997)	$ (14,505)

27 (In Part): Retirement Plans

Pension Plan (In Part)

($ in thousands)	2002	2001
(Accrued)/prepaid benefit cost		
Funded status	$ (87,876)	$ 38,366
Unrecognized net liability	17	60
Unrecognized prior service cost	(1,450)	(1,599)
Unrecognized net actuarial loss	235,107	96,860
Prepaid benefit cost	$145,798	$133,687
Amounts recognized in the statement of financial position		
Prepaid benefit cost	$ 6,874	$133,687
Accrued benefit liability	(41,874)	—
Other comprehensive income	180,798	—
Net amount recognized	$145,798	$133,687

In June 2001, we acquired Frontier, including substantially all their pension assets and benefit obligations. This acquisition increased the pension benefit obligation by $447,279,000 and the fair value of plan assets by $583,190,000 as of June 29, 2001.

As part of the Frontier acquisition, Global and we agreed to the transfer of pension liabilities and assets related to substantially all Frontier employees. The liabilities associated with the Frontier employees retained by Global were valued following the Pension Benefit Guaranty Corporation's "safe harbor" rules. Prior to Global's bankruptcy filing, Global and we reached an agreement on the value of the pension assets and liabilities to be retained by Global as well as the time frame and procedures by which the remainder of the assets were to be transferred to a pension trust held by Citizens. Global failed to execute and deliver an authorization letter to the Frontier plan trustee directing the trustee to transfer to our pension plan record ownership of the transferred assets. We initiated an adversary proceeding with the Bankruptcy Court supervising Global's bankruptcy proceeding, to determine and declare that Global's obligation was not "executory," and to compel Global to execute and deliver such authorization letter. On December 18, 2002 we entered into a stipulation with Global and other parties, "so ordered" by the bankruptcy court, fully and finally settling the adversary proceeding. Pursuant to the stipulation and order, on February 3, 2003 Global instructed the Frontier Plan Trustee to transfer record ownership of the transferred assets with a market value of $447,800,000 to our pension plan, and the transfer in fact took place on that date.

The assets of the Global pension plan are invested primarily in equity securities. Due to the general decline in the equity markets, the assets have declined in value. We recorded an adjustment to our minimum pension liability as of December 31, 2002 in the amount of $180,798,000. The pension liability resulted from the declining market value of the pension plan assets during 2002 combined with a lower market interest rate used to value the plan's liabilities. As of December 31, 2002, the minimum pension liability is measured as the amount of the plan's accumulated benefit obligation that is in excess of the plan's market value of assets at December 31, 2002 plus any balance remaining in deferred or "prepaid" benefit costs that was recorded during periods when our pension plan assets exceeded our accumulated benefit obligation. A charge was recorded to shareholder's equity, net of income tax benefits, as a component of comprehensive loss in the amount of $111,589,000. The adjustment was computed separately for each plan that we maintain but is mainly attributable to the actual results of asset performance with respect to the Global pension plan (see Note 28). This adjustment does not impact current year earnings, or the funding requirements of the plan. However, pension expense for 2003 will increase as a result of these market declines and lower interest rates. If future market conditions cause either a decline in interest rates used to value our pension plan liabilities or reductions to the value of our pension plan assets we potentially could incur additional charges to our shareholder's equity at the end of 2003. Based upon market conditions existing at the end of February 2003, an additional charge of approximately $30,000,000–$35,000,000 would be required at the end of 2003 should market conditions remain unchanged.

4.26

R. J. REYNOLDS TOBACCO HOLDINGS, INC. (DEC)

Consolidated Statements of Stockholders' Equity and Comprehensive Income

(Dollars in millions)	Common Stock	Paid-In Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Unamortized Restricted Stock	Treasury Stock	Total Stockholders' Equity	Comprehensive Income (Loss)
Balance at December 31, 1999	$ 1	$7,287	$ (131)	$ (13)	$(25)	$ (55)	$7,064	
Net income	—	—	1,827	—	—	—	1,827	$1,827
Minimum pension liability, net of $3 tax expense	—	—	—	5	—	—	5	5
Total comprehensive income	—	—	—	—	—	—	—	$1,832
Dividends	—	(102)	(215)	—	—	—	(317)	
Stock options exercised	—	62	—	—	—	—	62	
Tax benefit on stock options exercised	—	7	—	—	—	—	7	
Restricted stock awarded	—	37	—	—	(37)	—	—	
Restricted stock amortization	—	—	—	—	19	—	19	
Restricted stock forfeited	—	—	—	—	2	(2)	—	
Common stock repurchased	—	—	—	—	—	(231)	(231)	
Balance at December 31, 2000	1	7,291	1,481	(8)	(41)	(288)	8,436	
Net income	—	—	435	—	—	—	435	$ 435
Minimum pension liability, net of $61 tax expense	—	—	—	(113)	—	—	(113)	(113)
Total comprehensive income	—	—	—	—	—	—	—	$ 322
Dividends	—	—	(324)	—	—	—	(324)	
Stock options exercised	—	42	—	—	—	—	42	
Tax benefit on stock options exercised	—	20	—	—	—	—	20	
Restricted stock awarded	—	18	—	—	(26)	8	—	
Restricted stock amortization	—	—	—	—	23	—	23	
Restricted stock forfeited	—	—	1	—	2	(2)	1	
Common stock repurchased	—	—	—	—	—	(494)	(494)	
Balance at December 31, 2001	$ 1	$7,371	$1,593	$(121)	$(42)	$ (776)	$8,026	

(continued)

(Dollars in millions)	Common Stock	Paid-In Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Unamortized Restricted Stock	Treasury Stock	Total Stockholders' Equity	Comprehensive Income (Loss)
Balance at December 31, 2001	$ 1	$7,371	$1,593	$(121)	$(42)	$ (776)	$8,026	
Net loss	—	—	(44)	—	—	—	(44)	$ (44)
Minimum pension liability, net of $258 tax benefit	—	—	—	(478)	—	—	(478)	(478)
Other	—	—	—	1	—	—	1	1
Total comprehensive loss	—	—	—	—	—	—	—	$ (521)
Dividends	—	—	(332)	—	—	—	(332)	
Stock options exercised	—	40	—	—	—	—	40	
Tax benefit on stock options exercised	—	14	—	—	—	—	14	
Restricted stock awarded	—	(28)	—	—	14	14	—	
Restricted stock forfeited	—	4	—	—	9	(13)	—	
Common stock repurchased	—	—	—	—	—	(511)	(511)	
Balance at December 31, 2002	$ 1	$7,401	$1,217	$(598)	$(19)	$(1,286)	$6,716	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Pension and Postretirement

Gains or losses are annual changes in the amount of either the benefit obligation or the market-related value of plan assets resulting from experience different from that assumed or from changes in assumptions. The minimum amortization of unrecognized gains or losses, as described in SFAS No. 87, was included in pension expense. Prior service costs, which are changes in benefit obligations due to plan amendments, are amortized on a straight-line basis over the average remaining service period for active employees. The market-related value of plan assets recognizes changes in fair value in a systematic and rational manner over five years. For further information, see note 18 to the consolidated financial statements.

Note 18 (In Part): Retirement Benefits

SFAS No. 87, "Employers' Accounting for Pensions," permits the delayed recognition of pension fund gains and losses in ratable periods of up to five years. RJR uses a five-year period wherein pension fund gains and losses are reflected in the pension calculation at 20% per year, beginning the year after the gains or losses occur. Recent stock market declines have resulted in deferred losses, which in turn resulted in the recording of additional minimum pension liabilities through a charge of $736 million, $478 million after tax, to other comprehensive income in 2002. The amortization of deferred losses will negatively impact pension cost in future periods.

Changes in Fair Value of Derivatives

4.27

PPG INDUSTRIES, INC. (DEC)

Statement of Comprehensive Income

(Millions)	2002	2001	2000
Net (loss) income	$ (69)	$ 387	$ 620
Other comprehensive (loss) income, net of tax (See Note 15)			
Unrealized currency translation adjustment	73	(131)	(120)
Minimum pension liability adjustment	(726)	(20)	(16)
Unrealized (losses) gains on marketable equity securities	(5)	10	(6)
Reclassification adjustment—marketable equity securities	—	—	9
Transition adjustment on derivatives	—	43	—
Net change—derivatives (See Note 9)	17	(51)	—
Other comprehensive loss, net of tax	(641)	(149)	(133)
Comprehensive (loss) income	$(710)	$ 238	$ 487

NOTES

1 (In Part): Summary of Significant Accounting Policies

Derivative Financial Instruments

Effective Jan. 1, 2001, the Company adopted the provisions of SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended by SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities." These standards require the Company to recognize all derivative instruments as either assets or liabilities at fair value, most of which were previously not recorded on the balance sheet. The accounting for changes in the fair value of a derivative depends on the use of the derivative. To the extent that a derivative is effective as a cash flow hedge of an exposure to future changes in value, the change in fair value of the derivative is deferred in other comprehensive income. Any portion considered to be ineffective will be reported in earnings immediately. To the extent that a derivative is effective as a hedge of an exposure to future changes in fair value, the change in the derivative's fair value will be offset in the statement of income by the change in fair value of the item being hedged.

Adoption of these new accounting standards on Jan. 1, 2001 resulted in an increase in current assets, current liabilities and other comprehensive income of $70 million, $26 million and $43 million, respectively, with a cumulative after-tax increase in net income of less than $1 million. This increase to other comprehensive income principally represents the deferred gain on outstanding natural gas option and swap contracts as of Jan. 1, 2001.

Prior to adoption of the provisions of SFAS No. 133, gains and losses on derivative financial instruments that were used to hedge foreign currency, interest rate, and natural gas price changes were not recognized until the hedged transaction was reflected in the statement of income. Premiums paid on foreign currency option contracts were amortized over the lives of the contracts. Unrealized gains and losses from forward currency contracts that hedged anticipated transactions did not previously qualify for deferral accounting treatment.

9. Derivative Financial Instruments

PPG uses derivative instruments to manage its exposure to fluctuating natural gas prices through the use of natural gas swap and option contracts. PPG also uses forward currency contracts as hedges against its exposure to variability in exchange rates on short-term intercompany borrowings denominated in foreign currencies and to translation risk, and interest rate swaps to hedge its exposure to changing interest rates.

PPG enters into derivative financial instruments with high credit quality counterparties and diversifies its positions among such counterparties in order to reduce its exposure to credit losses. The Company has not experienced any credit losses on derivatives during the three-year period ended Dec. 31, 2002.

PPG also manages its foreign currency transaction risk to minimize the volatility of cash flows caused by currency fluctuations by forecasting foreign currency-denominated cash flows of each subsidiary for a 12-month period and aggregating these cash inflows and outflows in each currency to determine the overall net transaction exposures. The expanding use of the euro has reduced our transaction risk because cash flows between our businesses in the twelve Euroland countries are now occurring in one currency. Decisions on whether to use derivative financial instruments to hedge the net transaction exposures are made based on the amount of those exposures, by currency, and an assessment of the near-term outlook for each currency. The Company's policy permits the use of foreign currency forward and option contracts to hedge up to 70% of its anticipated net foreign currency cash flows over the next 12-month period. These contracts do not qualify for hedge accounting. Therefore, the change in the fair value of these instruments is recorded in "Other charges" in the accompanying statement of income in the period of change. The amount recorded in earnings for the years ended Dec. 31, 2002 and 2001 was a loss of $3 million and a gain of $1 million, respectively. The fair value of these contracts was an asset of $1 million as of Dec. 31, 2002 and 2001.

The sales, costs, assets and liabilities of our non-U.S. operations must be reported in U.S. dollars in order to prepare consolidated financial statements which gives rise to translation risk. The Company monitors its exposure to translation risk and enters into derivative foreign currency contracts to hedge its exposure, as deemed appropriate. This risk management strategy does not qualify for hedge accounting under the provisions of SFAS No. 133; therefore, changes in the fair value of these instruments are recorded in "Other charges" in the accompanying statement of income in the period of change. A gain of $1 million was recorded for the year ended Dec. 31, 2001. No derivative instruments were acquired to hedge translation risk during 2002.

PPG designates forward currency contracts as hedges against the Company's exposure to variability in exchange rates on short-term intercompany borrowings denominated in foreign currencies. To the extent effective, changes in the fair value of these instruments are deferred in accumulated other comprehensive income and subsequently reclassified to "Other charges" in the accompanying statement of income as foreign exchange gains and losses are recognized on the related intercompany borrowings. The portion of the change in fair value considered to be ineffective is recognized in "Other charges" in the accompanying statement of income. The amount recorded in earnings for the years ended Dec. 31, 2002 and 2001 was a loss of $2 million and a gain of less than $1 million, respectively. The fair value of these contracts was a liability of $1 million and $2 million as of Dec. 31, 2002 and 2001, respectively.

The Company manages its interest rate risk by balancing its exposure to fixed and variable rates while attempting to minimize its interest costs. Generally, the Company maintains variable interest rate debt at a level of 25% to 50% of total borrowings. PPG principally manages its fixed and variable interest rate risk by retiring and issuing debt from time to time. PPG also manages its interest rate risk through the use of interest rate swaps. Currently, these swaps convert $400 million of fixed rate debt to variable rate debt and are designated as fair value hedges. As such, the swaps are carried at fair value. Changes in the fair value of these swaps and that of the related debt are recorded in "Interest expense" in the accompanying statement of income, the net of which is zero. The fair value of these contracts was an asset of $23 million and a liability of $20 million as of Dec. 31, 2002 and 2001, respectively.

The Company uses derivative instruments to manage its exposure to fluctuating natural gas prices through the use of natural gas swap and option contracts. These instruments

mature over the next twelve months. To the extent that these instruments are effective in hedging PPG's exposure to price changes, changes in the fair values of the hedge contracts are deferred in accumulated other comprehensive income and reclassified to cost of sales as the natural gas is purchased. Changes in the time value of option contracts have been excluded from the Company's assessment of hedge effectiveness and reported in earnings immediately. The amount of ineffectiveness, which is reported in "Other charges" in the accompanying statement of income for the years ended Dec. 31, 2002 and 2001, was not material. The fair value of these contracts was an asset of $24 million and a liability of $12 million as of Dec. 31, 2002 and 2001, respectively.

In November 2002, PPG entered into a one-year equity forward arrangement with a bank in order to partially mitigate the impact of changes in the fair value of PPG stock that is to be contributed to the asbestos settlement trust as discussed in Note 13. This instrument is recorded at fair value as an asset or liability and changes in the fair value of this instrument are reflected in "Asbestos settlement, net" in the accompanying statement of income. As of Dec. 31, 2002, PPG had recorded a current asset of $1 million and recognized income of $1 million for the year.

In accordance with the terms of this instrument the bank has purchased 504,900 shares of PPG stock on the open market at a cost of $24 million (principal amount). PPG will pay to the bank interest based on the principal amount and the bank will pay to PPG an amount equal to the dividends paid on these shares during the period this instrument is outstanding. The difference between the principal amount, and any amounts related to unpaid interest or dividends, and the current market price for these shares will represent the fair value of the instrument as well as the amount that PPG would pay or receive if the bank chose to net settle the instrument. Alternatively, the bank may, at its option, require PPG to purchase the shares covered by the arrangement at the market price on the date of settlement.

No derivative instrument initially designated as a hedge instrument was undesignated or discontinued as a hedging instrument during 2002 or 2001. During the year ended Dec. 31, 2002, the net change in accumulated other comprehensive loss related to derivatives was $17 million, net of tax. This was comprised of a $1 million realized loss which was reclassified from accumulated other comprehensive loss to earnings and an unrealized gain of $16 million. The realized loss relates to the settlement, during the period, of natural gas swap and forward currency contracts. The unrealized gain during the period relates primarily to the changes in fair value of the natural gas contracts offset, in part, by an unrealized loss for interest rate swaps owned by one of the Company's affiliates accounted for under the equity method of accounting. During the year ended Dec. 31, 2001, the net change in accumulated other comprehensive loss related to derivatives totaled $51 million, net of tax, excluding the transition adjustment. This was comprised of a $7 million realized gain which was reclassified from accumulated other comprehensive loss to earnings and an unrealized loss of $44 million.

The fair values of all outstanding derivative instruments were determined using quoted market prices.

15. Accumulated Other Comprehensive Loss

(Millions)	Unrealized Currency Translation Adjustment	Minimum Pension Liability Adjustment	Unrealized Gain (Loss) on Marketable Securities	Unrealized Gain (Loss) on Derivatives	Accumulated Other Comprehensive Loss
Balance, Jan. 1, 2000	$(162)	$ (13)	$(3)	$—	$ (178)
Net change	(120)	(16)	3	—	(133)
Balance, Dec. 31, 2000	(282)	(29)	—	—	(311)
Net change	(131)	(20)	10	(8)	(149)
Balance, Dec. 31, 2001	(413)	(49)	10	(8)	(460)
Net change	73	(726)	(5)	17	(641)
Balance, Dec. 31, 2002	$(340)	$(775)	$ 5	$ 9	$(1,101)

Unrealized currency translation adjustments exclude income tax expense (benefit) given that the earnings of non-U.S. subsidiaries are deemed to be reinvested for an indefinite period of time. The income tax benefit associated with the minimum pension liability adjustment was $416 million in 2002 and $9 million in 2001. The unrealized gain (loss) on marketable securities and derivatives is presented net of tax.

The 2000 net change in unrealized gain (loss) on marketable securities includes the reclassification to "Other charges" in the accompanying statement of income for unrealized losses of $14 million, $9 million net of tax, due to an other than temporary decline in the market value of an investment in marketable equity securities.

4.28

STRYKER CORPORATION AND SUBSIDIARIES (DEC)

Consolidated Statements of Stockholders' Equity

(In millions, except per share amounts)	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Gain (Loss)	Total
Balances at January 1, 2000	$19.4	$ 27.1	$ 668.1	($43.1)	$ 671.5
Net earnings for 2000	—	—	221.0	—	221.0
Unrealized losses on securities of $0.4 (net of $0.1 income tax benefit), net of reclassification adjustment for gains included in net earnings	—	—	—	(0.5)	(0.5)
Foreign currency translation adjustments	—	—	—	(58.8)	(58.8)
Comprehensive earnings for 2000	—	—	—	—	161.7
Issuance of 1.1 shares of common stock under stock option and benefit plans, including $13.8 income tax benefit	0.1	17.5	—	—	17.6
Common stock issued in business acquisitions	0.1	19.7	—	—	19.8
Cash dividend declared of $.08 per share of common stock	—	—	(15.7)	—	(15.7)
Balances at December 31, 2000	19.6	64.3	873.4	(102.4)	854.9
Cumulative effect of accounting change related to cash flow hedges	—	—	—	3.5	3.5
Net earnings for 2001	—	—	267.0	—	267.0
Unrealized losses on securities of $0.2, net of $0.1 income tax benefit	—	—	—	(0.1)	(0.1)
Unrealized losses related to cash flow hedges	—	—	—	(22.0)	(22.0)
Foreign currency translation adjustments	—	—	—	(46.4)	(46.4)
Comprehensive earnings for 2001	—	—	—	—	198.5
Issuance of 0.8 shares of common stock under stock option and benefit plans, including $10.4 income tax benefit	0.1	18.9	—	—	19.0
Cash dividend declared of $.10 per share of common stock	—	—	(19.7)	—	(19.7)
Balances at December 31, 2001	19.7	83.2	1,120.7	(167.4)	1,056.2
Net earnings for 2002	—	—	345.6	—	345.6
Unrealized gains on securities of $0.3, net of $0.1 income tax expense	—	—	—	0.2	0.2
Unrealized gains related to cash flow hedges	—	—	—	9.3	9.3
Unfunded pension losses, net of $3.4 income tax benefit	—	—	—	(6.4)	(6.4)
Foreign currency translation adjustments	—	—	—	79.4	79.4
Comprehensive earnings for 2002	—	—	—	—	428.1
Issuance of 1.4 shares of common stock under stock option and benefit plans, including $22.5 income tax benefit	0.1	37.5	—	—	37.6
Cash dividend declared of $.12 per share of common stock	—	—	(23.7)	—	(23.7)
Balances at December 31, 2002	$19.8	$120.7	$1,442.6	($84.9)	$1,498.2

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

Note 1 (In Part): Significant Accounting Policies

Derivative Financial Instruments

The Company uses derivative financial instruments to manage the economic impact of fluctuations in interest rates and currency exchange rates. The Company enters into interest rate swaps and currency forward contracts to manage these economic risks.

As of January 1, 2001, the Company adopted Financial Accounting Standards Board (FASB) Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities,* as amended by Statements No. 137 and No. 138. The Statements require the Company to recognize all derivatives on the balance sheet at fair value. Derivatives that are not hedges must be adjusted to fair value through earnings. If a derivative is a hedge, depending on the nature of the hedge, changes in the fair value of derivatives are either offset against the change in fair value of the hedged assets, liabilities or firm commitments through earnings or recognized in accumulated other comprehensive gain (loss) until the hedged item is recognized in earnings (see Note 2).

Note 2 (In Part): Financial Instruments and Risk Management

The Company has entered into interest rate swap agreements that effectively convert a portion of its variable-rate borrowings to a fixed-rate basis through 2003, thus reducing the impact of changes in interest rates on future interest expense. Approximately 51% of the Company's outstanding variable-rate borrowings as of December 31, 2002 have been hedged through the designation of interest rate swap agreements classified as cash flow hedges. The Company has fixed the base rate on a $250.0 notional amount of the $486.9 of variable-rate borrowings outstanding at December 31, 2002 at an average rate of 5.58%. The interest rate swaps mature over various terms ranging from September 2003 through December 2003. The fair value of the Company's interest rate swap agreements represents the estimated receipts or payments that would be made to terminate the agreements.

Upon adoption of FASB Statement No. 133, as amended, on January 1, 2001 the Company recognized a gain from the cumulative effect of an accounting change of $3.5 in accumulated other comprehensive gain (loss) related to the interest rate swap agreements. A gain of $9.3 and a loss of $22.0 attributable to changes in the fair value of interest rate swap agreements was recorded as a component of accumulated other comprehensive gain (loss) in 2002 and 2001, respectively. If in the future the interest rate swap agreements were determined to be ineffective or were terminated before the contractual termination dates, or if it became probable that the hedged variable cash flows associated with the variable-rate borrowings would stop, the Company would be required to reclassify into earnings all or a portion of the unrealized losses on cash flow hedges included in accumulated other comprehensive gain (loss). Interest rate differentials to be paid or received as a result of interest rate swaps are recognized as an adjustment of interest expense related to the designated borrowings. Based on the maturities of the Company's interest rate swap agreements, interest expense for the year ending December 31, 2003 is expected to be $9.2 higher than the interest cost on the variable-rate borrowings through the recognition of amounts included as unrealized losses on cash flow hedges at December 31, 2002.

The Company uses yen-denominated floating-rate borrowings to protect a portion of the value of its investment in its subsidiary in Japan. Realized and unrealized gains and losses from this hedge are not included in the Consolidated Statements of Earnings, but are recorded as foreign currency translation adjustments within accumulated other comprehensive gain (loss) in stockholders' equity. Net gains (losses) of ($1.6), $5.8 and $7.7 attributable to the yen-denominated floating-rate borrowings hedge were recorded as foreign currency translation adjustments in 2002, 2001 and 2000, respectively.

Unrealized Losses/Gains on Certain Investments

4.29

ELI LILLY AND COMPANY AND SUBSIDIARIES (DEC)

Consolidated Statements of Comprehensive Income

(Dollars in millions)	2002	2001	2000
Net income	$2,707.9	$2,780.0	$3,057.8
Other comprehensive income (loss)			
Foreign currency translation adjustments	273.6	(83.8)	(170.7)
Net unrealized gains (losses) on securities	(67.4)	47.7	(20.5)
Minimum pension liability adjustment	(4.6)	(95.6)	(33.6)
Effective portion of cash flow hedges	(217.9)	(42.0)	—
Other comprehensive loss before income taxes	(16.3)	(173.7)	(224.8)
Provision for income taxes related to other comprehensive loss items	93.9	36.5	20.0
Other comprehensive gain (loss) (Note 14)	77.6	(137.2)	(204.8)
Comprehensive income	$2,785.5	$2,642.8	$2,853.0

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

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

Investments

Substantially all debt and marketable equity securities are classified as available-for-sale. Available-for-sale securities are carried at fair value with the unrealized gains and losses, net of tax, reported in other comprehensive income. Unrealized losses considered to be other than temporary are recognized in earnings currently. Factors we consider in making

this evaluation include company-specific drivers of the decrease in stock price, status of projects in development, near-term prospects of the issuer, the length of time the value has been depressed, and the financial condition of the industry. Realized gains and losses on sales of available-for-sale securities are computed based upon initial cost adjusted for any other-than-temporary declines in fair value. Investments in companies over which we have significant influence but not a controlling interest are accounted for using the equity method with our share of earnings or losses reported in other income. We own no investments that are considered to be trading securities.

Note 5 (In Part): Financial Instruments and Investments

Fair Value of Financial Instruments

A summary of our outstanding financial instruments and other investments at December 31 follows:

	2002		2001	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Short-term investments				
Debt securities	$1,708.8	$1,708.8	$1,028.7	$1,028.7
Noncurrent investments				
Marketable equity	$ 85.9	$ 85.9	$ 179.6	$ 179.6
Debt securities	2,458.6	2,458.6	1,983.7	1,984.1
Equity method and other investments	605.9	N/A	547.6	N/A
	$3,150.4		$2,710.9	
Long-term debt, including current portion	$4,643.6	$4,886.7	$3,144.3	$3,258.1

We determine fair values based on quoted market values where available or discounted cash flow analyses (principally long-term debt). The fair value of equity method investments is not readily available and disclosure is not required. The fair value and carrying amount of risk-management instruments in the aggregate were not material at December 31, 2002 and 2001. Approximately $3.1 billion of our investments in debt securities mature within five years.

A summary of the unrealized gains and losses (pretax) of our available-for-sale securities in other comprehensive income at December 31 follows:

	2002	2001
Unrealized gross gains	$77.4	$65.6
Unrealized gross losses	87.7	8.5

The net adjustment to unrealized gains and losses (net of tax) on available-for-sale securities increased (decreased) other comprehensive income by ($45.0) million, $34.3 million, and ($12.3) million in 2002, 2001, and 2000, respectively. Activity related to our available-for-sale investment portfolio was as follows:

	2002	2001	2000
Proceeds from sales	$3,724.2	$1,826.3	$773.8
Realized gross gains on sales	57.0	14.1	71.6
Realized gross losses on sales	35.2	0.1	16.5

During the years ended December 31, 2002 and 2001, net losses related to ineffectiveness and net losses related to the portion of fair value and cash flow hedging instruments excluded from the assessment of effectiveness were not material.

We expect to reclassify approximately $44.7 million of pre-tax net losses on cash flow hedges of anticipated foreign currency transactions and the variability in expected future interest payments on floating rate debt, from accumulated other comprehensive loss to earnings during 2003. This assumes that short-term interest rates remain unchanged from the prevailing rates at December 31, 2002.

Note 14: Other Comprehensive Income (Loss)

The accumulated balances related to each component of other comprehensive income (loss) were as follows:

	Foreign Currency Translation	Unrealized Gains (Losses) on Securities	Minimum Pension Liability Adjustment	Effective Portion of Cash Flow Hedges	Accumulated Other Comprehensive Income (Loss)
Beginning balance at January 1, 2002	$(630.1)	$ 42.1	$(134.8)	$ (25.6)	$(748.4)
Other comprehensive income (loss)	273.6	(45.0)	(3.0)	(148.0)	77.6
Balance at December 31, 2002	$(356.5)	$ (2.9)	$(137.8)	$(173.6)	$(670.8)

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 reclassification adjustments of $11.3 million, $12.3 million, and $43.9 million, net of tax, in 2002, 2001, and 2000, respectively, for net realized gains on sales of securities included in net income. The effective portion of cash flow hedges is net of reclassification adjustments of $6.5 million, net of tax, in 2002 for interest expense on interest rate swaps designated as cash flow hedges and $16.5 million, net of tax, in 2001 for realized gains on foreign currency options.

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 in shareholders' equity rather than in income.

4.30

MASCO CORPORATION AND CONSOLIDATED SUBSIDIARIES (DEC)

Consolidated Statements of Shareholders' Equity

	Total	Preferred Shares ($1 Par Value)	Common Shares ($1 Par Value)	Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Restricted Stock Awards, Net
Balance, January 1, 2000	$3,018,910,000	$ —	$443,510,000	$ 601,990,000	$2,151,520,000	$ (60,520,000)	$(117,590,000)
Net income	591,700,000				591,700,000		
Cumulative translation adjustments	(68,540,000)					(68,540,000)	
Unrealized loss on marketable securities, net of income tax credit of $23,900,000	(40,690,000)					(40,690,000)	
Total comprehensive income	482,470,000						
Shares issued	261,710,000		13,800,000	247,910,000			
Shares repurchased	(219,640,000)		(12,560,000)	(207,080,000)			
Cash dividends declared	(223,280,000)				(223,280,000)		
Compensatory stock options of pooled companies	(11,700,000)			(11,700,000)			
Restricted stock awards, net	(22,100,000)						(22,100,000)
Balance, December 31, 2000	3,286,370,000	—	444,750,000	631,120,000	2,519,940,000	(169,750,000)	(139,690,000)
Net income	198,500,000				198,500,000		
Cumulative translation adjustments	(46,440,000)					(46,440,000)	
Unrealized gain on marketable securities, net of income tax of $16,400,000	27,900,000					27,900,000	
Total comprehensive income	179,960,000						
Shares issued	831,010,000	20,000	17,420,000	813,570,000			
Shares repurchased	(66,990,000)		(3,120,000)	(63,870,000)			
Cash dividends declared	(250,210,000)				(250,210,000)		
Restricted stock awards, net	(22,470,000)						(22,470,000)
Balance, December 31, 2001	3,957,670,000	20,000	459,050,000	1,380,820,000	2,468,230,000	(188,290,000)	(162,160,000)
Net income	589,700,000				589,700,000		
Cumulative translation adjustments	239,040,000					239,040,000	
Unrealized loss on marketable securities, net of income tax credit of $8,600,000	(14,550,000)					(14,550,000)	
Minimum pension liability, net of income tax credit of $34,000,000	(57,900,000)					(57,900,000)	
Total comprehensive income	756,290,000						
Shares issued	1,022,540,000		38,100,000	984,240,000			
Shares repurchased	(166,240,000)		(8,260,000)	(157,980,000)			
Cash dividends declared	(274,440,000)				(274,440,000)		
Restricted stock awards, net	(1,780,000)						(1,780,000)
Balance, December 31, 2002	$5,293,840,000	$20,000	$488,890,000	$2,207,080,000	$2,783,490,000	$ (21,700,000)	$(163,940,000)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

F (In Part): Investments

Financial Investments (In Part)

The Company maintains investments in marketable equity securities, bond funds and a number of private equity funds principally as part of its tax planning strategies, as any gains enhance the utilization of tax capital loss carryforwards. Included in other long-term assets are the following financial investments, in thousands:

	2002	2001
Marketable equity securities	$216,400	$106,060
Bond funds	229,930	—
Private equity funds	345,650	321,660
Metaldyne Corporation	67,780	58,950
TriMas Corporation	25,000	—
Other investments	8,890	9,300
Total	$893,650	$495,970

The Company's investments in marketable equity securities and bond funds at December 31, 2002 and 2001 were as follows, in thousands:

		Pre-Tax		
	Cost Basis	Unrealized Gains	Unrealized Losses	Recorded Basis
Dec. 31, 2002				
Marketable equity securities	$264,160	$2,210	$ (49,970)	$216,400
Bond funds	$225,560	$4,600	$ (230)	$229,930
Dec. 31, 2001				
Marketable equity securities	$126,350	$2,510	$ (22,800)	$106,060
Bond funds	—	—	—	—

Investments in marketable equity securities and bond funds are accounted for as available-for-sale. Accordingly, the Company records these investments at fair value, and unrealized gains and losses are recognized, net of tax effect, through shareholders' equity, as a component of other comprehensive income. Realized gains and losses and charges for other-than-temporary impairments are included in determining net income, with related purchase costs based on specific identification. The Company's investments in private equity funds and other investments are carried at cost and are evaluated for impairment at each reporting period or when circumstances indicate an impairment may exist. In the fourth quarter of 2002, the Company recognized an impairment charge of $24.1 million principally related to certain of its investments in private equity funds and other financial investments. At December 31, 2002, the carrying value of the Company's investments in private equity funds exceeded the estimated market value, as determined by the fund managers, by approximately $45 million; however, most funds have lives of 10 years or more and changes in estimated fair value are considered in relation to the investment term.

K (In Part): Shareholders' Equity

Accumulated Other Comprehensive Income (Loss)

The Company's total comprehensive income (loss) was as follows, in thousands:

	2002	2001
Net income	$589,700	$198,500
Other comprehensive income:		
Cumulative translation adjustments	239,040	(46,440)
Unrealized (loss) gain on marketable securities, net of income tax effect	(14,550)	27,900
Minimum pension liability, net of income tax credit	(57,900)	—
Total comprehensive income	$756,290	$179,960

The unrealized (loss) gain on marketable equity securities and bond funds is net of income tax (credit) of $(8.6) million and $16.4 million for the years ended December 31, 2002 and 2001, respectively.

The components of accumulated other comprehensive income (loss) were as follows, in thousands:

	2002	2001
Unrealized loss on marketable securities	$(27,340)	$ (12,790)
Minimum pension liability	(57,900)	—
Cumulative translation adjustments	63,540	(175,500)
Accumulated other comprehensive income	$(21,700)	$(188,290)

Unrealized loss on marketable equity securities and bond funds is reported net of income tax credit of $16.1 million and $7.5 million at December 31, 2002 and 2001, respectively.

The minimum pension liability is reported net of income tax credit of $34.0 million at December 31, 2002.

Realized losses on marketable securities of $29.6 million and $35.9 million, net of income tax credit, for 2002 and 2001, respectively, were included in determining net income and were reclassified from accumulated other comprehensive income.

Reclassification Adjustments

4.31

HECLA MINING COMPANY AND SUBSIDIARIES (DEC)

Consolidated Statements of Operations and Comprehensive Loss

(Dollars and shares in thousands, except per share amounts)	2002	2001	2000
Continuing operations:			
Sales of products	$105,700	$85,247	$ 75,850
Cost of sales and other direct production costs	59,449	60,053	63,088
Depreciation, depletion and amortization	22,536	20,475	18,091
	81,985	80,528	81,179
Gross profit (loss)	23,715	4,719	(5,329)
Other operating expenses:			
General and administrative	7,121	7,219	7,303
Exploration	5,825	2,157	6,332
Depreciation and amortization	116	265	282
Provision for closed operations and environmental matters	898	1,310	20,029
Reduction in carrying value of mining properties	—	—	40,240
	13,960	10,951	74,186
Income (loss) from operations	9,755	(6,232)	(79,515)
Other income (expense):			
Interest and other income	1,865	3,491	4,609
Miscellaneous expense	(1,859)	(2,954)	(1,809)
Interest expense	(1,816)	(3,887)	(8,119)
	(1,810)	(3,350)	(5,319)
Income (loss) from continuing operations before income taxes and items shown below	7,945	(9,582)	(84,834)
Income tax benefit (provision)	2,918	—	(13)
Income (loss) from continuing operations before items shown below	10,863	(9,582)	(84,847)
Discontinued operations:			
Income (loss), net of income tax	(2,224)	(743)	2,572
Gain (loss) on disposal, net of income tax	—	12,665	(1,043)
Extraordinary charge, net of income tax	—	—	(647)
Net income (loss)	8,639	2,340	(83,965)
Preferred stock dividends	(23,253)	(8,050)	(8,050)
Loss applicable to common shareholders	$ (14,614)	$ (5,710)	$(92,015)

(continued)

(Dollars and shares in thousands, except per share amounts)	2002	2001	2000
Net income (loss):	$ 8,639	$ 2,340	$(83,965)
Cumulative effect of a change in accounting principle	—	(136)	—
Change in derivative contracts	(256)	256	—
Unrealized holding gains (losses) on securities	9	(26)	13
Reclassification adjustment for losses included in net income (loss)	38	39	—
Change in foreign currency items	—	4,898	—
Comprehensive income (loss)	$ 8,430	$ 7,371	$(83,952)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 14: Other Comprehensive Income (Loss)

Due to the availability of U.S. net operating losses and related deferred tax valuation allowances, there is no tax effect associated with any component of other comprehensive income (loss). The following table lists the beginning balance, yearly activity and ending balance of each component of accumulated other comprehensive income (loss) (in thousands):

	Foreign Currency Items	Unrealized Gains (Losses) on Securities	Change in Derivative Contracts[1]	Total Accumulated Other Comprehensive Income (Loss)
Balance December 31, 1999	$(4,898)	$ 27	$ —	$(4,871)
2000 change	—	13	—	13
Balance December 31, 2000	(4,898)	40	—	(4,858)
2001 change	4,898	(26)	159	5,031
Balance December 31, 2001	—	14	159	173
2002 change	—	9	(218)	(209)
Balance December 31, 2002	$ —	$ 23	$ (59)	$ (36)

[1] Included in the change in derivative contracts for the year ended December 31, 2001, is a $136,000 loss on the cumulative effect of adopting SFAS 133, $39,000 of realization on gold lease swaps during 2001 and a fair value gain adjustment on swaps outstanding at December 31, 2001, of $256,000. Included in the change in derivative contracts for the year ended December 31, 2002, was $38,000 of realization on gold lease swaps during 2002 and a fair value loss adjustment on swaps expired in January 2002.

4.32

PAYCHEX, INC. (MAY)

Consolidated Statements of Stockholders' Equity

	Common Stock		Additional		Accumulated Other	
(In thousands)	Shares	Amount	Paid-In Capital	Retained Earnings	Comprehensive Income/(Loss)	Total
Balance at May 31, 1999	246,326	$2,463	$ 68,238	$362,269	$ 2,830	$435,800
Net income				190,007		190,007
Unrealized losses on securities, net of tax					(11,405)	(11,405)
Total comprehensive income						178,602
Cash dividends declared				(81,583)		(81,583)
Exercise of stock options	1,532	16	11,226			11,242
Tax benefit from exercise of stock options			19,440			19,440
Shares issued in connection with three-for-two stock split	123,911	1,239		(1,308)		(69)
Balance at May 31, 2000	371,769	3,718	98,904	469,385	(8,575)	563,432
Net income				254,869		254,869
Unrealized gains on securities, net of tax					21,642	21,642
Total comprehensive income						276,511
Cash dividends declared				(123,112)		(123,112)
Exercise of stock options	1,878	18	14,582			14,600
Tax benefit from exercise of stock options			26,411			26,411
Balance at May 31, 2001	373,647	3,736	139,897	601,142	13,067	757,842
Net income				274,531		274,531
Unrealized gains on securities, net of tax					3,957	3,957
Total comprehensive income						278,488
Cash dividends declared				(157,481)		(157,481)
Exercise of stock options	2,212	23	21,008			21,031
Tax benefit from exercise of stock options			24,101			24,101
Balance at May 31, 2002	375,859	$3,759	$185,006	$718,192	$ 17,024	$923,981

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note I—Other Comprehensive Income

The following table sets forth the related tax effects allocated to unrealized gains and losses on available-for-sale securities, which is the only component of other comprehensive income:

(In thousands)	2002	2001	2000
Unrealized holding gains/(losses)	$ 21,987	$ 41,321	$(21,599)
Income tax (expense)/benefit related to unrealized holding (gains)/losses	(7,874)	(14,923)	7,806
Reclassification adjustment for the (gain)/loss on sale of securities realized in net income	(15,853)	(7,423)	3,728
Income tax expense/(benefit) on reclassification adjustment for gain/(loss) on sale of securities	5,697	2,667	(1,340)
Other comprehensive income/(loss)	$ 3,957	$ 21,642	$(11,405)

Section 5: Stockholders' Equity

GENERAL

5.01 This section reviews the presentation of transactions, other than comprehensive income (loss) for the year, affecting stockholders' equity.

RETAINED EARNINGS

PRESENTATION OF CHANGES IN RETAINED EARNINGS

5.02 Paragraph 152 of Statement of Financial Accounting Standards (SFAS) No. 95, *Statement of Cash Flows,* states that a complete set of financial statements includes a presentation of "results of operations." Paragraph 7 of Accounting Principles Board (APB) Opinion No. 9, *Reporting the Results of Operations,* 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.

5.03

TABLE 5-1: PRESENTATION OF CHANGES IN RETAINED EARNINGS

	2002	2001	2000	1999
Statement of stockholders' equity	581	578	577	534
Separate statement of retained earnings	9	9	7	41
Combined statement of income and retained earnings	3	6	10	8
Schedule in notes	7	7	6	17
Total Companies	**600**	**600**	**600**	**600**

DIVIDENDS

5.04 Table 5-2 shows the nature of distributions made by the survey companies to their shareholders. Approximately 62% 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 37% of the survey companies made a similar disclosure for cash dividends paid to preferred stock shareholders.

5.05 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 4 survey companies issuing stock purchase rights during 2002, one company did so under a plan which replaced a plan adopted in a prior year.

5.06 Examples of distributions to shareholders follow.

5.07

TABLE 5-2: DIVIDENDS

	Number of Companies			
	2002	**2001**	**2000**	**1999**
Cash Dividends Paid to Common Stock Shareholders				
Per share amount disclosed in retained earnings statements	219	229	239	253
Per share amount not disclosed in retained earnings statements	135	156	164	168
Total	**354**	**385**	**403**	**421**
Cash Dividends Paid to Preferred Stock Shareholders				
Per share amount disclosed in retained earnings statements	22	17	25	19
Per share amount not disclosed in retained earnings statements	38	48	44	57
Total	**60**	**65**	**69**	**76**
Dividends Paid by Pooled Companies	—	—	—	**1**
Stock Dividends	**6**	**4**	**12**	**18**
Dividends in Kind	**10**	**14**	**7**	**2**
Stock Purchase Rights	**4**	**7**	**9**	**13**

Cash Dividends

5.08

ALCOA INC. (DEC)

Statement of Shareholders' Equity

(In millions, except per-share amounts)	Comprehensive Income	Preferred Stock	Common Stock	Additional Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
Balance at end of 1999		$56	$395	$1,704	$6,061	$(1,260)	$ (638)	$ 6,318
Comprehensive income—2000:								
Net income—2000	$1,484				1,484			1,484
Other comprehensive income (loss):								
Change in minimum pension liability, net of $(3) tax expense	5							
Unrealized translation adjustments	(263)						(258)	(258)
Comprehensive income	$1,226							
Cash dividends:								
Preferred @ $3.75 per share					(2)			(2)
Common @ $.500 per share					(416)			(416)
Treasury shares purchased						(763)		(763)
Stock issued: Reynolds acquisition			135	4,367				4,502
Stock issued: compensation plans				251		306		557
Stock issued: two-for-one split			395	(395)				—
Balance at end of 2000		56	925	5,927	7,127	(1,717)	(896)	11,422
Comprehensive income—2001:								
Net income—2001	$ 908				908			908
Other comprehensive income (loss):								
Change in minimum pension liability, net of $27 tax benefit	(51)							
Unrealized translation adjustments	(241)							
Unrecognized gains/(losses) on derivatives, net of tax and minority interests of $124:								
Cumulative effect of accounting change	(4)							
Net change from periodic revaluations	(175)							
Net amount reclassified to income	75							
Net unrecognized losses on derivatives	(104)						(396)	(396)
Comprehensive income	$ 512							
Cash dividends:								
Preferred @ $3.75 per share					(2)			(2)
Common @ $.600 per share					(516)			(516)
Treasury shares purchased						(1,452)		(1,452)
Stock issued: compensation plans				187		463		650
Balance at end of 2001		$56	$925	$6,114	$7,517	$(2,706)	$(1,292)	$10,614

(continued)

(In millions, except per-share amounts)	Comprehensive Income	Preferred Stock	Common Stock	Additional Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
Balance at end of 2001		$56	$925	$6,114	$7,517	$(2,706)	$(1,292)	$10,614
Comprehensive loss—2002:								
Net income—2002	$ 420				420			420
Other comprehensive income (loss):								
Change in minimum pension liability, net of $421 tax benefit	(851)							
Unrealized translation adjustments	309							
Unrealized losses on available-for-sale securities, net of $13 tax benefit	(25)							
Unrecognized gains on derivatives, net of tax and minority interests of $(106):								
Net change from periodic revaluations	60							
Net amount reclassified to income	45							
Net unrecognized gains on derivatives	105						(462)	(462)
Comprehensive loss	$ (42)							
Cash dividends:								
Preferred @ $3.75 per share					(2)			(2)
Common @ $.600 per share					(507)			(507)
Treasury shares purchased		(1)				(224)		(225)
Stock issued: compensation plans				(13)		102		89
Balance at end of 2002		$55	$925	$6,101	$7,428	$(2,828)	$(1,754)	$ 9,927

5.09

DILLARD'S, INC. (JAN)

Consolidated Statements of Stockholders' Equity and Comprehensive Loss

(Dollars in thousands, except per share data)	Common Stock Class A	Common Stock Class B	Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Treasury Stock	Total
Balance, January 29, 2000	$1,115	$40	$695,507	$ —	$2,579,567	$(443,395)	$2,832,834
Net loss	—	—	—	—	(5,850)	—	(5,850)
Issuance of 116,275 shares under stock option, employee savings and stock bonus plans	1	—	1,372	—	—	—	1,373
Purchase of 13,894,514 shares of treasury stock	—	—	—	—	—	(183,753)	(183,753)
Cash dividends declared:							
Common stock, $.16 per share	—	—	—	—	(14,784)	—	(14,784)
Balance, February 3, 2001	1,116	40	696,879	—	2,558,933	(627,148)	2,629,820
Net income	—	—	—	—	71,798	—	71,798
Issuance of 221,635 shares under stock option, employee savings and stock bonus plans	2	—	2,225	—	—	—	2,227
Purchase of 1,333,959 shares of treasury stock	—	—	—	—	—	(22,325)	(22,325)
Cash dividends declared:							
Common stock, $.16 per share	—	—	—	—	(13,123)	—	(13,123)
Balance, February 2, 2002	1,118	40	699,104	—	2,617,608	(649,473)	2,668,397
Net loss	—	—	—		(398,405)	—	(398,405)
Minimum pension liability adjustment, net	—	—	—	(4,496)	—	—	(4,496)
Total comprehensive loss							(402,901)
Issuance of 869,985 shares under stock option, employee savings and stock bonus plans	9	—	12,220	—	—	—	12,229
Cash dividends declared:							
Common stock, $.16 per share	—	—	—	—	(13,529)	—	(13,529)
Balance, February 1, 2003	$1,127	$40	$711,324	$(4,496)	$2,205,674	$(649,473)	$2,264,196

Dividends-in-Kind

5.10

ALLERGAN, INC. (DEC)

Consolidated Statements of Stockholders' Equity

(In millions, except per share data)	Common Stock		Additional Paid-In Capital	Unearned Compensation	Accumulated Other Comprehensive Loss	Retained Earnings	Treasury Stock		Total	Comprehensive Income
	Shares	Par Value					Shares	Amount		
Balance December 31, 1999	134.3	$1.3	$261.4	$(15.9)	$(49.3)	$651.1	(4.4)	$(214.1)	$ 634.5	
Comprehensive income										
Net earnings						215.1			215.1	$215.1
Other comprehensive income, net of tax:										
Foreign currency translation adjustments										(2.8)
Unrealized gain on investments										1.3
Other comprehensive loss					(1.5)				(1.5)	(1.5)
Comprehensive income										$213.6
Dividends ($0.32 per share)						(41.9)			(41.9)	
Stock options exercised			37.1			(41.8)	3.9	189.9	185.2	
Activity under other stock plans				0.4		0.7		1.6	2.7	
Adjustment in reporting of subsidiaries						(3.2)			(3.2)	
Purchase of treasury stock							(2.1)	(122.8)	(122.8)	
Expense of compensation plans				5.7					5.7	
Balance December 31, 2000	134.3	1.3	298.5	(9.8)	(50.8)	780.0	(2.6)	(145.4)	873.8	
Comprehensive income										
Net earnings						224.9			224.9	$224.9
Other comprehensive income, net of tax:										
Minimum pension liability adjustment										(7.2)
Foreign currency translation adjustments										(2.5)
Unrealized loss on investments										(1.1)
Other comprehensive loss					(10.8)				(10.8)	(10.8)
Comprehensive income										$214.1
Dividends ($0.36 per share)						(47.5)			(47.5)	
Stock options exercised			26.5			(30.9)	1.3	61.8	57.4	
Activity under other stock plans				0.5		1.9	0.1	2.2	4.6	
Purchase of treasury stock							(1.8)	(130.9)	(130.9)	
Expense of compensation plans				5.9					5.9	
Balance December 31, 2001	134.3	$1.3	$325.0	$ (3.4)	$(61.6)	$928.4	(3.0)	$(212.3)	$ 977.4	

(continued)

(In millions, except per share data)	Common Stock		Additional Paid-In Capital	Unearned Compensation	Accumulated Other Comprehensive Loss	Retained Earnings	Treasury Stock		Total	Comprehensive Income
	Shares	Par Value					Shares	Amount		
Balance December 31, 2001	134.3	$1.3	$325.0	$ (3.4)	$(61.6)	$928.4	(3.0)	$(212.3)	$ 977.4	
Comprehensive income										
Net earnings						75.2			75.2	$ 75.2
Other comprehensive income, net of tax:										
Minimum pension liability adjustment										5.9
Foreign currency translation adjustments										(17.6)
Unrealized loss on investments										(0.1)
Other comprehensive loss					(11.8)				(11.8)	(11.8)
Comprehensive income										$ 63.4
Distribution of Advanced Medical Optics, Inc. common stock to stockholders						(53.2)			(53.2)	
Dividends ($0.36 per share)						(46.7)			(46.7)	
Stock options exercised			12.4			(32.4)	0.9	56.3	36.3	
Activity under other stock plans						0.4		9.2	9.6	
Purchase of treasury stock							(2.7)	(180.8)	(180.8)	
Expense of compensation plans				2.3					2.3	
Balance December 31, 2002	134.3	$1.3	$337.4	$ (1.1)	$(73.4)	$871.7	(4.8)	$(327.6)	$ 808.3	

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2: Discontinued Operations

On June 29, 2002, the Company completed the spin-off of its optical medical device business to its stockholders. The optical medical device business consisted of two businesses: the ophthalmic surgical products business, which developed, manufactured and marketed products that included artificial lenses for the eye, called intraocular lenses, and equipment for cataract and refractive eye surgery; and the contact lens care products business, which developed, manufactured and marketed a broad range of products for use with every available type of contact lens. The spin-off was effected by contributing the optical medical device business to a newly formed subsidiary, Advanced Medical Optics, Inc. ("AMO"), and issuing a dividend of AMO's common stock to the Company's stockholders. The Internal Revenue Service ruled that the transaction qualified as tax-free for Allergan and its stockholders for U.S. federal income tax purposes, with the exception of cash received for fractional shares. The common stock of Advanced Medical Optics, Inc. began trading publicly on the New York Stock Exchange on July 1, 2002 under the symbol "AVO." As a result of the spin-off, the Company continues to own and operate its specialty pharmaceutical business, and AMO owns and operates what was formerly the Company's optical medical device business. The Company's consolidated financial statements and related notes contained herein have been recast to reflect the financial position, results of operations and cash flows of AMO as a discontinued operation. The Company did not account for its ophthalmic surgical and contact lens care businesses as a separate legal entity. Therefore, the following selected financial data for the Company's discontinued operations is presented for informational purposes only and does not necessarily reflect what the net sales or earnings would have been had the businesses operated as a stand-alone entity. The financial information for the Company's discontinued operations includes allocations of certain Allergan assets, liabilities and expenses to those operations. These amounts have been allocated to the Company's discontinued operations on the basis that is considered by management to reflect most fairly or reasonably the utilization of the services provided to, or the benefit obtained by, those operations.

The following tables set forth, for the periods indicated, selected financial data of the Company's discontinued operations.

Selected Financial Data for Discontinued Operations

Statement of Earnings Data (In millions)	2002	2001	2000
Net sales	$251.7	$543.1	$570.5
Earnings from discontinued operations, net of tax	11.2	54.9	49.2

Balance Sheet Data (In millions)	2001
Current assets	$210.5
Goodwill and intangibles	101.4
Other non-current assets	65.6
Total assets	$377.5
Current liabilities	$ 85.6
Long-term debt	75.8
Other non-current liabilities	2.2
Total liabilities	$163.6

Current assets consist primarily of trade accounts receivable and inventories. Current liabilities consist primarily of the current portion of long-term debt, accounts payable and accrued compensation.

Through the end of 2002, actual costs incurred by the Company related to the AMO spin-off, including restructuring and duplicate operating expenses, were approximately $104.7 million including $4.4 million in costs incurred prior to 2002. This amount excludes $14.3 million in costs incurred in 2002 which were allocated to discontinued operations. The Company has also paid $16.3 million and expects to pay an additional amount of approximately $2.7 million for various taxes related to the intercompany purchases of assets by AMO prior to the spin-off which were deferred and charged to retained earnings as part of the dividend of the AMO stock to Allergan's stockholders.

As part of the spin-off of AMO, Allergan and AMO have entered into a tax sharing agreement, employee matters agreement, limited transitional services agreement (such as general and administrative support, transitional facilities subleases, research and development services, and retail channel support) and a manufacturing and supply agreement.

The transitional services agreement sets forth charges generally intended to allow Allergan to fully recover the allocated costs of providing the services, plus all out-of-pocket costs and expenses. AMO will recover costs from Allergan in a similar manner for services provided by AMO. With limited exceptions, Allergan does not expect that transitional services will extend beyond the 12-month period following the spin-off.

Under the manufacturing and supply agreement, Allergan will manufacture certain contact lens care products and VITRAX for a period of up to three years from the date of the distribution. Under the manufacturing agreement, AMO may purchase these products at a price equal to Allergan's fully allocated costs plus 10%.

The tax sharing agreement governs Allergan's and AMO's respective rights, responsibilities and obligations after the distribution with respect to taxes for any tax period ending before, on or after the distribution. Generally, Allergan will be liable for all pre-distribution taxes attributable to its business, and AMO will indemnify Allergan for all pre-distribution taxes attributable to AMO's business for the current taxable year. In addition, the tax sharing agreement provides that Allergan will generally be liable for taxes that are incurred as a result of restructuring activities undertaken to effect the distribution.

Allergan and AMO have made representations to each other and to the Internal Revenue Service in connection with the private letter ruling that Allergan received regarding the tax-free nature of the distribution of AMO's common stock by Allergan to its stockholders. If Allergan or AMO breach their respective representations to each other or to the Internal Revenue Service, or if Allergan or AMO take or fail to take, as the case may be, actions that result in the distribution failing to meet the requirements of a tax-free distribution pursuant to Section 355 of the Internal Revenue Code, the party in breach will indemnify the other party for any and all resulting taxes.

5.11

THE PROCTER & GAMBLE COMPANY AND SUBSIDIARIES (JUN)

Consolidated Statement of Shareholders' Equity

(Dollars in millions/shares in thousands)	Common Shares Outstanding	Common Stock	Preferred Stock	Additional Paid-In Capital	Reserve for ESOP Debt Retirement	Accumulated Other Comprehensive Income	Retained Earnings	Total	Total Comprehensive Income
Balance June 30, 1999	1,319,754	$1,320	$1,781	$1,337	$(1,552)	$(1,606)	$10,778	$12,058	
Net earnings							3,542	3,542	$3,542
Other comprehensive income:									
Financial statement translation						(449)		(449)	(449)
Net investment hedges, net of $88 tax						150		150	150
Other, net of tax						63		63	63
Total comprehensive income									$3,306
Dividends to shareholders:									
Common							(1,681)	(1,681)	
Preferred, net of tax benefit							(115)	(115)	
Treasury purchases	(24,296)	(24)		72			(1,814)	(1,766)	
Employee plan issuances	7,592	7		344				351	
Preferred stock conversions	2,817	3	(44)	41				—	
ESOP debt guarantee reduction					134			134	
Balance June 30, 2000	1,305,867	1,306	1,737	1,794	(1,418)	(1,842)	10,710	12,287	
Net earnings							2,922	2,922	$2,922
Other comprehensive income:									
Financial statement translation						(715)		(715)	(715)
Net investment hedges, net of $276 tax						460		460	460
Other, net of tax benefit						(23)		(23)	(23)
Total comprehensive income									$2,644
Dividends to shareholders:									
Common							(1,822)	(1,822)	
Preferred, net of tax benefit							(121)	(121)	
Treasury purchases	(18,238)	(18)		6			(1,238)	(1,250)	
Employee plan issuances	5,924	6		223				229	
Preferred stock conversions	2,185	2	(36)	34				—	
ESOP debt guarantee reduction					43			43	
Balance June 30, 2001	1,295,738	$1,296	$1,701	$2,057	$(1,375)	$(2,120)	$10,451	$12,010	

(continued)

(Dollars in millions/shares in thousands)	Common Shares Outstanding	Common Stock	Preferred Stock	Additional Paid-In Capital	Reserve for ESOP Debt Retirement	Accumulated Other Comprehensive Income	Retained Earnings	Total	Total Comprehensive Income
Balance June 30, 2001	1,295,738	$1,296	$1,701	$2,057	$(1,375)	$(2,120)	$10,451	$12,010	
Net earnings							4,352	4,352	$4,352
Other comprehensive income:									
Financial statement translation						263		263	263
Net investment hedges, net of $238 tax benefit						(397)		(397)	(397)
Other, net of tax benefit						(106)		(106)	(106)
Total comprehensive income									$4,112
Dividends to shareholders:									
Common							(1,971)	(1,971)	
Preferred, net of tax benefit							(124)	(124)	
Spin-off of Jif and Crisco							(150)	(150)	
Treasury purchases	(7,681)	(8)		18			(578)	(568)	
Employee plan issuances	8,323	9		352				361	
Preferred stock conversions	4,390	4	(67)	63				—	
ESOP debt guarantee reduction					36			36	
Balance June 30, 2002	1,300,770	$1,301	$1,634	$2,490	$(1,339)	$(2,360)	$11,980	$13,706	

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Millions of dollars)

Note 3 (In Part): Acquisitions and Spin-Off

Spin-Off

On May 31, 2002, the Jif peanut butter and Crisco shortening brands were spun off to the Company's shareholders, and subsequently merged into The J.M. Smucker Company (Smucker). The Company's shareholders received one new common Smucker share for every 50 shares held in the Company, totaling 26 million shares, or approximately $900 in market value. This transaction was not included in the results of operations, since a spin-off to the Company's shareholders is recorded at net book value, or $150, in a manner similar to dividends.

Stock Purchase Rights

5.12

CONOCOPHILLIPS (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 18—Preferred Share Purchase Rights

ConocoPhillips' Board of Directors has authorized and declared a dividend of one preferred share purchase right for each common share outstanding, and has authorized and directed the issuance of one right per common share for any newly issued shares. The rights, which expire June 30, 2012, will be exercisable only if a person or group acquires 15 percent or more of the company's common stock or commences a tender offer that would result in ownership of 15 percent or more of the common stock. Each right would entitle stockholders to buy one one-hundredth of a share of preferred stock at an exercise price of $300. In addition, the rights enable holders to either acquire additional shares of ConocoPhillips common stock or purchase the stock of an acquiring company at a discount, depending on specific circumstances. The company may redeem the rights in whole, but not in part, for one cent per right.

ADJUSTMENTS TO OPENING BALANCE OF RETAINED EARNINGS

5.13 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. SFAS No. 16, *Prior Period Adjustments,* as amended by SFAS No. 109, *Accounting for Income Taxes,* stipulates that only corrections of errors are properly accounted for as prior period adjustments.

5.14 Table 5-3 summarizes the reasons disclosed by the survey companies as to why the opening balance of retained earnings was adjusted. Prior to 2002, a pooling of interests was the most common reason for an adjustment to retained earnings. SFAS No. 141, *Business Combinations,* issued in 2001, supersedes APB Opinion No. 16, *Business Combinations. SFAS No. 141* stipulates that the pooling-of-interests method not be used for business combinations initiated after June 30, 2001. Consequently, the most common reason for an adjustment to retained earnings during 2002 was a correction of an error.

5.15

TABLE 5-3: ADJUSTMENTS TO OPENING BALANCE OF RETAINED EARNINGS

	Number of Companies			
	2002	2001	2000	1999
Prior period adjustments	6	2	5	—
Accounting changes	5	1	2	4
Poolings of interests	2	8	18	25
Other—described	1	—	—	3

Prior Period Adjustment

5.16

COMMERCIAL METALS COMPANY AND SUBSIDIARIES (AUG)

Consolidated Statements of Stockholders' Equity

(In thousands, except share data)	Common Stock Number of Shares	Common Stock Amount	Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Treasury Stock Number of Shares	Treasury Stock Amount	Total
Balance, September 1, 1999, as previously reported	16,132,583	$ 80,663	$14,131	$ (774)	$368,177	(1,726,323)	$(43,739)	$418,458
Prior period adjustments (see footnote 14)					(146)			(146)
Balance, September 1, 1999, as restated	16,132,583	80,663	14,131	(774)	368,031	(1,726,323)	(43,739)	418,312
Comprehensive income:								
Net earnings*					44,590			44,590
Other comprehensive loss—								
Foreign currency translation adjustment, net of taxes of $440				(817)				(817)
Comprehensive income								43,773
Cash dividends					(7,304)			(7,304)
Treasury stock acquired						(1,465,100)	(41,934)	(41,934)
Stock issued under incentive and purchase plans			100			231,515	5,858	5,958
Balance, August 31, 2000	16,132,583	80,663	14,231	(1,591)	405,317	(2,959,908)	(79,815)	418,805
Comprehensive income:								
Net earnings*					23,772			23,772
Other comprehensive loss—								
Unrealized loss on derivatives, net of taxes of $7				(14)				(14)
Foreign currency translation adjustment, net of taxes of $192				(356)				(356)
Comprehensive income								23,402
Cash dividends					(6,780)			(6,780)
Treasury stock acquired						(271,500)	(6,716)	(6,716)
Stock issued under incentive and purchase plans			(301)			177,419	4,684	4,383
Balance, August 31, 2001	16,132,583	80,663	13,930	(1,961)	422,309	(3,053,989)	(81,847)	433,094
Comprehensive income:								
Net earnings					40,525			40,525
Other comprehensive income (loss)—								
Foreign currency translation adjustment, net of taxes of $276				513				513
Unrealized loss on derivatives, net of taxes of $(5)				(10)				(10)
Comprehensive income								41,028
Cash dividends					(7,521)			(7,521)
2-for-1 stock split	16,132,583	80,663	(17,354)		(63,309)	(3,053,989)		
Stock issued under incentive and purchase plans			(873)			2,361,265	31,111	30,238
Tax benefits from stock plans			4,467					4,467
Balance, August 31, 2002	32,265,166	$161,326	$ 170	$(1,458)	$392,004	(3,746,713)	$(50,736)	$501,306

* As restated—see footnote 14.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 14. Restatement of Prior Periods

In August 2002, the Company uncovered a theft and accounting fraud which had occurred over four years at a rebar fabrication facility in South Carolina. The total adjustment required to restate the accounting records to their proper balances was $2.7 million pre-tax. In a second, unrelated incident, the Company discovered accounting errors related to losses on rebar fabrication and placement jobs at one facility in California, some of which dated from the acquisition of the facility in May 2000. The resulting charge was $1.9 million pre-tax. The South Carolina incident resulted in a $900 thousand pre-tax expense in fiscal 2002. The remaining $3.7 million pre-tax for both instances was attributed $885 thousand in 2001, $2.6 million in 2000 and $227 thousand in 1999. All reported periods have been restated. The effects of the restatement were as follows:

	2001		2000	
($ in thousands, except per share)	As Previously Reported	As Restated	As Previously Reported	As Restated
At August 31:				
Cash	$ 33,289	$ 32,921	$ 20,067	$ 20,057
Accounts receivable	204,032	202,095	354,045	352,203
Inventories	236,679	223,859	277,455	270,368
Total assets	1,084,800	1,081,671	1,172,862	1,170,092
Accounts payable	201,292	201,114	194,538	194,205
Other payables and accrued expenses	133,464	133,895	142,680	142,732
Income taxes payable	1,105	—	678	—
Retained earnings	424,688	422,309	407,128	405,317
Total stockholders' equity	435,473	433,094	420,616	418,805
For the year ended August 31:				
Selling, general and administrative expenses	$ 211,539	$ 212,424	$ 208,808	$ 211,403
Earnings before income taxes	39,300	38,415	73,255	70,660
Net earnings	24,340	23,772	46,255	44,590
Basic EPS	0.93	0.91	1.65	1.59
Diluted EPS	0.92	0.90	1.62	1.56

In addition to the above, beginning retained earnings as of September 1, 1999 was reduced by $146 thousand.

Change in Accounting Principle

5.17

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

Consolidated Statements of Changes in Stockholders' Equity

	Capital Stock							
(In millions)	Preferred Stock	Common Stock	Unamortized Restricted Stock	Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Treasury Stock, at Cost	Total
Balance at June 30, 1999, as previously reported	$28.8	$1.4	$(5.4)	$146.2	$ 955.4	$(56.6)	$(688.3)	$381.5
Change in accounting principle (see Note 1)					3.6			3.6
Balance at June 30, 1999, as restated	28.8	1.4	(5.4)	146.2	959.0	(56.6)	(688.3)	385.1
Comprehensive income								
Net income					144.7			144.7
Other comprehensive Income:								
Translation loss						(16.4)		(16.4)
Net unrealized gain on investments, net of deferred taxes of $56.0						104.0		104.0
Total comprehensive income								232.3
Stock issued under various plans			4.1	1.9			11.5	17.5
Exchange of common stock				75.0			(75.0)	—
Common stock repurchased							(133.5)	(133.5)
Common stock dividends					(21.3)			(21.3)
Preferred stock dividends					(1.3)			(1.3)
Balance at June 30, 2000, as restated	28.8	1.4	(1.3)	223.1	1,081.1	31.0	(885.3)	478.8
Comprehensive income								
Net income					132.1			132.1
Other comprehensive income:								
Translation loss						(15.6)		(15.6)
Net unrealized loss on investments, net of deferred taxes of $53.4						(99.1)		(99.1)
Net unrealized gain on derivatives, net of deferred taxes of $0.5						0.8		0.8
Minimum pension liability, net of deferred taxes of $0.9						(1.7)		(1.7)
Total comprehensive income								16.5
Stock issued under various plans			0.7	3.0			16.8	20.5
Common stock repurchased							(34.1)	(34.1)
Common stock dividends					(20.6)			(20.6)
Preferred stock dividends					(1.3)			(1.3)
Balance at June 30, 2001, as restated	$28.8	$1.4	$(0.6)	$226.1	$1,191.3	$(84.6)	$(902.6)	$459.8

(continued)

(In millions)	Capital Stock Preferred Stock	Common Stock	Unamortized Restricted Stock	Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Treasury Stock, at Cost	Total
Balance at June 30, 2001, as restated	$28.8	$1.4	$(0.6)	$226.1	$1,191.3	$(84.6)	$(902.6)	$459.8
Comprehensive income								
Net income					91.2			91.2
Other comprehensive income:								
Translation gain						13.0		13.0
Net unrealized loss on investments, net of deferred taxes of $0.6						(1.1)		(1.1)
Net realized gain on derivatives, net of deferred taxes of $0.5						(0.8)		(0.8)
Minimum pension liability, net of deferred taxes of $6.8						(16.2)		(16.2)
Total comprehensive income								86.1
Stock issued under various plans			(4.1)	(1.5)			17.0	11.4
Common stock repurchased							(64.1)	(64.1)
Common stock dividends					(20.0)			(20.0)
Preferred stock dividends					(1.3)			(1.3)
Balance at June 30, 2002	$28.8	$1.4	$(4.7)	$224.6	$1,261.2	$(89.7)	$(949.7)	$471.9

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

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

Inventories

Inventories consist primarily of finished goods and raw materials, including paper, and are stated at the lower of cost or market value.

During the first quarter of 2002, we changed our method of accounting for the cost of inventories in the United States, except for Books Are Fun, Ltd., from the last-in, first-out (LIFO) method to the first-in, first-out (FIFO) method. Books Are Fun was already recording their inventory according to the FIFO method. In our non-U.S. markets, the cost of inventory is primarily determined on the FIFO basis. We believe that the new method of accounting for inventories in the United States is preferable because it provides consistency in accounting for inventories globally, supports our recent transition to a global financial system and provides for more accurate reporting of the current value of the inventory. The impact of changing from LIFO to FIFO did not have a material impact on the results of operations for 2001 and 2000. In accordance with Accounting Principles Board (APB) Opinion No. 20, "Accounting Changes," the change was recorded by increasing inventory by $5.8 and retained earnings by $3.6, net of deferred taxes of $2.2, at the beginning of the period presented.

OTHER CHANGES IN RETAINED EARNINGS

5.18 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.

5.19

TABLE 5-4: OTHER CHANGES IN RETAINED EARNINGS

	Number of Companies 2002	2001	2000	1999
Charges				
Purchase or retirement of capital stock	64	87	74	68
Treasury stock issued for less than cost	32	44	41	49
Preferred stock accretion	4	5	3	5
Other—described	13	22	33	32
Credits				
Tax benefit on dividends paid to ESOP	10	9	13	14
Tax benefit on stock option exercise	3	2	N/C*	N/C*
Other—described	18	34	33	36

* N/C = Not compiled. Line item was not included in table for year shown.

Treasury Stock Transactions

5.20

JOHNSON & JOHNSON AND SUBSIDIARIES (DEC)

Consolidated Statements 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, January 2, 2000	$16,995		$14,768	$(41)	$(399)	$3,120	$ (453)
Net earnings	4,953	$4,953	4,953				
Cash dividends paid	(1,724)		(1,724)				
Employee stock compensation and stock option plans	619		(456)				1,075
Conversion of subordinated debentures	504		504				
Repurchase of common stock	(973)						(973)
Business combinations	77		68				9
Other comprehensive income, net of tax:							
Currency translation adjustment	(45)	(45)			(45)		
Unrealized gains/(losses) on securities	(2)	(2)			(2)		
Pension liability adjustment	(15)	(15)			(15)		
Reclassification adjustment		(52)					
Total comprehensive income		$4,839					
Note receivable from ESOP	6			6			
Balance, December 31, 2000	20,395		18,113	(35)	(461)	3,120	(342)
Net earnings	5,668	$5,668	5,668				
Cash dividends paid	(2,047)		(2,047)				
Employee stock compensation and stock option plans	842		(602)				1,444
Conversion of subordinated debentures	815		632				183
Repurchase of common stock	(2,742)						(2,742)
Business combinations	1,366		1,302				64
Other comprehensive income, net of tax:							
Currency translation adjustment	(175)	(175)			(175)		
Unrealized gains/(losses) on securities	8	8			8		
Gains/(losses) on derivatives & hedges	98	98			98		
Reclassification adjustment		(14)					
Total comprehensive income		$5,585					
Note receivable from ESOP	5			5			
Balance, December 30, 2001	$24,233		$23,066	$(30)	$(530)	$3,120	$(1,393)

(continued)

(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 30, 2001	$24,233		$23,066	$(30)	$(530)	$3,120	$(1,393)
Net earnings	6,597	$6,597	6,597				
Cash dividends paid	(2,381)		(2,381)				
Employee stock compensation and stock option plans	806		(489)				1,295
Conversion of subordinated debentures	131		(222)				353
Repurchase of common stock	(6,382)						(6,382)
Other comprehensive income, net of tax:							
Currency translation adjustment	(10)	(10)			(10)		
Unrealized gains/(losses) on securities	(86)	(86)			(86)		
Pension liability adjustment	(18)	(18)			(18)		
Gains/(losses) on derivatives & hedges	(198)	(198)			(198)		
Reclassification adjustment		(26)					
Total comprehensive income		$6,259					
Note receivable from ESOP	5			5			
Balance, December 29, 2002	$22,697		$26,571	$(25)	$ (842)	$3,120	$(6,127)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

20. Capital and Treasury Stock

Changes in treasury stock were:

(Dollars in millions except number of shares in thousands)	Treasury Stock	
	Shares	Amount
Balance at January 2, 2000	140,154	$ 453
Employee compensation and stock option plans	(28,886)	(1,075)
Conversion of subordinated debentures	(25,676)	—
Repurchase of common stock	21,402	973
Business combinations	(1,776)	(9)
Balance at December 31, 2000	105,218	342
Employee compensation and stock option plans	(30,581)	(1,444)
Conversion of subordinated debentures	(30,061)	(183)
Repurchase of common stock	51,244	2,742
Business combinations	(23,193)	(64)
Balance at December 30, 2001	72,627	1,393
Employee compensation and stock option plans	(22,720)	(1,295)
Conversion of subordinated debentures	(5,742)	(353)
Repurchase of common stock	107,382	6,382
Balance at December 29, 2002	151,547	$ 6,127

Shares of common stock authorized and issued were 3,119,842,000 shares at the end of 2002, 2001 and 2000.

5.21

POLARIS INDUSTRIES INC. (DEC)

Consolidated Statements of Shareholders' Equity and Comprehensive Income

(In thousands, except per share data)	Number of Shares	Common Stock	Additional Paid-In Capital	Deferred Compensation	Compensation Payable in Common Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance, December 31, 1999	24,226	$242	$ 8,987	$ (7,818)	$ 5,975	$160,841	—	$168,227
Employee stock compensation	536	5	15,234	4,518	(5,975)	—	—	13,782
Cash dividends declared ($0.88 per share)		—	—	—		(20,648)	—	(20,648)
Repurchase and retirement of common shares	(1,220)	(12)	(24,221)	—	—	(15,389)	—	(39,622)
Comprehensive income:								
Net income		—	—	—	—	82,809		
Foreign currency translation adjustments, net		—	—	—	—	—	186	
Total comprehensive income								82,995
Balance, December 31, 2000	23,542	235	—	(3,300)	—	207,613	186	204,734
Employee stock compensation	468	5	21,649	(1,588)	—	—	—	20,066
Cash dividends declared ($1.00 per share)		—	—	—	—	(22,846)	—	(22,846)
Repurchase and retirement of common shares	(1,083)	(11)	(21,649)	—	—	(27,547)	—	(49,207)
Comprehensive income:								
Net income			—	—	—	91,414		
Foreign currency translation adjustments, net		—	—	—	—	—	(160)	
Effect of adoption of SFAS No. 133		—	—	—	—	—	(2,544)	
Unrealized loss on derivative instruments, net		—	—	—	—	—	(2,674)	
Total comprehensive income								86,036
Balance, December 31, 2001	22,927	229	—	(4,888)	—	248,634	(5,192)	238,783
Employee stock compensation	563	6	34,432	(7,218)		—	—	27,220
Tax effect of exercise of stock options		—	4,648	—	—	—	—	4,648
Cash dividends declared ($1.12 per share)		—	—	—	—	(25,273)	—	(25,273)
Repurchase and retirement of common shares	(1,190)	(12)	(39,080)	—	—	(37,297)	—	(76,389)
Comprehensive income:								
Net income		—	—	—	—	103,592		
Foreign currency translation adjustments, net		—	—	—	—	—	145	
Unrealized gain on derivative instruments, net		—	—	—	—	—	4,380	
Total comprehensive income								108,117
Balance, December 31, 2002	22,300	$223	—	$(12,106)	—	$289,656	$ (667)	$277,106

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 5 (In Part): Shareholders' Equity

Stock Repurchase Program

The Polaris Board of Directors has authorized the cumulative repurchase of up to 9,500,000 shares of the Company's common stock. During 2002, Polaris paid $76,389,000 to repurchase and retire approximately 1,190,000 shares. Cumulative repurchases through December 31, 2002 were approximately 8,054,000 shares at a cost of $308,816,000.

Preferred Stock Accretion

5.22

JOSTENS, INC. AND SUBSIDIARIES (DEC)

Consolidated Statements of Changes in Shareholders' Equity (Deficit) and Comprehensive Income (Loss)

(In thousands, except per-share data)	Common Shares		Additional Paid-In-Capital Warrants	Capital Surplus	Officer Notes Receivable	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Loss	Total	Comprehensive Income (Loss)
	Number	Amount							
Balance—January 1, 2000	33,324	$ 11,108	$ —	$ —	$ —	$ 31,072	$ (5,670)	$ 36,510	
Exercise of stock options and restricted stock, net	23	8		1,520				1,528	
Cash dividends declared to common shareholders of $0.22 per share						(7,331)		(7,331)	
Issuance of common shares									
Class A	2,134	711		53,176	(2,050)			51,837	
Class B	5,300	53		133,772				133,825	
Class C	811	8		20,470				20,478	
Class D	20	—		505				505	
Repurchases of common stock	(32,619)	(10,873)		(209,443)		(603,343)		(823,659)	
Issuance of warrants to purchase common shares			24,733					24,733	
Payment on officer note receivable					275			275	
Preferred stock dividends						(5,551)		(5,551)	
Preferred stock accretion						(290)		(290)	
Net loss						(18,659)		(18,659)	$(18,659)
Change in cumulative translation adjustment							(599)	(599)	(599)
Adjustment in minimum pension liability, net of $51 tax							78	78	78
Comprehensive loss									$(19,180)
Balance—December 30, 2000	8,993	$ 1,015	$24,733	$ —	$(1,775)	$(604,102)	$ (6,191)	$(586,320)	
Preferred stock dividends						(9,670)		(9,670)	
Preferred stock accretion						(532)		(532)	
Repurchases of common stock	(28)	(9)			368	(755)		(396)	
Net income						4,100		4,100	$ 4,100
Change in cumulative translation adjustment							(1,502)	(1,502)	(1,502)
Transition adjustment relating to the adoption of FAS 133, net of $1,194 tax							(1,821)	(1,821)	(1,821)
Change in fair value of interest rate swap agreement, net of $1,021 tax							(1,566)	(1,566)	(1,566)
Adjustment in minimum pension liability, net of $931 tax							(1,423)	(1,423)	(1,423)
Comprehensive loss									$ (2,212)
Balance—December 29, 2001	8,965	$ 1,006	$24,733	$ —	$(1,407)	$(610,959)	$(12,503)	$(599,130)	

(continued)

(In thousands, except per-share data)	Common Shares		Additional Paid-In-Capital Warrants	Capital Surplus	Officer Notes Receivable	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Loss	Total	Comprehensive Income (Loss)
	Number	Amount							
Balance—December 29, 2001	8,965	$ 1,006	$24,733	$ —	$(1,407)	$(610,959)	$(12,503)	$(599,130)	
Preferred stock dividends						(11,097)		(11,097)	
Preferred stock accretion						(650)		(650)	
Repurchases of common stock	(9)	(3)			126	(268)		(145)	
Reacquisition of warrants to purchase common shares			(3,769)			1,063		(2,706)	
Interest accrued on officer notes receivable					(344)			(344)	
Net income						29,906		29,906	$29,906
Change in cumulative translation adjustment							579	579	579
Change in fair value of interest rate swap agreement, net of $1,351 tax							2,065	2,065	2,065
Adjustment in minimum pension liability, net of $627 tax							(958)	(958)	(958)
Comprehensive income									$31,592
Balance—December 28, 2002	8,956	$ 1,003	$20,964	$ —	$(1,625)	$(592,005)	$(10,817)	$(582,480)	

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7 (In Part): Financing Arrangements

Redeemable Preferred Stock

In connection with the merger and recapitalization in May 2000 (Note 16), we issued redeemable, payment-in-kind, preferred shares, which have an initial liquidation preference of $60.0 million and are entitled to receive dividends at 14.0% per annum, compounded quarterly and payable either in cash or in additional shares of the same series of preferred stock. The redeemable preferred shares are subject to mandatory redemption by Jostens in May 2011. In connection with the redeemable preferred shares, we ascribed $14.0 million of the proceeds to detachable warrants to purchase 531,325 shares of our Class E common stock (at an exercise price of $0.01 per share), which is reflected as a component of shareholders' deficit in our consolidated financial statements. In addition, $3.0 million of issuance costs were netted against the initial proceeds and are reflected as a reduction to the carrying amount of the preferred stock. The carrying value of the preferred stock is being accreted to full liquidation preference value, plus unpaid preferred stock dividends, over the eleven-year period of the redeemable preferred stock through charges to retained earnings (accumulated deficit). Preferred stock dividends totaling $11.1 million, $9.7 million and $5.6 million were distributed in additional shares of preferred stock in 2002, 2001 and 2000, respectively. Related accretion totaled $0.7 million, $0.5 million and $0.3 million for 2002, 2001 and 2000, respectively.

Change in Fiscal Year of Subsidiary

5.23

STEELCASE INC. (FEB)

Consolidated Statements of Changes in Shareholders' Equity

(In millions)	Common Stock Class A	Common Stock Class B	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total Shareholders' Equity	Total Comprehensive Income (Loss)
February 26, 1999	$78.0	$301.4	$(15.0)	$1,135.6	$1,500.0	
Common stock conversion	22.8	(22.8)			—	
Common stock repurchase	(18.4)	(18.3)			(36.7)	
Other comprehensive income (loss)			(18.0)		(18.0)	(18.0)
Dividends paid				(67.3)	(67.3)	
Net income				184.2	184.2	184.2
February 25, 2000	82.4	260.3	(33.0)	1,252.5	1,562.2	$166.2
Common stock conversion	11.7	(11.7)			—	
Common stock issuance	0.1				0.1	
Common stock repurchase	(24.7)	(31.9)			(56.6)	
Other comprehensive income			3.0		3.0	3.0
Dividends paid				(65.9)	(65.9)	
Net income				193.7	193.7	193.7
February 23, 2001	69.5	216.7	(30.0)	1,380.3	1,636.5	$196.7
Common stock conversion	7.7	(7.7)			—	
Common stock issuance	0.5				0.5	
Common stock repurchase	(2.6)	(1.8)			(4.4)	
Other comprehensive income (loss)			(17.4)		(17.4)	(17.4)
Dividends paid				(57.5)	(57.5)	
Steelcase S.A. net loss[1]				(3.2)	(3.2)	
Net income				1.0	1.0	1.0
February 22, 2002	$75.1	$207.2	$(47.4)	$1,320.6	$1,555.5	$(16.4)

[1] Steelcase S.A. net loss for the two-month period ("stub perid") ended February 23, 2001 was $3.2 million, net of tax. Steelcase S.A. revenue generated for the stub period was $102.0 million. (See Note 2)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Principles of Consolidation

The consolidated financial statements include the accounts of Steelcase Inc. and its majority-owned subsidiaries, including the accounts of Steelcase S.A. and subsidiaries, formerly known as Steelcase Strafor S.A., ("Steelcase Strafor"), which became a wholly-owned subsidiary effective March 31, 1999. Beginning this fiscal year ended February 22, 2002, our European subsidiaries are accounted for on the same fiscal year. In prior years, Steelcase Strafor was accounted for on a two-month lag. The impact of the change in their year end was not material (see Consolidated Statements of Changes in Shareholders' Equity). During the normal course of business, we may obtain equity interests in dealers which we intend to resell as soon as practicable ("dealer transitions"). The financial statements for majority-owned dealer transitions for which no specific transition plan has been adopted or is in the process of being adopted at the acquisition date are consolidated with our financial statements. Majority-owned dealer transitions with a transition plan that has been adopted or is in the process of being adopted at the date we acquire them are accounted for under the equity method of accounting. These unconsolidated dealer transitions are included in joint ventures and dealer transitions in the consolidated balance sheet. Our investments in joint ventures and dealer transitions are carried at our ownership interest in the net assets of those entities primarily based on audited financial statements for each applicable year. All significant transactions and balances among our businesses have been eliminated in consolidation.

Tax Benefit From ESOP Dividends

5.24

WM. WRIGLEY JR. COMPANY (DEC)

Consolidated Statement of Stockholders' Equity

(In thousands of dollars and shares)	Common Shares Outstanding	Common Stock	Class B Common Stock	Additional Paid-In Capital	Retained Earnings	Common Stock in Treasury	Other Comprehensive Income	Stock-holders' Equity
Balance December 31, 1999	183,764	$12,481	$3,015	$ 273	$1,322,137	$(125,712)	$ (73,419)	$1,138,775
Net earnings					328,942			328,942
Other comprehensive income:								
Foreign currency translation adjustments							(36,095)	(36,095)
Unrealized holding loss on marketable equity securities, net of $5,166 tax							(9,500)	(9,500)
Total comprehensive income								283,347
Dividends to shareholders					(158,532)			(158,532)
Treasury share purchases	(3,535)					(131,765)		(131,765)
Stock awards granted	67			73		999		1,072
Conversion from Class B Common to Common	1,155	77	(77)					—
Balance December 31, 2000	181,451	$12,558	$2,938	$ 346	$1,492,547	$(256,478)	$(119,014)	$1,132,897
Net earnings					362,986			362,986
Other comprehensive income:								
Foreign currency translation adjustments							(12,945)	(12,945)
Unrealized holding loss on marketable equity securities, net of $1,655 tax							(3,077)	(3,077)
Gain on derivative contracts, net of $21 tax							46	46
Total comprehensive income								347,010
Dividends to shareholders					(171,196)			(171,196)
Treasury share purchases	(744)					(36,432)		(36,432)
Options exercised and stock awards granted	170			807		3,111		3,918
Conversion from Class B Common to Common	1,432	88	(88)					—
Balance December 31, 2001	182,309	$12,646	$2,850	$1,153	$1,684,337	$(289,799)	$(134,990)	$1,276,197

(continued)

(In thousands of dollars and shares)	Common Shares Outstanding	Common Stock	Class B Common Stock	Additional Paid-In Capital	Retained Earnings	Common Stock in Treasury	Other Comprehensive Income	Stock-holders' Equity
Balance December 31, 2001	182,309	$12,646	$2,850	$1,153	$1,684,337	$(289,799)	$(134,990)	$1,276,197
Net earnings					401,525			401,525
Other comprehensive income:								
Foreign currency translation adjustments							37,007	37,007
Unrealized holding loss on marketable equity securities, net of $2,150 tax							(4,081)	(4,081)
Loss on derivative contracts, net of $363 tax							(899)	(899)
Total comprehensive income								433,552
Dividends to shareholders					(184,628)			(184,628)
Treasury share purchases	(527)					(27,759)		(27,759)
Options exercised and stock awards granted	633			1,676		20,402		22,078
Tax benefit related to stock options exercised				1,380				1,380
Conversion from Class B Common to Common	1,098	73	(73)					
ESOP tax benefit					1,756			1,756
Balance December 31, 2002	183,513	$12,719	$2,777	$4,209	$1,902,990	$(297,156)	$(102,963)	$1,522,576

Tax Benefit on Stock Option Exercise

5.25

REEBOK INTERNATIONAL LTD. (DEC)

Consolidated Statements of Stockholders' Equity

(Amounts in thousands)	Issued Shares	Total	Common Stock (Par Value $.01)	Retained Earnings	Treasury Stock	Unearned Compensation	Accumulated Other Comprehensive Income (Expense)
Balance, December 31, 1999	92,986	$528,816	$930	$1,170,885	$(617,620)	$ (0)	$(25,379)
Comprehensive income:							
Net income		80,878		80,878			
Adjustment for foreign currency translation		(14,217)					(14,217)
Comprehensive income		66,661					
Issuance of shares to certain employees	406	2	4	3,158		(3,160)	
Amortization of unearned compensation		1,758				1,758	
Shares issued under employee stock purchase plans	276	2,537	3	2,534			
Shares issued upon exercise of stock options	2,541	42,554	25	42,529			
Acquisition of treasury shares		(35,750)			(35,750)		
Income tax reductions relating to exercise of stock options		1,285		1,285			
Balance, December 31, 2000	96,209	607,863	962	1,301,269	(653,370)	(1,402)	(39,596)
Comprehensive income:							
Net income		102,726		102,726			
Adjustment for foreign currency translation		(27,423)					(27,423)
Adjustment for fair value of derivative instruments		(4,214)					(4,214)
Comprehensive income		71,089					
Issuance of shares to certain employees	111	278	1	2,677		(2,400)	
Surrender of shares from certain employees	(42)	(328)		(328)			
Amortization of unearned compensation		1,066				1,066	
Shares issued under employee stock purchase plans	122	2,720	2	2,718			
Shares issued upon exercise of stock options	1,650	22,215	16	22,199			
Warrants issued		13,600		13,600			
Acquisition of treasury shares		(7,052)			(7,052)		
Income tax reductions relating to exercise of stock options		8,487		8,487			
Balance, December 31, 2001	98,050	$719,938	$981	$1,453,348	$(660,422)	$(2,736)	$(71,233)

(continued)

(Amounts in thousands)	Issued Shares	Total	Common Stock (Par Value $.01)	Retained Earnings	Treasury Stock	Unearned Compensation	Accumulated Other Comprehensive Income (Expense)
Balance, December 31, 2001	98,050	$719,938	$981	$1,453,348	$(660,422)	$(2,736)	$(71,233)
Comprehensive income:							
Net income		126,458		126,458			
Adjustment for foreign currency translation		37,224					37,224
Adjustment for fair value of derivative instruments		(22,714)					(22,714)
Comprehensive income		140,968					
Issuance of shares to certain employees	13	278		278			
Surrender of shares from certain employees	(19)	(151)		(151)			
Amortization of unearned compensation		1,006				1,006	
Shares issued under employee stock purchase plans	124	2,921	1	2,920			
Shares issued upon exercise of stock options	1,067	15,590	10	15,580			
Income tax reductions relating to exercise of stock options		4,020		4,020			
Balance, December 31, 2002	99,235	$884,570	$992	$1,602,453	$(660,422)	$(1,730)	$(56,723)

ADDITIONAL PAID-IN CAPITAL

PRESENTATION OF CHANGES IN ADDITIONAL PAID-IN CAPITAL

5.26 Paragraph 10 of APB Opinion No. 12, *Omnibus Opinion—1967,* 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.

5.27 Table 5-5 summarizes the presentation formats used by the survey companies to present changes in additional paid-in capital.

5.28

TABLE 5-5: PRESENTATION OF CHANGES IN ADDITIONAL PAID-IN CAPITAL

	2002	2001	2000	1999
Statement of stockholders' equity	512	497	488	493
Statement of additional paid-in capital	—	1	3	1
Schedule in notes	11	11	11	13
No statement or schedule but changes disclosed	2	3	4	4
Balance unchanged during year	11	19	21	16
	536	**531**	**527**	**527**
Additional paid-in capital account not presented	64	69	73	73
Total Companies	**600**	**600**	**600**	**600**

STOCK SPLITS

5.29 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.

5.30

TABLE 5-6: STOCK SPLITS

	2002	2001	2000	1999
Ratio				
Less than three-for-two	2	—	1	5
Three-for-two (50%) to two-for-one	3	6	3	8
Two-for-one (100%)	18	21	36	36
Greater than two-for-one	—	—	6	5
	23	**27**	**46**	**54**
Reverse Ratio				
One-for-two	—	—	1	1
One-for-three	1	—	—	—
One-for-four	1	—	—	1
Less than one-for-four	2	4	—	—
Total Companies	**27**	**31**	**47**	**56**
Account(s) Charged				
Additional paid-in capital	7	8	12	7
Retained earnings	1	3	2	7
Both additional paid-in capital and retained earnings	1	1	N/C*	N/C*
No charge	18	19	33	42
Total Companies	**27**	**31**	**47**	**56**

* N/C = Not compiled. Line item was not included in table for year shown.

5.31

ETHYL CORPORATION & SUBSIDIARIES (DEC)

Consolidated Statements of Shareholders' Equity

(In thousands except share amounts)	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Accumulated Other Comprehensive (Loss) Income	Retained Earnings	Total Shareholders' Equity
Balance at December 31, 1999	83,465,460	$ 83,465	$ —	$(11,828)	$ 143,572	$ 215,209
Comprehensive income:						
Net income					60,997	60,997
Changes in:						
Foreign currency translation adjustments				(7,449)		(7,449)
Unrealized gains on marketable securities				195		195
Minimum pension liability				(907)		(907)
Unrealized losses on derivative instruments				1,899		1,899
Total comprehensive income						54,735
Retire restricted stock	(10,810)	(10)			(88)	(98)
Cash dividends declared ($.625 per share)					(10,433)	(10,433)
Balance at December 31, 2000	83,454,650	83,455	—	(18,090)	194,048	259,413
Comprehensive income:						
Net loss					(105,040)	(105,040)
Changes in:						
Foreign currency translation adjustments				(4,402)		(4,402)
Unrealized losses on marketable securities				(2,590)		(2,590)
Minimum pension liability				(2,088)		(2,088)
Total comprehensive loss						(114,120)
Balance at December 31, 2001	83,454,650	83,455	—	(27,170)	89,008	145,293
Comprehensive income:						
Net income					9,909	9,909
Changes in:						
Foreign currency translation adjustments				6,616		6,616
Unrealized losses on marketable securities				(833)		(833)
Minimum pension liability				(7,907)		(7,907)
Total comprehensive income						7,785
Reverse stock split: 1-for-5	(66,765,641)	(66,766)	66,766			—
Balance at December 31, 2002	16,689,009	$ 16,689	$66,766	$(29,294)	$ 98,917	$ 153,078

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Reverse Stock Split

On March 26, 2002, the Board of Directors recommended an amendment to our Restated Articles of Incorporation effecting a 1-for-5 reverse stock split of the Ethyl Common Stock and reducing the number of authorized shares of common stock from 400 million to 80 million. Ethyl shareholders approved this recommendation at the annual meeting on June 4, 2002.

On the effective date of July 1, 2002, each holder of record was deemed to hold one share of common stock for every five shares held immediately prior to the effective date. We made cash payments for fractional shares to holders who have a number of shares not divisible by five. The cash payment was based on the average of the closing price for the common stock on each of the five trading days prior to the effective date and amounted to $4.25 per share.

Following the effective date of the reverse stock split, the par value of the common stock remained at $1 per share. As a result, we reduced the common stock in our Consolidated Balance Sheet as of the effective date by approximately $66.8 million, with a corresponding increase in the additional paid-in capital. All per-share amounts have been retroactively adjusted for all periods presented to reflect the 1-for-5 reverse stock split.

5.32

SPX CORPORATION AND SUBSIDIARIES (DEC)

Consolidated Statements of Shareholders' Equity

(In millions)	Common Stock	Paid-In Capital	Retained Earnings (Deficit)	Unearned Compensation	Accumulated Other Comprehensive Loss	Common Stock in Treasury
Balance at December 31, 1999	$709.8	$134.8	$ (11.7)	$(19.1)	$ (13.0)	$(248.5)
Net income	—	—	189.5	—	—	—
Exercise of stock options and other incentive plan activity, net of tax	5.6	—	—	9.6	—	—
Minimum pension liability adjustment, net of tax	—	—	—	—	(1.2)	—
Treasury stock repurchased	—	—	—	—	—	(138.8)
Translation adjustments	—	—	—	—	(8.8)	—
Balance at December 31, 2000	715.4	134.8	177.8	(9.5)	(23.0)	(387.3)
Net income	—	—	173.0	—	—	—
Exercise of stock options and other incentive plan activity, net of tax	6.4	38.0	—	9.5	—	—
Acquisitions	111.2	549.7	—	—	—	286.8
Transition adjustment related to change in accounting for derivative instruments and hedging activities, net of tax	—	—	—	—	5.9	—
Net unrealized loss on qualifying cash flow hedges, net of tax	—	—	—	—	(31.5)	—
Minimum pension liability adjustment, net of tax	—	—	—	—	(2.6)	—
Translation adjustments	—	—	—	—	(39.3)	—
Balance at December 31, 2001	833.0	722.5	350.8	—	(90.5)	(100.5)
Net income	—	—	127.4	—	—	—
Exercise of stock options and other incentive plan activity, net of tax	17.7	69.2	—	—	—	—
Exercise of warrants	5.1	19.1	—	—	—	—
Acquisitions	2.2	13.6	—	—	—	—
Net unrealized loss on qualifying cash flow hedges, net of tax	—	—	—	—	(22.9)	—
Minimum pension liability adjustment, net of tax	—	—	—	—	(226.8)	—
Restricted stock grant, net of $2.8 amortization	10.0	38.9	—	(46.1)	—	—
Treasury stock repurchased	—	—	—	—	—	(172.9)
Translation adjustments	—	—	—	—	142.6	—
Balance at December 31, 2002	$868.0	$863.3	$478.2	$(46.1)	$(197.6)	$(273.4)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

16 (In Part): Shareholders' Equity

Stock Split

On August 28, 2002, the Board of Directors approved a two-for-one stock split of our common stock. The stock split was payable in the form of a stock dividend and entitled each stockholder of record at the close of business on October 1, 2002 to receive one share of common stock for every outstanding share of common stock held on that date. The 100% stock dividend was distributed on October 24, 2002. The capital stock accounts, all share data and earnings per share data in this report give effect to the stock split, applied retroactively, to all periods presented.

5.33

WERNER ENTERPRISES, INC. (DEC)

Consolidated Statements of Stockholders' Equity and Comprehensive Income

(In thousands, except share amounts)	Common Stock	Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total Stockholders' Equity
Balance, December 31, 1999	$644	$105,723	$404,625	$ —	$(16,220)	$494,772
Purchases of 300,268 shares of common stock	—	—	—	—	(2,759)	(2,759)
Dividends on common stock ($.075 per share)	—	—	(4,705)	—	—	(4,705)
Exercise of stock options, 79,007 shares, including tax benefits	—	(40)	—	—	827	787
Comprehensive income (loss):						
Net income	—	—	48,023	—	—	48,023
Foreign currency translation adjustments	—	—	—	(34)	—	(34)
Total comprehensive income	—	—	48,023	(34)	—	47,989
Balance, December 31, 2000	644	105,683	447,943	(34)	(18,152)	536,084
Dividends on common stock ($.075 per share)	—	—	(4,745)	—	—	(4,745)
Exercise of stock options, 917,770 shares, including tax benefits	—	375	—	—	10,600	10,975
Comprehensive income (loss):						
Net income	—	—	47,744	—	—	47,744
Foreign currency translation adjustments	—	—	—	(9)	—	(9)
Total comprehensive income	—	—	47,744	(9)	—	47,735
Balance, December 31, 2001	644	106,058	490,942	(43)	(7,552)	590,049
Purchases of 213,700 shares of common stock	—	—	—	—	(3,766)	(3,766)
Dividends on common stock ($.080 per share)	—	—	(5,102)	—	—	(5,102)
Payment of stock split fractional shares	—	(12)	—	—	—	(12)
Exercise of stock options, 358,806 shares, including tax benefits	—	1,481	—	—	3,539	5,020
Comprehensive income:						
Net income	—	—	61,627	—	—	61,627
Foreign currency translation adjustments	—	—	—	(173)	—	(173)
Total comprehensive income	—	—	61,627	(173)	—	61,454
Balance, December 31, 2002	$644	$107,527	$547,467	$(216)	$ (7,779)	$647,643

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9. Common Stock Split

On February 11, 2002, the Company announced that its Board of Directors declared a four-for-three split of the Company's common stock effected in the form of a 33 1/3 percent stock dividend. The stock dividend was paid on March 14, 2002, to stockholders of record at the close of business on February 25, 2002. No fractional shares of common stock were issued in connection with the stock split. Stockholders entitled to fractional shares received a proportional cash payment based on the closing price of a share of common stock on February 25, 2002.

All share and per-share information included in the accompanying consolidated financial statements for all periods presented have been adjusted to retroactively reflect the stock split.

CHANGES IN ADDITIONAL PAID-IN CAPITAL

5.34 Table 5-7 summarizes credits and charges to additional paid-in capital. Examples of such credits and charges follow.

5.35

TABLE 5-7: CHANGES IN ADDITIONAL PAID-IN CAPITAL

	Number of Companies			
Credits	**2002**	**2001**	**2000**	**1999**
Common stock issued				
Employee benefits	409	384	381	380
Business combinations	58	66	70	71
Public offerings	45	49	30	40
Preferred stock conversions	20	20	14	20
Debt conversions/ extinguishments	16	18	21	23
Stock compensation tax benefits	159	151	127	124
Deferred compensation recognized	31	42	N/C*	N/C*
Warrants issued or exercised	10	11	9	9
Put options/warrants	5	3	5	7
Other—described	32	50	41	33
Charges				
Purchase or retirement of capital stock	96	110	121	121
Treasury stock issued for less than cost	77	61	66	72
Restricted stock	22	19	22	N/C*
Conversion of preferred stock	10	6	8	10
Other—described	73	85	69	76

* N/C = Not compiled. Line item was not included in the table for the year shown.

Common Stock Issued in Connection With Employee Benefit Plans

5.36

GANNETT CO., INC. (DEC)

Consolidated Statements of Changes in Shareholders' Equity

(In thousands of dollars)	Common Stock $1 Par Value	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Deferred Compensation Related to ESOP	Total
Balance: Dec. 26, 1999	$324,421	$153,267	$5,504,810	$ 25,377	$(1,359,263)	$(18,966)	$4,629,646
Net income, 2000			1,719,077				1,719,077
Foreign currency translation adjustment				(80,638)			(80,638)
Unrealized loss on securities, net of reclassification adjustments during the period, net of tax benefit of $7,041				(11,013)			(11,013)
Total comprehensive income							1,627,426
Dividends declared, 2000: $.86 per share			(228,212)				(228,212)
Treasury stock acquired					(967,242)		(967,242)
Stock options exercised		6,467			13,261		19,728
Stock issued under incentive plan		41			5,451		5,492
Tax benefit derived from stock incentive plans		10,940					10,940
Compensation expense related to ESOP						5,342	5,342
Tax benefit from ESOP			290				290
Balance: Dec. 31, 2000	$324,421	$170,715	$6,995,965	$ (66,274)	$(2,307,793)	$(13,624)	$5,103,410
Net income, 2001			831,197				831,197
Foreign currency translation adjustment				(38,540)			(38,540)
Unrealized gain on securities, net of reclassification adjustments during the period, net of taxes of $933				1,527			1,527
Total comprehensive income							794,184
Dividends declared, 2001: $.90 per share			(238,301)				(238,301)
Stock options exercised		17,751			30,278		48,029
Stock issued under incentive plan		2,937			1,778		4,715
Tax benefit derived from stock incentive plans		18,853					18,853
Compensation expense related to ESOP						4,824	4,824
Tax benefit from ESOP			208				208
Balance: Dec. 30, 2001	$324,421	$210,256	$7,589,069	$(103,287)	$(2,275,737)	$ (8,800)	$5,735,922

(continued)

(In thousands of dollars)	Common Stock $1 Par Value	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Deferred Compensation Related to ESOP	Total
Balance: Dec. 30, 2001	$324,421	$210,256	$7,589,069	$(103,287)	$(2,275,737)	$ (8,800)	$5,735,922
Net income, 2002			1,160,128				1,160,128
Foreign currency translation adjustment				160,896			160,896
Unrealized loss on securities, net of tax benefit of $1,548				(2,526)			(2,526)
Minimum pension liability adjustment, net of tax benefit of $6,676				(10,893)			(10,893)
Total comprehensive income							1,307,605
Dividends declared, 2002: $.94 per share			(251,217)				(251,217)
Stock options exercised		42,210			42,378		84,588
Stock issued under incentive plan		3,461			1,802		5,263
Tax benefit derived from stock incentive plans		23,851					23,851
Compensation expense related to ESOP						5,748	5,748
Tax benefit from ESOP			35				35
Balance: Dec. 29, 2002	$324,421	$279,778	$8,498,015	$ 44,190	$(2,231,557)	$ (3,052)	$6,911,795

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 9 (In Part): Capital Stock, Stock Options, Incentive Plans

In May 2001, the company's shareholders approved the adoption of the Omnibus Incentive Compensation Plan (the Plan), which replaced the 1978 Long-Term Executive Incentive Plan (1978 Plan). The Plan, which is administered by the Executive Compensation Committee of the Board of Directors, provides for the issuance of up to 12 million shares of company common stock for awards granted on or after May 7, 2001. No more than 1,500,000 of the authorized shares may be granted in the aggregate in the form of Restricted Stock, Performance Shares and/or Performance Units. The Plan provides for the granting of stock options, stock appreciation rights, restricted stock and other equity-based and cash-based awards. Awards may be granted to employees of the company and members of the board of directors. The 1978 Plan did not provide for granting awards to members of the board. The Plan provides that shares of common stock subject to awards granted under the Plan become available again for issuance under the Plan if such awards are canceled or forfeited. A similar feature existed under the 1978 plan but with the adoption of the Omnibus Plan, canceled or forfeited shares subject to grants under the 1978 plan are permanently retired.

Stock options may be granted as either non-qualified stock options or incentive stock options. The options are granted to purchase common stock of the company at not less than 100% of the fair market value on the day the option is granted. Options are exercisable at such times and subject to such terms and conditions as the Executive Compensation Committee determines but generally the exercise period is ten years and the options become exercisable at 25% per year after a one-year waiting period. Under the 1978 Plan, options issued prior to 1996 had an eight-year exercise period. The Plan restricts the granting of stock options to any participant in any fiscal year to no more than 1,000,000 shares. The limit under the 1978 Plan was 350,000 shares.

A Stock Appreciation Right (SAR) is a right to receive an amount in any combination of cash or common stock equal in value to the excess of the fair market value of the shares covered by such SAR on the date of exercise over the aggregate exercise price of the SAR for such shares. SARs may be granted in tandem with related options or freestanding. The exercise price of an SAR is equal to the fair market value of a share of common stock on the date the SAR is granted. No more than 1,000,000 shares of common stock may be granted in the form of SARs to any participant in any fiscal year. No SARs have been granted as of Dec. 29, 2002.

Restricted Stock is an award of common stock that is subject to restrictions and such other terms and conditions as the Executive Compensation Committee determines. Under the 1978 Plan, such awards could be issued in the form of Stock Incentive Rights. These rights entitle an employee to receive one share of common stock at the end of a four-year incentive period conditioned on the employee's continued employment with the company. The Plan continues to permit the issuance of such awards but also allows restrictions other than the incentive period. Additionally, under the Plan, no more than 500,000 restricted shares may be granted to any participant in any fiscal year. Under the 1978 Plan there was no limit. No restricted stock awards have been issued since July 2000 but previously granted awards will continue to mature over their original four-year period.

The Executive Compensation Committee may grant other types of awards that are valued in whole or in part by reference to or that are otherwise based on fair market value of the company's common stock or other criteria established by the Executive Compensation Committee and the achievement of performance goals. The maximum aggregate grant of performance shares that may be awarded to any participant in any fiscal year shall not exceed 500,000 shares of common stock. The maximum aggregate amount of performance

units or cash-based awards that may be awarded to any participant in any fiscal year shall not exceed $10,000,000.

In the event of a change in control as defined in the Plan, (1) all outstanding options and SARs will become immediately exercisable in full, (2) all restricted periods and restrictions imposed on non-performance based restricted stock awards will lapse and (3) target payment opportunities attainable under all outstanding awards of performance-based restricted stock, performance units and performance shares will be paid on a prorated basis as specified in the Plan. The Plan does not provide for the grant of option surrender rights in tandem with stock options, as was the case under the 1978 Plan, and has eliminated the requirement under the 1978 Plan that awards that were accelerated as a result of a change in control could only be exercised during certain window periods.

A summary of the status of the company's stock option awards as of Dec. 29, 2002, Dec. 30, 2001, and Dec. 31, 2000, and changes thereto during the years then ended is presented below:

2002 Stock Option Activity	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	20,526,064	$59.57
Granted	5,813,750	70.24
Exercised	(2,027,943)	42.41
Canceled	(470,642)	64.62
Outstanding at end of year	23,841,229	63.53
Options exercisable at year end	10,766,605	59.14
Weighted average fair value of options granted during the year	$ 21.48	

2001 Stock Option Activity	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	16,767,813	$54.19
Granted	5,945,245	69.21
Exercised	(1,438,807)	33.92
Canceled	(748,187)	65.09
Outstanding at end of year	20,526,064	59.57
Options exercisable at year end	9,018,580	53.08
Weighted average fair value of options granted during the year	$ 22.58	

2000 Stock Option Activity	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	12,406,841	$52.57
Granted	5,714,830	55.07
Exercised	(846,478)	30.18
Canceled	(507,380)	64.44
Outstanding at end of year	16,767,813	54.19
Options exercisable at year end	7,478,603	45.85
Weighted average fair value of options granted during the year	$ 19.63	

Further information about stock options outstanding at Dec. 29, 2002, follows:

Range of Exercise Prices	Number Outstanding at 12/29/02	Weighted Average Remaining Contractual Life (Yrs)	Weighted Average Exercise Price	Number Exercisable at 12/29/02	Weighted Average Exercise Price
$32.00–40.00	2,002,947	2.8	$35.30	2,002,947	$35.30
$41.00–50.00	19,400	4.0	$46.10	19,400	$46.10
$54.00–59.50	5,769,639	7.3	$55.79	3,262,774	$56.50
$60.00–69.50	7,762,305	8.2	$68.11	3,546,275	$66.83
$70.00–74.50	8,286,938	9.1	$71.48	1,935,209	$74.28
	23,841,229	7.8	$63.53	10,766,605	$59.14

Stock Incentive Rights

The company has not granted stock incentive rights since July 2000. Stock incentive rights awarded that year totaled 10,700 and are for the four-year incentive period ending 2003.

In 2002, 82,942 shares of common stock were issued in settlement of previously granted stock incentive rights for the incentive period ending December 2002.

The compensation cost has been charged against income for stock incentive rights. Those charges were based on the grant price of the stock incentive rights recognized over the four-year earnout periods.

401(k) Savings Plan

In 1990, the company established a 401(k) Savings Plan (the Plan). Substantially all employees of the company (other than those covered by a collective bargaining agreement) who are scheduled to work at least 1,000 hours during each year of employment are eligible to participate in the Plan. Employees could elect to save up to 15% of compensation on a pre-tax basis subject to certain limits. This limit was increased to 20% in 2002. The company matches with company common stock 50% of the first 6% of employee contributions. Beginning in 2002, Plan participants were able to fully diversify their company matched stock at any time. To fund the company's matching contribution, an Employee Stock Ownership Plan (ESOP) was formed in 1990 which acquired 2,500,000 shares of Gannett stock from the company for $50 million. The stock purchase was financed with a loan from the company, and the shares are pledged as collateral for the loan. The company makes monthly contributions to the ESOP equal to the ESOP's debt service requirements less dividends. All dividends received by the ESOP are used to pay debt service. As the debt is paid, shares are released as collateral and are available for allocation to participants.

The company follows the shares allocated method in accounting for its ESOP. The cost of shares allocated to match employee contributions or to replace dividends that are used for debt service are accounted for as compensation expense. The cost of unallocated shares is reported as deferred compensation in the financial statements. The company, at its option, may repurchase shares from employees who leave the Plan. The shares are purchased at fair market value, and the difference between the original cost of the shares and fair market value is expensed at the time of purchase. All of the shares initially purchased by the ESOP are considered outstanding for earnings per share calculations. Dividends on allocated and unallocated shares are recorded as reductions of retained earnings.

Compensation expense for the 401(k) match and repurchased shares was $10.7 million in 2002, $9.7 million in 2001 and $9.1 million in 2000. The ESOP shares as of the end of 2002 and 2001 were as follows:

	2002	2001
Allocated shares	2,356,566	2,088,238
Shares released for allocation	41,051	43,650
Unreleased shares	102,383	368,112
Shares distributed to terminated participants	(102,254)	(87,346)
ESOP shares	2,397,746	2,412,654

The Board has authorized 3,000,000 shares of common stock to be registered in connection with savings related share option plans available to eligible employees of Newsquest.

5.37

MURPHY OIL CORPORATION AND CONSOLIDATED SUBSIDIARIES (DEC)

Consolidated Statements of Stockholders' Equity

(Thousands of dollars)	2002	2001	2000
Cumulative preferred stock—par $100, authorized 400,000 shares, none issued	—	—	—
Common stock—par $1.00, authorized 200,000,000 shares at December 31, 2002 and 2001 and 80,000,000 shares at December 31, 2000, issued 94,613,379 shares at December 31, 2002 and 48,775,314 shares at beginning and end of 2001 and 2000			
Balance at beginning of year	$ 48,775	$ 48,775	$ 48,775
Two-for-one stock split effective December 30, 2002	45,838	—	—
Balance at end of year	94,613	48,775	48,775
Capital in excess of par value			
Balance at beginning of year	527,126	514,474	512,488
Exercise of stock options, including income tax benefits	20,039	10,440	1,749
Restricted stock transactions	2,563	1,272	(202)
Sale of stock under employee stock purchase plans	1,093	940	439
Two-for-one stock split effective December 30, 2002	(45,838)	—	—
Balance at end of year	504,983	527,126	514,474
Retained earnings			
Balance at beginning of year	1,096,567	833,490	601,956
Net income for the year	111,508	330,903	296,828
Cash dividends—$.775 per share in 2002, $.75 per share in 2001 and $.725 per share in 2000	(70,898)	(67,826)	(65,294)
Balance at end of year	1,137,177	1,096,567	833,490
Accumulated other comprehensive loss			
Balance at beginning of year	(83,309)	(38,266)	(4,984)
Foreign currency translation gains (losses)	30,878	(49,596)	(33,282)
Cash flow hedging gains (losses), net of income taxes	(13,007)	4,553	—
Minimum pension liability, net of income taxes	(1,352)	—	—
Balance at end of year	(66,790)	(83,309)	(38,266)
Unamortized restricted stock awards			
Balance at beginning of year	(968)	(1,410)	(2,328)
Amortization, forfeitures and changes in price of common stock	968	442	918
Balance at end of year	—	(968)	(1,410)
Treasury stock			
Balance at beginning of year	(90,028)	(97,503)	(98,735)
Exercise of stock options	12,852	6,833	1,140
Sale of stock under employee stock purchase plans	749	651	441
Awarded restricted stock, net of forfeitures, and other	(3)	(9)	(349)
Balance at end of year—2,923,925 shares of common stock in 2002, 3,444,234 shares in 2001 and 3,729,769 shares in 2000	(76,430)	(90,028)	(97,503)
Total stockholders' equity	$1,593,553	$1,498,163	$1,259,560

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note I (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 1% 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 restricted stock and any stock options deemed to be variable in nature over the vesting/performance periods and adjusting costs for changes in fair market value of Common Stock. Compensation cost charged against income for stock-based plans was $5,288,000 in 2002, $1,892,000 in 2001, and $7,914,000 in 2000. Outstanding awards were not significantly modified in the last three years.

Stock Options (In Part)

The Committee fixes the option price of each option granted at no less than fair market value (FMV) on the date of the grant and fixes the option term at no more than 10 years from such date. Each option granted to date under the Plan has had a term of 10 years, has been nonqualified, and has had an option price equal to or higher than FMV at date of grant. One-half of each grant may be exercised after two years and the remainder after three years. All disclosures that follow have been adjusted to reflect the two-for-one stock split effective December 30, 2002.

Changes in options outstanding, including shares issued under a prior plan, were as follows.

	Number of Shares	Average Exercise Price
Outstanding at December 31, 1999	2,508,738	$23.10
Granted at FMV	792,000	28.49
Exercised	(385,098)	21.82
Forfeited	(10,500)	24.88
Outstanding at December 31, 2000	2,905,140	24.73
Granted at FMV	1,036,000	30.83
Exercised	(522,400)	23.64
Outstanding at December 31, 2001	3,418,740	26.74
Granted at FMV	945,000	38.85
Exercised	(983,400)	23.44
Forfeited	(83,500)	31.30
Outstanding at December 31, 2002	3,296,840	31.08
Exercisable at December 31, 2000	1,181,640	$25.90
Exercisable at December 31, 2001	1,270,240	24.57
Exercisable at December 31, 2002	988,340	25.01

Additional information about stock options outstanding at December 31, 2002 is shown below.

	Options Outstanding			Options Exercisable	
Range of Exercise Prices Per Option	No. of Options	Avg. Life in Years	Avg. Price	No. of Options	Avg. Price
$17.84 to $21.12	258,840	5.8	$18.04	258,840	$18.04
$24.88 to $28.48	1,010,500	6.2	27.43	617,000	26.76
$30.23 to $38.85	2,027,500	8.3	34.57	112,500	31.48
	3,296,840	7.5	31.08	988,340	25.01

SAR

SAR may be granted in conjunction with or independent of stock options; the Committee determines when SAR may be exercised and the price. No SAR have been granted.

Restricted Stock

Shares of restricted stock were granted under the Plan in certain 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 receives dividends and may vote these 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. On December 31, 2000, approximately 50% of eligible shares granted in 1996 were awarded, and the remaining shares were forfeited based on financial objectives achieved. At December 31, 2002, eligible shares granted in 1998 were awarded to the grantees based on financial objectives achieved. Changes in restricted stock outstanding were as follows.

(Number of shares)	2002	2001	2000
Balance at beginning of year	115,166	116,666	166,728
Awarded	(115,166)	—	(24,154)
Forfeited	—	(1,500)	(25,908)
Balance at end of year	—	115,166	116,666

Cash Awards

The Committee also administers the Company's incentive compensation plans, which provide for annual or periodic cash awards to officers, directors and key employees if the Company achieves specific financial objectives. Compensation expense of $3,911,000, $11,816,000 and $6,970,000 was recorded in 2002, 2001 and 2000, respectively, for these plans.

Employee Stock Purchase Plan (ESPP)

The Company has an ESPP under which 300,000 shares of the Company's Common Stock could be purchased by eligible U.S. and Canadian employees. Each quarter, an eligible employee may elect to withold up to 10% of his or her salary to purchase shares of the Company's stock at a price equal to 90% of the fair value of the stock as of the first day of the quarter. The ESPP will terminate on the earlier of the date

that employees have purchased all 300,000 shares or June 30, 2007. Employee stock purchases under the ESPP were 24,828 shares at an average price of $38.94 per share in 2002, 27,350 shares at $25.54 in 2001 and 40,974 shares at $18.78 in 2000. At December 31, 2002, 141,913 shares remained available for sale under the ESPP. Compensation costs related to the ESPP were immaterial.

Business Combination

5.38

UNOCAL CORPORATION (DEC)

Consolidated Stockholders' Equity

(Millions of dollars except per share amounts)	2002	2001	2000
Common stock			
Balance at beginning of year	$ 255	$ 254	$ 253
Issuance of common stock for acquisition of Pure Resources' minority interest	13	—	—
Other issuance of common stock	1	1	1
Balance at end of year	269	255	254
Capital in excess of par value			
Balance at beginning of year	551	522	493
Issuance of common stock for acquisition of Pure Resources' minority interest	378	—	—
Other issuance of common stock	33	29	29
Balance at end of year	962	551	522
Unearned portion of restricted stock and options issued			
Balance at beginning of year	(29)	(21)	(20)
Issuance of restricted stock and options	(3)	(18)	(12)
Amortization of restricted stock and options	12	10	11
Balance at end of year	(20)	(29)	(21)
Retained earnings			
Balance at beginning of year	2,888	2,468	1,902
Net earnings for year	331	615	760
Cash dividends declared on common stock ($0.80 per share)	(198)	(195)	(194)
Balance at end of year	$3,021	$2,888	$2,468

(continued)

(Millions of dollars except per share amounts)	2002	2001	2000
Treasury stock			
Balance at beginning of year	(411)	(411)	(411)
Purchased at cost	—	—	—
Balance at end of year	(411)	(411)	(411)
Notes receivable—key employees			
Balance at beginning of year	(42)	(40)	—
Accrued interest on loans to key employees	(2)	(2)	—
Principal and interest payments received from key employees	7	—	—
Issuance of loans to key employees	—	—	(40)
Balance at end of year	(37)	(42)	(40)
Accumulated other comprehensive income (loss)			
Balance at beginning of year	(88)	(53)	(33)
Foreign currency translation adjustments	(15)	(40)	(20)
Deferred net gains (losses) on headging instruments	(49)	60	—
Cumulative effect of accounting change	—	(59)	—
Minimum pension liability adjustment	(334)	4	—
Balance at end of year	(486)	(88)	(53)
Total stockholders' equity	$3,298	$3,124	$2,719

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 3—Acquisitions

On October 29, 2002, the Company completed its exchange offer for the remaining shares of Pure Resources, Inc. ("Pure") that it did not already own. Pursuant to the offer, the Company exchanged 0.74 shares of Unocal common stock for each share of Pure common stock tendered. The Company accepted tenders of 16,634,625 Pure shares in the exchange offer which, when combined with the 65 percent of the shares it already owned, represented approximately 97.5 percent of Pure's outstanding common shares. On October 30, 2002, the Company completed a short-form merger to acquire the remaining 2.5 percent of Pure's outstanding shares at the same 0.74 exchange ratio used in the exchange offer. Consequently, Pure became a wholly owned subsidiary of the Company. This transaction was valued at approximately $410 million and was accounted for as a purchase. As a result of the transaction, properties have increased by $121 million, goodwill of $80 million was recorded representing the excess of cost over fair value of the asset and liabilities acquired, deferred tax liabilities increased by $53 million, long-term debt increased by $10 million, reflecting the fair value of Pure's debt, and stockholders' equity increased by $391 million for the value of the common stock. This acquisition provides the Company with a number of operational efficiency opportunities including: combining certain Pure operations with similar Unocal operations to reduce costs; technology efficiencies; the elimination of redundant overhead and administrative costs including public company costs. Recognition of the value of these opportunities contributed to a purchase price that exceeded the fair value assigned to the assets and

liabilities acquired and resulted in an allocation of cost to goodwill. A minority interest liability of $151 million relating to the Pure shares and a $112 million obligation for "Subsidiary stock subject to repurchase" were eliminated from the Company's consolidated balance sheet. See notes 21, 22 and 25 for further details.

Public Offering

5.39

TESORO PETROLEUM CORPORATION (DEC)

Statements of Consolidated Stockholders' Equity

	Preferred Stock		Common Stock		Additional Paid-In	Retained	Treasury Stock	
(In millions)	Shares	Amount	Shares	Amount	Capital	Earnings	Shares	Amount
At January 1, 2000	0.1	$ 165.0	32.7	$ 5.4	$279.0	$ 178.6	(0.3)	$ (4.9)
Net earnings	—	—	—	—	—	73.3	—	—
Preferred dividend requirements	—	—	—	—	—	(12.0)	—	—
Shares repurchased and shares issued for stock options	—	—	0.1	—	1.0	—	(1.6)	(15.5)
At December 31, 2000	0.1	165.0	32.8	5.4	280.0	239.9	(1.9)	(20.4)
Net earnings	—	—	—	—	—	88.0	—	—
Preferred dividend requirements	—	—	—	—	—	(6.0)	—	—
Preferred stock conversion	(0.1)	(165.0)	10.3	1.7	163.3	—	—	—
Shares repurchased and shares issued for stock options and benefit plans	—	—	0.3	0.1	5.1	—	(0.1)	(0.1)
At December 31, 2001	—	—	43.4	7.2	448.4	321.9	(2.0)	(20.5)
Net loss	—	—	—	—	—	(117.0)	—	—
Issuance of common stock	—	—	23.0	3.8	241.3	—	—	—
Shares issued for stock options and benefit plans	—	—	—	—	0.1	—	0.2	2.4
At December 31, 2002	—	$ —	66.4	$11.0	$689.8	$ 204.9	(1.8)	$(18.1)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note H (In Part): Stockholders' Equity

In March 2002, the Company completed a public offering of 23 million shares of Common Stock. The net proceeds from the stock offering of $245.1 million, after deducting underwriting fees and offering expenses, were used to partially fund the acquisition of the California Assets.

Preferred Stock Conversion

5.40

WHX CORPORATION (DEC)

Consolidated Statement of Changes in Stockholder's Equity and Comprehensive Income

	2002		2001		2000	
(Dollars and shares in thousands)	Shares	Amount	Shares	Amount	Shares	Amount
Common stock						
Balance at beginning of year	5,357	$ 54	4,864	$ 49	4,715	$ 47
401(k) contribution	—	—	89	1	147	2
Conversion of preferred shares	49	—	324	3	—	—
EIP shares	—	—	80	1	2	—
Balance at end of year	5,406	54	5,357	54	4,864	49
Preferred stock						
Balance at beginning of year	5,571	557	5,883	589	5,883	589
Conversion to common shares	(48)	(5)	(312)	(32)	—	—
Balance at end of year	5,523	552	5,571	557	5,883	589
Accumulated other comprehensive income (loss)						
Balance at beginning of year		(2,268)		(1,501)		945
Current period change		(33,507)		(767)		(2,446)
Balance at end of year		(35,775)		(2,268)		(1,501)
Retained earnings						
Balance at beginning of year		(273,445)		(374,566)		(178,065)
Net income (loss)		(33,534)		101,121		(181,045)
Dividends declared to preferred stockholders		—		—		(15,456)
Balance at end of year		(306,979)		(273,445)		(374,566)
Capital in excess of par value						
Balance at beginning of year		556,006		555,576		553,955
EIP shares sold		—		—		76
401(k) contribution		—		401		1,545
Preferred stock conversion		3		29		—
Balance at end of year		556,009		556,006		555,576
Total stockholder's equity		$ 213,861		$ 280,904		$ 180,147
Net income (loss)		$ (33,534)		$ 101,121		$(181,045)
Other comprehensive income (loss)						
Foreign currency translation adjustment		1,241		(767)		(997)
Minimum pension liability adjustment—net of tax		(34,748)		—		—
Unrealized gains (losses) on securities:						
Unrealized holding gains (losses)		—		—		(13,614)
Tax benefit (expense)		—		—		4,765
Reclassification of gains to net earnings		—		—		11,383
Tax benefit (expense)		—		—		(3,984)
Comprehensive income (loss)		$ (67,041)		$ 100,354		$(183,492)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 12 (In Part): Stockholders' Equity

Series A Convertible Preferred Stock and Series B Convertible Preferred Stock (In Part)

In July 1993, the Company issued 3,000,000 shares of Series A Convertible Preferred Stock for net proceeds of $145 million. On October 4, 2000, pursuant to a solicitation of consents from holders of its $10^1/_2$% Senior Notes, certain convenants and other provisions of the indebtedness were amended. The Supplemental Indenture prohibited the payment of dividends on the Company's preferred stock until October 1, 2002, at the earliest, and thereafter only in the event that the Company satisfies certain conditions set forth in the Indenture, as amended by the Supplemental Indenture. Such conditions were not satisfied as of December 31, 2002. Dividends on the shares of the Series A Convertible Preferred Stock are cumulative and are payable quarterly in arrears on January 1, April 1, July 1 and October 1 of each year, in an amount equal to $3.25 per share per annum.

Each share of the Series A Convertible Preferred Stock is convertible at the option of the holder thereof at any time into shares of Common Stock of the Company, par value $.01 per share, at a conversion rate of 1.0562 shares of Common Stock for each share of Series A Convertible Preferred Stock, subject to adjustment under certain conditions.

The Series A Convertible Preferred Stock is redeemable at the option of the Company, in whole or in part, for cash, initially at $52.275 per share and thereafter at prices declining retably to $50 per share on and after July 1, 2003, plus in each case accrued and unpaid dividends to the redemption date. The Series A Convertible Preferred Stock is not entitled to the benefit of any sinking fund. During 2002 and 2001, 40,300 and 293,599 shares respectively were converted into Common Stock. There were no conversions in 2000.

The Company issued 3,500,000 shares of Series B Convertible Preferred Stock in September 1994 for net proceeds of $169.8 million. On October 4, 2000, pursuant to a solicitation of consents from holders of its $10^1/_2$% Senior Notes, certain convenants and other provisions of the indebtedness were amended. The Supplemental Indenture prohibited the payment of dividends on the Company's preferred stock until October 1, 2002, at the earliest, and thereafter only in the event that the Company satisfies certain conditions set forth in the Indenture, as amended by the Supplemental Indenture. Such conditions were not satisfied as of December 31, 2002. Dividends on the shares of the Series B Convertible Preferred Stock, are cumulative, and are payable quarterly in arrears on January 1, April 1, July 1 and October 1 of each year, in an amount equal to $3.75 per share per annum.

Each share of the Series B Convertible Preferred Stock is convertible at the option of the holder thereof at any time into shares of Common Stock of the Company, par value $.01 per share, at a conversion rate of 0.8170 shares of Common Stock for each share of Series B Convertible Preferred Stock, subject to adjustment under certain conditions.

The Series B Convertible Preferred Stock is redeemable at the option of the Company, in whole or in part, for cash, initially at $52.625 per share and thereafter at prices declining ratably to $50 per share on and after October 1, 2004, plus in each case accrued and unpaid dividends to the redemption date. The Series B Convertible Preferred Stock is not entitled to the benefit of any sinking fund. During 2002 and 2001, 7,700 and 18,400 shares, respectively were converted into Common Stock. There were no conversions in 2000.

Debt Conversion

5.41

COSTCO WHOLESALE CORPORATION (AUG)

Consolidated Statements of Stockholders' Equity

(In thousands)	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Other Accumulated Comprehensive Income/(Loss)	Retained Earnings	Total
Balance at August 29, 1999	442,736	$2,214	$ 952,758	$(118,084)	$2,695,222	$3,532,110
Comprehensive income						
Net income	—	—	—	—	631,437	631,437
Other accumulated comprehensive income						
Foreign currency translation adjustment	—	—	—	1,055	—	1,055
Total comprehensive income	—	—	—	1,055	631,437	632,492
Stock options exercised including income tax benefits	7,688	38	175,520	—	—	175,558
Conversion of convertible debentures	3	—	66	—	—	66
Repurchases of common stock	(3,130)	(16)	(99,930)	—	—	(99,946)
Balance at September 3, 2000	447,297	2,236	1,028,414	(117,029)	3,326,659	4,240,280
Comprehensive income						
Net income	—	—	—	—	602,089	602,089
Other accumulated comprehensive loss						
Foreign currency translation adjustment	—	—	—	(56,581)	—	(56,581)
Total comprehensive income	—	—	—	(56,581)	602,089	545,508
Stock options exercised including income tax benefits and other	4,457	23	97,129	—	—	97,152
Balance at September 2, 2001	451,754	2,259	1,125,543	(173,610)	3,928,748	4,882,940
Comprehensive income						
Net income	—	—	—	—	699,983	699,983
Other accumulated comprehensive income						
Foreign currency translation adjustment	—	—	—	15,885	—	15,885
Total comprehensive income	—	—	—	15,885	699,983	715,868
Stock options exercised including income tax benefits and other	3,571	18	95,402	—	—	95,420
Conversion of convertible debentures	—	—	9	—	—	9
Balance at September 1, 2002	455,325	$2,277	$1,220,954	$(157,725)	$4,628,731	$5,694,237

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

Note 2 (In Part): Debt

Long-Term Debt (In Part)

Long-term debt at September 1, 2002 and September 2, 2001:

	2002	2001
$7^1/_8$% Senior Notes due June 2005	$ 307,787	$300,000
$5^1/_2$% Senior Notes due March 2007	328,139	—
2.070% Promissory Notes due October 2007	29,400	29,400
1.187% Promissory Notes due July 2008	25,200	25,200
$3^1/_2$% Zero Coupon convertible subordinated notes due August 2017	506,883	489,659
Notes payable secured by trust deeds on real estate	8,213	8,981
Capital lease obligations and other	12,600	22,830
	1,218,222	876,070
Less current portion (included in other current liabilities)	7,584	16,677
Total long-term debt	$1,210,638	$859,393

● ● ● ● ● ●

On August 19, 1997, the Company completed the sale of $900,000 principal amount at maturity Zero Coupon Subordinated Notes (the "Notes") due August 19, 2017. The Notes were priced with a yield to maturity of $3^1/_2$%, resulting in gross proceeds to the Company of $449,640. The Notes are convertible into a maximum of 19,344,969 shares of Costco Common Stock at an initial conversion price of $22.00. Holders of the Notes may require the Company to purchase the Notes (at the discounted issue price plus accrued interest to date of purchase) on August 19, 2007, or 2012. The Company, at its option, may redeem the Notes (at the discounted issue price plus accrued interest to date of redemption) any time on or after August 19, 2002. As of September 1, 2002, $48,140 in principal amount of the Zero Coupon Notes had been converted by note holders to shares of Costco Common Stock.

Stock Option Tax Benefit

5.42

STANDARD MOTOR PRODUCTS, INC. (DEC)

Consolidated Statements of Changes in Stockholders' Equity

(In thousands)	Common Stock	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
Balance at December 31, 1999	$26,649	$2,957	$184,848	$ 714	$(11,650)	$203,518
Comprehensive income:						
Net earnings			9,729			9,729
Foreign currency translation adjustment				(1,305)		(1,305)
Total comprehensive income						8,424
Cash dividends paid			(4,324)			(4,324)
Employee Stock Ownership Plan		(416)			1,448	1,032
Purchase of treasury stock					(14,345)	(14,345)
Balance at December 31, 2000	26,649	2,541	190,253	(591)	(24,547)	194,305
Comprehensive loss:						
Net loss			(2,485)			(2,485)
Foreign currency translation adjustment				(1,086)		(1,086)
Unrealized loss on interest rate swap agreements				(2,045)		(2,045)
Total comprehensive loss						(5,616)
Cash dividends paid			(4,236)			(4,236)
Exercise of employee stock options		(295)			768	473
Tax benefits applicable to the exercise of employee stock options		48				48
Employee Stock Ownership Plan		(417)			1,130	713
Balance at December 31, 2001	26,649	1,877	183,532	(3,722)	(22,649)	185,687
Comprehensive loss:						
Net loss			(30,556)			(30,556)
Foreign currency translation adjustment				1,295		1,295
Unrealized loss on interest rate swap agreements, net of tax of $205				617		617
Minimum pension liability adjustment				(771)		(771)
Total comprehensive loss						(29,415)
Cash dividends paid			(4,290)			(4,290)
Exercise of employee stock options		(291)			880	589
Tax benefits applicable to the exercise of employee stock options		80				80
Employee Stock Ownership Plan		98			1,132	1,230
Balance at December 31, 2002	$26,649	$1,764	$148,686	$(2,581)	$(20,637)	$153,881

Deferred Compensation Recognized

5.43

THE WASHINGTON POST COMPANY (DEC)

Consolidated Statements of Changes in Common Shareholders' Equity

(In thousands)	Class A Common Stock	Class B Common Stock	Capital in Excess of Par Value	Retained Earnings	Cumulative Foreign Currency Translation Adjustment	Unrealized Gain on Available-for-Sale Securities	Treasury Stock
Balance, January 2, 2000	$1,739	$18,261	$108,867	$2,769,676	$(4,889)	$ 5,269	$(1,531,133)
Net income for the year				136,470			
Dividends paid on common stock—$5.40 per share				(50,998)			
Dividends paid on redeemable preferred stock				(1,026)			
Repurchase of 200 shares of Class B common stock							(96)
Issuance of 21,279 shares of Class B common stock, net of restricted stock award forfeitures			4,433				3,027
Change in foreign currency translation adjustment (net of taxes)					(1,685)		
Change in unrealized gain on available-for-sale securities (net of taxes)						8,233	
Issuance of subsidiary stock (net of taxes)			13,332				
Tax benefits arising from employee stock plans			1,527				
Balance, December 31, 2000	1,739	18,261	128,159	2,854,122	(6,574)	13,502	(1,528,202)
Net income for the year				229,639			
Dividends paid on common stock—$5.60 per share				(53,114)			
Dividends paid on redeemable preferred stock				(1,052)			
Repurchase of 714 shares of Class B common stock							(445)
Issuance of 35,105 shares of Class B common stock, net of restricted stock award forfeitures			10,639				5,120
Change in foreign currency translation adjustment (net of taxes)					(3,104)		
Change in unrealized gain on available-for-sale securities (net of taxes)						10,779	
Conversion of Class A common stock to Class B common stock	(17)	17					
Tax benefits arising from employee stock plans			4,016				
Balance, December 30, 2001	1,722	18,278	142,814	3,029,595	(9,678)	24,281	(1,523,527)
Net income for the year				204,268			
Dividends paid on common stock—$5.60 per share				(53,223)			
Dividends paid on redeemable preferred stock				(1,033)			
Repurchase of 1,229 shares of Class B common stock							(786)
Issuance of 17,156 shares of Class B common stock, net of restricted stock award forfeitures			4,440				2,507
Change in foreign currency translation adjustment (net of taxes)					2,167		
Change in unrealized gain on available-for-sale securities (net of taxes)						(6,368)	
Stock option expense			45				
Tax benefits arising from employee stock plans			1,791				
Balance, December 29, 2002	$1,722	$18,278	$149,090	$3,179,607	$(7,511)	$17,913	$(1,521,806)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A (In Part): Summary of Significant Accounting Policies

Stock Options

Effective the first day of the Company's 2002 fiscal year, the Company adopted the fair-value-based method of accounting for Company stock options as outlined in Statement of Financial Accounting Standards No. 123 (SFAS 123), "Accounting for Stock-Based Compensation." This change in accounting method was applied prospectively to all awards granted from the beginning of the Company's fiscal year 2002 and thereafter. Stock options awarded prior to fiscal year 2002 will continue to be accounted for under the intrinsic value method under Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees."

G (In Part): Capital Stock, Stock Awards, and Stock Options

Stock Options

The Company's employee stock option plan, which was adopted in 1971 and amended in 1993, reserves 1,900,000 shares of the Company's Class B common stock for options to be granted under the plan. The purchase price of the shares covered by an option cannot be less than the fair value on the granting date. At December 29, 2002, there were 470,025 shares reserved for issuance under the stock option plan, of which 163,900 shares were subject to options outstanding, and 306,125 shares were available for future grants.

Changes in options outstanding for the years ended December 29, 2002, December 30, 2001, and December 31, 2000, were as follows:

	2002		2001		2000	
	Number of Shares	Average Option Price	Number of Shares	Average Option Price	Number of Shares	Average Option Price
Beginning of year	170,575	$490.86	166,450	$465.55	156,497	$470.64
Granted	11,500	729.00	24,000	522.75	89,500	544.90
Exercised	(16,675)	404.14	(16,875)	276.79	(20,425)	345.46
Forfeited	(1,500)	561.77	(3,000)	546.04	(59,122)	643.71
End of year	163,900	$515.74	170,575	$490.86	166,450	$465.55

Of the shares covered by options outstanding at the end of 2002, 102,650 are now exercisable, 27,875 will become exercisable in 2003, 21,875 will become exercisable in 2004, 8,625 will become exercisable in 2005, and 2,875 will become exercisable in 2006. Information related to stock options outstanding at December 29, 2002, is as follows:

Range of Exercise Prices	Number Outstanding at 12/29/02	Weighted Average Remaining Contractual Life (Yrs.)	Weighted Average Exercise Price	Number Exercisable at 12/29/02	Weighted Average Exercise Price
$222–319	8,800	2.3	$261.49	8,800	$261.49
344	9,850	4.0	343.94	9,850	343.94
472–484	24,750	5.8	474.34	21,750	473.43
500–596	109,000	7.7	538.70	62,250	537.47
729	11,500	10.0	729.00	—	—

All options were granted at an exercise price equal to or greater than the fair market value of the Company's common stock at the date of grant. The weighted average fair value for options granted during 2002, 2001 and 2000 was $197.89, $107.78 and $161.15, respectively. The fair value of options at date of grant was estimated using the Black-Scholes method utilizing the following assumptions:

	2002	2001	2000
Expected life (years)	7	7	7
Interest rate	3.69%	2.30%	5.98%
Volatility	21.74%	19.46%	17.9%
Dividend yield	0.77%	1.1%	1.0%

Effective the first day of the Company's 2002 fiscal year, the Company adopted the fair-value-based method of accounting for Company stock options as outlined in SFAS 123. This change in accounting method was applied prospectively to all awards granted from the beginning of the Company's fiscal year 2002 and thereafter. Stock options awarded prior to fiscal year 2002 will continue to be accounted for under the intrinsic value method under Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees." The following table presents what the Company's results would have been had the fair values of options granted after 1995, but prior to 2002, been recognized as compensation expense in 2002, 2001 and 2000 (in thousands, except per share amounts).

	2002	2001	2000
Stock-based compensation expense included in net income	$ 45	$ —	$ —
Net income available for common shares, as reported	203,235	228,587	135,444
Stock-based compensation expense not included in net income	3,617	4,309	2,139
Pro forma net income available for common shares	$199,618	$224,278	$133,305
Basic earnings per share, as reported	$ 21.38	$ 24.10	$ 14.34
Pro forma basic earnings per share	$ 21.00	$ 23.64	$ 14.11
Diluted earnings per share, as reported	$ 21.34	$ 24.06	$ 14.32
Pro forma diluted earnings per share	$ 20.96	$ 23.61	$ 14.09

The Company also maintains a stock option plan at its Kaplan subsidiary that provides for the issuance of Kaplan stock options to certain members of Kaplan's management. The Kaplan stock option plan was adopted in 1998 and reserves 10.6 percent, or 150,000 shares, of Kaplan's common stock for options to be granted under the plan. At December 29, 2002, 147,463 shares were subject to options outstanding. The balance of 2,537 shares have been granted with vesting beginning as of January 1, 2003. Under the provisions of this plan, options are issued with an exercise price equal to the estimated fair value of Kaplan's common stock. In general, options vest ratably over five years. Upon exercise, an option holder may either purchase vested shares at the exercise price or elect to receive cash equal to the difference between the exercise price and the then fair value. The fair value of Kaplan's common stock is determined by the Company's compensation committee of the Board of Directors. In January 2003, the committee set the fair value price of Kaplan common stock at $861 per share, which is determined after deducting intercompany debt from Kaplan's enterprise value.

For 2002, 2001 and 2000, the Company recorded expense of $34.5 million, $25.3 million and $6.0 million, respectively, related to this plan. In 2002 and 2001, payouts from option exercises totaled $0.2 million and $2.1 million, respectively. At December 29, 2002, the Company's stock-based compensation accrual balance totaled $74.4 million.

Changes in Kaplan stock options outstanding for the years ended December 29, 2002, December 30, 2001, and December 31, 2000, were as follows:

	2002		2001		2000	
	Number of Shares	Average Option Price	Number of Shares	Average Option Price	Number of Shares	Average Option Price
Beginning of year	142,578	$296.69	131,880	$246.14	95,100	$196.31
Granted	6,475	652.00	27,962	526.00	36,780	375.00
Exercised	(540)	375.00	(7,247)	227.20	—	—
Forfeited	(1,050)	403.76	(10,017)	321.67	—	—
End of year	147,463	$311.24	142,578	$296.69	131,880	$246.14

Of the shares covered by options outstanding at the end of 2002, 101,804 are now exercisable, 12,755 will become exercisable in 2003, 12,755 will become exercisable in 2004, 12,005 will become exercisable in 2005, 6,849 will become exercisable in 2006, and 1,295 will become exercisable in 2007. Information related to stock options outstanding at December 29, 2002, is as follows:

Range of Exercise Prices	Number Outstanding of at 12/29/02	Weighted Average Remaining Contractual Life (Yrs.)	Weighted Average Exercise Price	Number Exercisable at 12/29/02	Weighted Average Exercise Price
$190	83,686	5.0	$190	83,686	$190
350–375	29,540	6.9	372	12,566	371
526	27,762	8.0	526	5,552	526
652	6,475	8.0	652	—	652

Warrants Issued

5.44

SPX CORPORATION AND SUBSIDIARIES (DEC)

Consolidated Statements of Shareholders' Equity

(In millions)	Common Stock	Paid-In Capital	Retained Earnings (Deficit)	Unearned Compensation	Accumulated Other Comprehensive Loss	Common Stock in Treasury
Balance at December 31, 1999	$709.8	$134.8	$ (11.7)	$(19.1)	$ (13.0)	$(248.5)
Net income	—	—	189.5	—	—	—
Exercise of stock options and other incentive plan activity, net of tax	5.6	—	—	9.6	—	—
Minimum pension liability adjustment, net of tax	—	—	—	—	(1.2)	—
Treasury stock repurchased	—	—	—	—	—	(138.8)
Translation adjustments	—	—	—	—	(8.8)	—
Balance at December 31, 2000	715.4	134.8	177.8	(9.5)	(23.0)	(387.3)
Net income	—	—	173.0	—	—	—
Exercise of stock options and other incentive plan activity, net of tax	6.4	38.0	—	9.5	—	—
Acquisitions	111.2	549.7	—	—	—	286.8
Transition adjustment related to change in accounting for derivative instruments and hedging activities, net of tax	—	—	—	—	5.9	—
Net unrealized loss on qualifying cash flow hedges, net of tax	—	—	—	—	(31.5)	—
Minimum pension liability adjustment, net of tax	—	—	—	—	(2.6)	—
Translation adjustments	—	—	—	—	(39.3)	—
Balance at December 31, 2001	833.0	722.5	350.8	—	(90.5)	(100.5)
Net income	—	—	127.4	—	—	—
Exercise of stock options and other incentive plan activity, net of tax	17.7	69.2	—	—	—	—
Exercise of warrants	5.1	19.1	—	—	—	—
Acquisitions	2.2	13.6	—	—	—	—
Net unrealized loss on qualifying cash flow hedges, net of tax	—	—	—	—	(22.9)	—
Minimum pension liability adjustment, net of tax	—	—	—	—	(226.8)	—
Restricted stock grant, net of $2.8 amortization	10.0	38.9	—	(46.1)	—	—
Treasury stock repurchased	—	—	—	—	—	(172.9)
Translation adjustments	—	—	—	—	142.6	—
Balance at December 31, 2002	$868.0	$863.3	$478.2	$(46.1)	$(197.6)	$(273.4)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

16 (In Part): Shareholders' Equity

Warrants (All warrant amounts are in millions)

At December 31, 2001, we had 0.732 outstanding warrants exercisable for 0.732 shares of our common stock. These warrants were originally issued in 1987 by GCA Corporation, a company acquired by General Signal Corporation in 1988. As a result of the acquisition of GCA by General Signal and the subsequent acquisition of General Signal by us, the warrants became rights to purchase shares of our common stock. The warrants represented the right to purchase an aggregate of 0.732 shares of our common stock at an exercise price of $47.26 per share. In 2002, we issued 0.512 shares of common stock and received $24.2 of cash proceeds related to the exercise of these warrants. The remaining 0.220 warrants were not exercised and expired in 2002. All cash proceeds received by us in connection with the warrant exercises were used for general corporate purposes. At December 31, 2002, we had no warrants outstanding.

Put Option Issued

5.45

XILINX, INC. (MAR)

Consolidated Statements of Stockholders' Equity

(In thousands)	Common Stock Outstanding Shares	Amount	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balance at March 31, 1999	312,486	$3,124	$ 291,669	$ 607,060	$ (5,112)	$(17,423)	$ 879,318
Components of comprehensive income:							
Net income	—	—	—	652,450	—	—	652,450
Unrealized gain on available-for-sale securities, net of taxes of $18,313	—	—	—	—	—	26,073	26,073
Cumulative translation adjustment	—	—	—	—	—	17,606	17,606
Total comprehensive income							696,129
Issuance of common shares under employee stock plans	13,272	131	84,184	—	—	—	84,315
Acquisition of treasury stock	(246)	—	—	—	(5,288)	—	(5,288)
Issuance of treasury stock under employee stock plans	—	—	(10,400)	—	10,400	—	—
Put option premiums	—	—	10,038	—	—	—	10,038
Tax benefit from exercise of stock options	—	—	112,143	—	—	—	112,143
Balance at March 31, 2000	325,512	3,255	487,634	1,259,510	—	26,256	1,776,655
Components of comprehensive income:							
Net income	—	—	—	35,258	—	—	35,258
Unrealized loss on available-for-sale securities, net of tax benefit of $2,316	—	—	—	—	—	(22,831)	(22,831)
Cumulative translation adjustment	—	—	—	—	—	(545)	(545)
Total comprehensive income							11,882
Issuance of common shares under employee stock plans	9,382	93	82,737	—	—	—	82,830
Acquisition of treasury stock	(6,373)	(63)	—	—	(402,797)	—	(402,860)
Issuance of treasury stock under employee stock plans	—	—	(294,528)	(37,685)	332,213	—	—
Issuance of shares for RocketChips	2,619	26	288,322	—	—	—	288,348
Put option premiums	—	—	22,209	—	—	—	22,209
Deferred compensation—RocketChips	—	—	(19,773)	—	—	—	(19,773)
Tax benefit from exercise of stock options	—	—	159,025	—	—	—	159,025
Balance at March 31, 2001	331,140	$3,311	$ 725,626	$1,257,083	$ (70,584)	$ 2,880	$1,918,316

(continued)

(In thousands)	Common Stock Outstanding Shares	Common Stock Outstanding Amount	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balance at March 31, 2001	331,140	$3,311	$ 725,626	$1,257,083	$ (70,584)	$ 2,880	$1,918,316
Components of comprehensive loss:							
Net loss	—	—	—	(113,607)	—	—	(113,607)
Unrealized gain on available-for-sale securities, net of taxes of $57,458	—	—	—	—	—	79,180	79,180
Cumulative translation adjustment	—	—	—	—	—	(512)	(512)
Total comprehensive loss							(34,939)
Issuance of common shares under employee stock plans	7,022	70	80,148	—	—	—	80,218
Acquisition of treasury stock	(2,161)	(22)	—	—	(126,188)	—	(126,210)
Issuance of treasury stock under employee stock plans	—	—	(152,380)	(36,195)	188,575	—	—
Issuance of shares for RocketChips	187	2	—	—	—	—	2
Put option premiums	—	—	2,970	—	—	—	2,970
Deferred compensation—RocketChips	—	—	8,483	—	—	—	8,483
Deferred compensation—other	—	—	2,499	—	—	—	2,499
Tax benefit from exercise of stock options	—	—	52,401	—	—	—	52,401
Balance at March 31, 2002	336,188	$3,361	$ 719,747	$1,107,281	$ (8,197)	$ 81,548	$1,903,740

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 10 (In Part): Stockholders' Equity

Put Options

During fiscal 2002 and 2001, we sold put options that entitle the holder of each option to sell to us, by physical delivery, one share of common stock at specified prices. The cash proceeds from the sale of put options of $3.0 million and $22.2 million for fiscal 2002 and 2001, respectively, have been included in additional paid-in capital following the provisions of Emerging Issues Task Force Issue No. 00-19, "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock." As of March 31, 2002, 0.3 million shares of common stock were subject to future issuance under outstanding put options with expiration dates through August 2002, with strike prices ranging from $40 to $45 per share.

Dividend Reinvestment Plan

5.46

MET-PRO CORPORATION (JAN)

Consolidated Statement of Stockholders' Equity

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Treasury Stock	Total
Balances, January 31, 2000	$718,919	$7,973,873	$46,087,476	($403,993)	($10,169,942)	$44,206,333
Comprehensive income:						
Net income	—	—	7,773,720	—	—	
Cumulative translation adjustment	—	—	—	(87,170)	—	
Total comprehensive income						7,686,550
Dividends paid, $.32 per share	—	—	(1,462,727)	—	—	(1,462,727)
Dividend declared, $.085 per share	—	—	(517,669)	—	—	(517,669)
Proceeds from issuance of common stock under dividend reinvestment plan (17,389 shares)	1,739	165,926	—	—	—	167,665
Purchase of 318,476 shares of treasury stock	—	—	—	—	(3,018,786)	(3,018,786)
Balances, January 31, 2001	720,658	8,139,799	51,880,800	(491,163)	(13,188,728)	47,061,366
Comprehensive income:						
Net income	—	—	6,189,317	—	—	
Cumulative translation adjustment	—	—	—	(231,570)	—	
Interest rate swap, net of tax of $60,357	—	—	—	(105,004)	—	5,852,743
Total comprehensive income						
Dividends paid, $.34 per share	—	—	(1,562,968)	—	—	(1,562,968)
Dividend declared, $.085 per share	—	—	(517,070)	—	—	(517,070)
Proceeds from issuance of common stock under dividend reinvestment plan (12,582 shares)	1,258	145,247	—	—	—	146,505
Stock option transactions	—	(405,678)	—	—	1,497,931	1,092,253
Purchase of 145,590 shares of treasury stock	—	—	—	—	(1,793,435)	(1,793,435)
Balances, January 31, 2002	721,916	7,879,368	55,990,079	(827,737)	(13,484,232)	50,279,394
Comprehensive income:						
Net income	—	—	5,888,379	—	—	
Cumulative translation adjustment	—	—	—	617,563	—	
Interest rate swap, net of tax of $109,056	—	—	—	(202,802)	—	
Minimum pension liability adjustment, net of tax of $70,991	—	—	—	(128,983)	—	
Total comprehensive income						6,174,157
Issuance of treasury stock for acquisition of business	—	250,782	—	—	1,349,218	1,600,000
Dividends paid, $.345 per share	—	—	(1,614,024)	—	—	(1,614,024)
Dividend declared, $.09 per share	—	—	(559,167)	—	—	(559,167)
Proceeds from issuance of common stock under dividend reinvestment plan (7,138 shares)	714	100,801	—	—	—	101,515
Stock option transactions	—	(34,169)	—	—	387,397	353,228
Purchase of 19,941 shares of treasury stock	—	—	—	—	(289,218)	(289,218)
Balances, January 31, 2003	$722,630	$8,196,782	$59,705,267	($541,959)	($12,036,835)	$56,045,885

Treasury Stock Purchased

5.47

LOCKHEED MARTIN CORPORATION (DEC)

Consolidated Statement of Stockholders' Equity

(In millions, except per share data)	Common Stock	Additional Paid-In Capital	Retained Earnings	Unearned ESOP Shares	Accumulated Other Comprehensive Loss	Total Stockholders' Equity	Comprehensive Income (Loss)
Balance at December 31, 1999	$398	$ 222	$ 5,901	$(150)	$ (10)	$ 6,361	
Net loss	—	—	(519)	—	—	(519)	$ (519)
Common stock dividends declared ($0.44 per share)	—	—	(183)	—	—	(183)	—
Stock awards and options, and ESOP activity	6	177	—	35	—	218	—
Stock issued in COMSAT merger	27	1,319	—	—	—	1,346	—
COMSAT stock options assumed	—	71	—	—	—	71	—
Other comprehensive loss:							
Net unrealized loss from available-for-sale investments	—	—	—	—	(129)	(129)	(129)
Other	—	—	—	—	(5)	(5)	(5)
Balance at December 31, 2000	431	1,789	5,199	(115)	(144)	7,160	$ (653)
Net loss	—	—	(1,046)	—	—	(1,046)	$(1,046)
Common stock dividends declared ($0.44 per share)	—	—	(192)	—	—	(192)	—
Stock awards and options, and ESOP activity	10	353	—	31	—	394	—
Other comprehensive income (loss):							
Reclassification adjustment related to available-for-sale investments	—	—	—	—	151	151	151
Minimum pension liability	—	—	—	—	(33)	(33)	(33)
Net unrealized gain from available-for-sale investments	—	—	—	—	23	23	23
Net foreign currency translation adjustments	—	—	—	—	(20)	(20)	(20)
Net unrealized gain from hedging activities	—	—	—	—	6	6	6
Balance at December 31, 2001	441	2,142	3,961	(84)	(17)	6,443	$ (919)
Net earnings	—	—	500	—	—	500	$ 500
Common stock dividends declared ($0.44 per share)	—	—	(199)	—	—	(199)	—
Stock awards and options, and ESOP activity	15	703	—	34	—	752	—
Repurchases of common stock	(1)	(49)	—	—	—	(50)	—
Other comprehensive income (loss):							
Minimum pension liability	—	—	—	—	(1,537)	(1,537)	(1,537)
Reclassification adjustments related to available-for-sale investments	—	—	—	—	53	53	53
Net foreign currency translation adjustments	—	—	—	—	(7)	(7)	(7)
Net unrealized gain from hedging activities	—	—	—	—	10	10	10
Net unrealized loss from available-for-sale investments	—	—	—	—	(100)	(100)	(100)
Balance at December 31, 2002	$455	$2,796	$ 4,262	$ (50)	$(1,598)	$ 5,865	$(1,081)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 12 (In Part): Stockholders' Equity and Related Items

Capital Stock

At December 31, 2002, the authorized capital of the Corporation was composed of 1.5 billion shares of common stock (approximately 455 million shares issued), 50 million shares of series preferred stock (no shares issued), and 20 million shares of Series A Preferred Stock (no shares outstanding).

In October 2002, the Corporation announced that a new share repurchase authority had been authorized which provides for the repurchase of up to 23 million shares of its common stock from time-to-time if market and business conditions warrant. Under the authority, management has discretion to determine whether to purchase shares, the number and price of the shares to be repurchased, and the timing of any repurchases. The authority replaced a prior repurchase plan which had been authorized in 1995. In the fourth quarter of 2002, the Corporation repurchased 1 million common shares under the authority for a total of $50 million.

Treasury Stock Issued

5.48

LEGGETT & PLATT, INCORPORATED AND SUBSIDIARIES (DEC)

Consolidated Statements of Changes in Shareholders' Equity

(Dollar amounts in millions, except per share data)	2002	2001	2000
Common stock			
Balance, beginning and end of period	$ 2.0	$ 2.0	$ 2.0
Additional contributed capital			
Balance, beginning of period	$ 419.3	$ 423.5	$ 424.8
Common stock issued	12.6	10.2	14.3
Treasury stock issued	(12.8)	(19.9)	(16.9)
Tax benefit related to stock options	3.8	5.5	1.3
Balance, end of period	$ 422.9	$ 419.3	$ 423.5
Retained earnings			
Balance, beginning of period	$1,552.7	$1,460.0	$1,278.1
Net earnings	233.1	187.6	264.1
Cash dividends declared (per share: 2002–$.50; 2001–$.48; 2000–$.42)	(98.5)	(94.9)	(82.2)
Balance, end of period	$1,687.3	$1,552.7	$1,460.0
Treasury stock			
Balance, beginning of period	$ (51.6)	$ (46.3)	$ (39.8)
Treasury stock purchased	(96.7)	(71.8)	(59.0)
Treasury stock issued	52.0	66.5	52.5
Balance, end of period	$ (96.3)	$ (51.6)	$ (46.3)

(continued)

(Dollar amounts in millions, except per share data)	2002	2001	2000
Accumulated other comprehensive income (loss)			
Balance, beginning of period	$ (55.8)	$ (45.4)	$ (18.9)
Foreign-currency translation adjustment	16.8	(10.4)	(26.5)
Balance, end of period	$ (39.0)	$ (55.8)	$ (45.4)
Total shareholders' equity	$1,976.9	$1,866.6	$1,793.8
Comprehensive income			
Net earnings	$ 233.1	$ 187.6	$ 264.1
Foreign currency translation adjustment (net of income tax expense (benefit): 2002–$3.1; 2001–$.3; 2000–($3.3))	16.8	(10.4)	(26.5)
Total comprehensive income	$ 249.9	$ 177.2	$ 237.6

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

H) (In Part): Capital Stock

Stock Activity

Activity in the Company's stock accounts for each of the three years ended December 31 is as follows:

	Common Stock	Treasury Stock
Balance, January 1, 2000	198,727,750	(1,847,456)
Shares issued	50,000	2,722,437
Treasury stock purchased	—	(3,555,532)
Balance, December 31, 2000	198,777,750	(2,680,551)
Shares issued	20,000	3,607,684
Treasury stock purchased	—	(3,426,730)
Balance, December 31, 2001	198,797,750	(2,499,597)
Shares issued	1,793	2,344,708
Treasury stock purchased	—	(4,146,034)
Balance, December 31, 2002	198,799,543	(4,300,923)

The Company issues shares for employee stock plans and acquisitions. The Company purchases its common stock to meet the requirements of the employee stock purchase and incentive plans, to replace shares issued in purchase acquisitions and to satisfy contractual obligations. The Company will also receive shares in stock option exercises.

Restricted Stock

5.49

NATIONAL SERVICE INDUSTRIES, INC. (AUG)

Consolidated Statements of Stockholders' Equity and Comprehensive Income

(In thousands, except share and per-share data)	Comprehensive Income	Common Stock	Paid-In Capital	Retained Earnings	Unearned Compensation on Restricted Stock	Accumulated Other Comprehensive Income Items	Treasury Stock	Total
Balance, August 31, 1999		$14,480	$72,494	$ 976,461	$ —	$ (34)	$(438,235)	$ 625,166
Comprehensive income:								
Net income	$ 99,870	—	—	99,870	—	—	—	99,870
Other comprehensive income, net of tax: Minimum pension liability adjustment (net of tax of $1)	(3)	—	—	—	—	(3)	—	(3)
Comprehensive income	$ 99,867							
Stock options exercised[1]		—	98	—	—	—	643	741
Treasury stock issued in connection with Long-Term Incentive Program[2]		—	1,245	—	—	—	4,422	5,667
Employee stock purchase plan issuances[3]		—	(741)	—	—	—	3,867	3,126
Cash dividends of $5.24 per share paid on common stock		—	—	(53,357)	—	—	—	(53,357)
Balance, August 31, 2000	—	14,480	73,096	1,022,974	—	(37)	(429,303)	681,210
Comprehensive income:								
Net income	$ 27,013	—	—	27,013	—	—	—	27,013
Other comprehensive income, net of tax: Minimum pension liability adjustment (net of tax of $3)	(6)	—	—	—	—	(6)	—	(6)
Comprehensive income	$ 27,007							
Stock options exercised[4]		—	(14)	—	—	—	48	34
Treasury stock issued in connection with Long-Term Incentive Program[5]		—	(963)	—	—	—	4,600	3,637
Restricted stock issued in connection with Long-Term Incentive Program[6]		—	(9)	—	(1,195)	—	1,204	—
Amortization and forfeitures of restricted stock grants		—	—	—	315	—	—	315
Issuance of stock options in connection with Long-Term Incentive Program		—	1,855	—	—	—	—	1,855
Employee stock purchase plan issuances[7]		—	(1,105)	—	—	—	4,125	3,020
Cash dividends of $5.28 per share paid on common stock		—	—	(54,450)	—	—	—	(54,450)
Balance, August 31, 2001		$14,480	$72,860	$ 995,537	$ (880)	$ (43)	$(419,326)	$ 662,628

(continued)

(In thousands, except share and per-share data)	Comprehensive Income	Common Stock	Paid-In Capital	Retained Earnings	Unearned Compensation on Restricted Stock	Accumulated Other Comprehensive Income Items	Treasury Stock	Total
Balance, August 31, 2001		$14,480	$72,860	$ 995,537	$ (880)	$ (43)	$(419,326)	$ 662,628
Comprehensive income:								
Net loss	$(32,072)	—	—	(32,072)	—	—	—	(32,072)
Other comprehensive income, net of tax: Minimum pension liability adjustment (net of tax of $1,413)	(2,307)	—	—	—	—	(2,307)	—	(2,307)
Comprehensive loss	$(34,379)							
Cash in lieu of fractional shares		(1)	(9)	—	—	—	—	(10)
Treasury stock issued in connection with Long-Term Incentive Program[8]		—	(71)	—	—	—	1,180	1,109
Restricted stock issued in connection with Long-Term Incentive Program[9]		—	(58,179)	—	(4,910)	—	63,089	—
Amortization and forfeitures of restricted stock grants[10]		—	(9)	—	1,021	—	(116)	896
Dividend of common equity interest in acuity		—	—	(403,238)	—	—	—	(403,238)
Transfer of restricted stock in connection with spin-off of acuity		—	—	—	677	—	—	677
Employee stock purchase plan issuance[11]		—	(3,022)	—	—	—	3,897	875
Cash dividends of $0.76 per share paid on common stock		—	—	(7,925)	—	—	—	(7,925)
Balance, August 31, 2002		$14,479	$11,570	$ 552,302	$(4,092)	$(2,350)	$(351,276)	$ 220,633

[1] 7,338 shares, [2] 44,008 shares, [3] 38,489 shares, [4] 486 shares, [5] 45,781 shares, [6] 11,980 shares, [7] 41,057 shares, [8] 11,747 shares, [9] 627,880 shares, [10] 15,605 shares, [11] 38,765 shares.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 5 (In Part): Common Stock and Related Matters

Restricted Stock

In January 2002, the Company awarded 627,880 shares of restricted stock to officers, other key employees and members of the Board of Directors under the National Service Industries, Inc. Long-Term Achievement Incentive Plan. The shares vest ratably in four equal annual installments beginning one year from the date of the grant. During the vesting period, the participants have voting rights and receive dividends, but the shares may not be sold, assigned, transferred, pledged or otherwise encumbered. Additionally, granted but unvested shares are forfeited upon termination of employment, unless certain retirement criteria are met.

The fair value of the restricted shares on the date of the grant is amortized ratably over the vesting period. Unearned compensation on the January 2002 grant of restricted stock of $4,910 was initially recorded based on the market value of the shares on the date of grant and is generally being amortized over four years. The unamortized balance of unearned compensation on restricted stock is included as a separate component of stockholders' equity.

In October 2000, the Company awarded 434,371 shares of restricted stock to officers and other key employees under the National Service Industries, Inc. Long-Term Achievement Incentive Plan. The shares are granted in 20 percent increments when the Company's stock price equals or exceeds certain stock price targets ranging from $13.09 to $19.92 for thirty consecutive calendar days. The shares vest ratably in four equal annual installments beginning one year from the date of grant. During the vesting period, the participants have voting rights and receive dividends, but the shares may not be sold, assigned, transferred, pledged or otherwise encumbered. If the stock price targets are not reached on or before the fifth anniversary of the award date, the corresponding shares are not granted. Additionally, granted but unvested shares are forfeited upon termination of employment, unless certain retirement criteria are met.

The fair value of the restricted shares on the date of grant is amortized ratably over the vesting period. In January 2001, the first stock price target was achieved and 12,815 restricted shares were granted. Unearned compensation of $1,195 on restricted stock was recorded in fiscal 2001 based on the market value of the shares on the date of grant and is generally being amortized over four years. The unamortized balance of unearned compensation on restricted stock is included as a separate component of stockholders' equity.

Compensation expense of $896 and $315 was recognized for the restricted stock in 2002 and 2001, respectively.

Conversion of Preferred Stock

5.50

FORTUNE BRANDS, INC. AND SUBSIDIARIES (DEC)

Consolidated Statement of Stockholders' Equity

(In millions)	$2.67 Convertible Preferred Stock	Common Stock	Paid-In Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Treasury Stock, at Cost	Total
Balance at December 31, 1999	$ 9.9	$717.4	$130.8	$ (14.9)	$4,205.2	$(2,310.2)	$2,738.2
Comprehensive income							
Net loss	—	—	—	—	(137.7)	—	(137.7)
Foreign exchange adjustments	—	—	—	(63.5)	—	—	(63.5)
Minimum pension liability adjustments	—	—	—	(1.2)	(0.1)	—	(1.3)
Total comprehensive loss	—	—	—	(64.7)	(137.8)	—	(202.5)
Dividends	—	—	—	—	(147.7)	—	(147.7)
Purchases	—	—	—			(255.8)	(255.8)
Tax benefit on exercise of stock options	—	—	0.2	—	—	—	0.2
Conversion of preferred stock and delivery of stock plan shares	(0.7)	—	(5.1)	—	—	9.3	3.5
Balance at December 31, 2000	$ 9.2	$717.4	$125.9	$ (79.6)	$3,919.7	$(2,556.7)	$2,135.9
Comprehensive income							
Net income	—	—	—	—	386.0	—	386.0
Foreign exchange adjustments	—	—	—	(38.2)	—	—	(38.2)
Minimum pension liability adjustments	—	—	—	(13.9)	—	—	(13.9)
Total comprehensive income	—	—	—	(52.1)	386.0	—	333.9
Dividends	—	—	—	—	(148.0)	—	(148.0)
Purchases	—	—	—	—	—	(272.8)	(272.8)
Tax benefit on exercise of stock options	—	—	4.3	—	—	—	4.3
Conversion of preferred stock and delivery of stock plan shares and sale of stock in a subsidiary	(0.6)	—	(17.0)	—	—	67.0	49.4
Balance at December 31, 2001	$ 8.6	$717.4	$113.2	$(131.7)	$4,157.7	$(2,762.5)	$2,102.7
Comprehensive income							
Net income	—	—	—	—	525.6	—	525.6
Foreign exchange adjustments	—	—	—	21.1	—	—	21.1
Minimum pension liability adjustments	—	—	—	(67.0)	—	—	(67.0)
Total comprehensive income	—	—	—	(45.9)	525.6	—	479.7
Dividends	—	—	—	—	(153.4)	—	(153.4)
Purchases	—	—	—	—	—	(278.0)	(278.0)
Tax benefit on exercise of stock options	—	—	29.2	—	—	—	29.2
Conversion of preferred stock and delivery of stock plan shares and sale of stock in a subsidiary	(0.7)	—	(26.4)	—	—	160.1	133.0
Balance at December 31, 2002	$ 7.9	$717.4	$116.0	$(177.6)	$4,529.9	$(2,880.4)	$2,313.2

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7 (In Part): $2.67 Convertible Preferred Stock—Redeemable at Company's Option

Shares of the $2.67 Convertible Preferred stock issued and outstanding at December 31, 2002, 2001 and 2000 were 258,656 shares, 281,515 shares and 302,399 shares, respectively. Reacquired, redeemed or converted authorized shares that are not outstanding are required to be retired or restored to the status of authorized but unissued shares of preferred stock without series designation. The holders of $2.67 Convertible Preferred stock are entitled to cumulative dividends, three-tenths of a vote per share (in certain events, to the exclusion of the common shares), preference in liquidation over holders of common stock of $30.50 per share plus accrued dividends and to convert each share of such stock into 6.205 shares of common stock. Authorized but unissued common shares are reserved for issuance upon such conversions, but treasury shares may be and are delivered. Shares converted were 22,859 shares, 20,884 shares and 20,926 shares during 2002, 2001 and 2000, respectively. The Company may redeem such Preferred stock at a price of $30.50 per share, plus accrued dividends.

8 (In Part): Capital Stock

Treasury shares purchased and received as consideration for stock options exercised amounted to 5,769,440 shares in 2002; 7,546,333 shares in 2001; 10,021,166 shares in 2000. Treasury shares delivered in connection with exercise of stock options and grants of other stock awards and conversion of preferred stock and debentures amounted to 4,762,402 shares in 2002; 2,035,239 shares in 2001; 286,992 shares in 2000. At December 31, 2002 and 2001 there were 82,579,289 and 81,572,251 common treasury shares, respectively.

Equity Trust Market Value Adjustment

5.51

VIAD CORP (DEC)

Consolidated Statements of Common Stock and Other Equity

(In thousands)	Common Stock	Additional Capital	Retained Income	Unearned Employee Benefits and Other	Accumulated Other Comprehensive Income (Loss)	Common Stock in Treasury	Total
Balance, December 31, 1999	$149,610	$289,798	$634,599	$(129,818)	$ (76,630)	$(167,667)	$699,892
Net income	—	—	140,819	—	—	—	140,819
Dividends on common and preferred stock	—	—	(33,092)	—	—	—	(33,092)
Employee benefit plans	—	(27,200)	—	18,051	—	32,255	23,106
Employee equity trust adjustment to market value	—	(16,963)	—	16,963	—	—	—
Treasury shares acquired	—	—	—	—	—	(147,163)	(147,163)
Unrealized foreign currency translation adjustment	—	—	—	—	(3,677)	—	(3,677)
Unrealized gain on available-for-sale securities	—	—	—	—	70,677	—	70,677
Minimum pension liability adjustment	—	—	—	—	(121)	—	(121)
Other, net	—	(1)	289	—	—	1	289
Balance, December 31, 2000	149,610	245,634	742,615	(94,804)	(9,751)	(282,574)	750,730
Transition adjustment, effective January 1, 2001, upon initial application of SFAS No. 133	—	—	—	—	(3,729)	—	(3,729)
Net income	—	—	51,134	—	—	—	51,134
Dividends on common and preferred stock	—	—	(31,995)	—	—	—	(31,995)
Employee benefit plans	—	(23,009)	—	14,230	—	34,149	25,370
Employee equity trust adjustment to market value	—	2,378	—	(2,378)	—	—	—
Treasury shares acquired	—	—	—	—	—	(34,622)	(34,622)
Unrealized foreign currency translation adjustment	—	—	—	—	(4,599)	—	(4,599)
Unrealized gain on available-for-sale-securities	—	—	—	—	25,448	—	25,448
Unrealized loss on derivative financial instruments	—	—	—	—	(46,374)	—	(46,374)
Minimum pension liability adjustment	—	—	—	—	(11,944)	—	(11,944)
Other, net	—	—	254	—	—	—	254
Balance, December 31, 2001	149,610	225,003	762,008	(82,952)	(50,949)	(283,047)	719,673
Net income	—	—	76,094	—	—	—	76,094
Dividends on common and preferred stock	—	—	(32,149)	—	—	—	(32,149)
Employee benefit plans	—	(7,884)	—	15,567	—	11,311	18,994
Employee equity trust adjustment to market value	—	(1,242)	—	1,242	—	—	—
Treasury shares acquired	—	—		—	—	(28,309)	(28,309)
Unrealized foreign currency translation adjustment	—	—	—	—	3,556	—	3,556
Unrealized gain on available-for-sale securities	—	—	—	—	60,244	—	60,244
Unrealized loss on derivative financial instruments	—	—	—	—	(96,682)	—	(96,682)
Minimum pension liability adjustment	—	—	—	—	(20,535)	—	(20,535)
Other, net	—	(5)	226	—	—	5	226
Balance, December 31, 2002	$149,610	$215,872	$806,179	$ (66,143)	$(104,366)	$(300,040)	$701,112

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 12 (In Part): Common Stock and Other Equity

In 1992, Viad sold treasury stock to Viad's Employee Equity Trust (the "Trust") in exchange for a promissory note. The Trust is used to fund certain existing employee compensation and benefit plans. For financial reporting purposes, the Trust is consolidated with Viad and the promissory note ($22.8 million at December 31, 2002) and dividend and interest transactions are eliminated in consolidation. The fair market value ($52.9 million and $68.1 million at December 31, 2002 and 2001, respectively) of the 2,365,901 and 2,874,753 remaining shares held by the Trust at December 31, 2002 and 2001, respectively, representing unearned employee benefits, is shown as a deduction from common stock and other equity and is reduced as employee benefits are funded. The difference between the cost and fair value of shares held is included in additional capital.

Equity Units

5.52

BAXTER INTERNATIONAL INC. (DEC)

Consolidated Statements of Stockholders' Equity and Comprehensive Income

	2002		2001		2000	
(In millions)	Shares	Amount	Shares	Amount	Shares	Amount
Common stock						
Beginning of year	609	$ 609	298	$ 298	294	$ 294
Common stock issued	15	15	10	10	—	—
Common stock issued for acquisitions	3	3	3	3	4	4
Two-for-one stock split	—	—	298	298	—	—
End of year	627	627	609	609	298	298
Common stock in treasury						
Beginning of year	10	(328)	5	(349)	4	(269)
Common stock issued for acquisitions	—	—	(2)	63	(1)	39
Purchases of common stock	23	(1,169)	9	(288)	6	(375)
Common stock issued under employee benefit plans	(6)	171	(7)	246	(4)	256
Two-for-one stock split	—	—	5	—	—	—
End of year	27	(1,326)	10	(328)	5	(349)
Additional contributed capital						
Beginning of year		2,815		2,506		2,282
Common stock issued		399		490		—
Common stock issued for acquisitions		157		171		247
Equity units issued		(157)		—		—
Common stock issued under employee benefit plans		9		(54)		(23)
Two-for-one stock split		—		(298)		—
End of year		3,223		2,815		2,506
Retained earnings						
Beginning of year		1,093		853		1,415
Net income		778		612		740
Elimination of reporting lag for international operations		—		(23)		—
Common stock cash dividends		(346)		(349)		(341)
Distribution of Edwards Lifesciences Corporation common stock to stockholders		164		—		(961)
End of year		1,689		1,093		853
Accumulated other comprehensive loss						
Beginning of year		(432)		(649)		(374)
Other comprehensive (loss) income		(842)		217		(275)
End of year		(1,274)		(432)		(649)
Total stockholders' equity		$ 2,939		$3,757		$2,659

(continued)

(In millions)	2002 Shares	2002 Amount	2001 Shares	2001 Amount	2000 Shares	2000 Amount
Comprehensive income (loss)						
Net income		$ 778		$ 612		$ 740
Cumulative effect of accounting change, net of tax of $5		—		8		—
Currency translation adjustments, net of tax expense (benefit) of ($223) in 2002, $58 in 2001 and $82 in 2000		(203)		155		(297)
Unrealized net gain (loss) on hedging activities, net of tax expense (benefit) of ($67) in 2002 and $45 in 2001		(114)		74		—
Unrealized net gain (loss) on marketable equity securities, net of tax expense (benefit) of ($5) in 2002, ($14) in 2001 and $15 in 2000		(8)		(20)		22
Additional minimum pension liability, net of tax benefit of $287		(517)		—		—
Other comprehensive income (loss)		(842)		217		(275)
Elimination of reporting lag for international operations, net of tax benefit of $8		—		(23)		—
Total comprehensive income		$ (64)		$ 806		$ 465

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

New Accounting and Disclosure Standards (In Part)

SFAS No. 149, "Accounting for Certain Financial Instruments with Characteristics of Liabilities and Equity," which is expected to be issued in 2003, will require that certain financial instruments that have characteristics of both liabilities and equity be classified as liabilities in the issuing company's balance sheet. Many of these instruments were previously classified as equity. The new rules will be effective immediately for all contracts created or modified after the date the pronouncement is issued, and will be otherwise effective for Baxter at the beginning of the third quarter of 2003. The new rules are to be applied prospectively with a cumulative-effect adjustment for contracts that were created before the pronouncement is issued and that still exist at the beginning of that first interim period. Under the new rules, the balance sheet classification of the company's equity forward agreements, which are described in Note 6, will change from equity to liabilities. As disclosed in Note 6, the company is in the process of exiting these agreements and expects to complete the exit strategy during 2003. Management will analyze this accounting pronouncement, and does not anticipate that the standard will have a material impact on the company's consolidated financial statements.

Note 5 (In Part): Long-Term Debt, Credit Facilities and Commitments

Equity Units

In December 2002 the company issued 25 million 7% equity units in an underwritten public offering (listed on the New York Stock Exchange under the symbol "BAX Pr") and received net proceeds of $1.213 billion. Each equity unit contains $50 principal amount of senior notes that will mature in February 2008 and a purchase contract obligating the holder to purchase and the company to sell a variable number of newly issued shares of Baxter common stock in February 2006. Upon settlement of the purchase contracts the company will receive proceeds of $1.25 billion and will deliver between 35.0 million and 43.4 million shares based upon the then-current price of Baxter's common stock (if the price is equal to or less than $28.78, 1.7373 shares per unit will be delivered; if the price is between $28.78 and $35.69, shares equal to $50 divided by the then-current price will be delivered; if the price is equal to or greater than $35.69, 1.4011 shares per unit will be delivered). Baxter will make quarterly contract adjustment payments to the equity unit holders at a rate of 3.4% per year until the purchase contracts are settled. The present value of these payments of $127 million was charged to additional contributed capital and is included in other liabilities. Payments to the holders will be allocated between this liability and interest expense based on a constant rate calculation over the life of the instruments. Equity unit issuance costs totalling $30 million were allocated to the purchase contracts and charged to additional contributed capital.

The aggregate maturity value of the senior notes, which will mature in February 2008, is $1.25 billion. The notes are initially pledged by the holders to secure their obligations under the purchase contracts. The holders may separate the notes and contracts by pledging U.S. Treasury securities as collateral. Baxter will make quarterly interest payments to the holders of the notes initially at an annual rate of 3.6%. On or after November 2005, the notes are to be remarketed and the interest rate will be re-set. If the senior notes are not remarketed by February 16, 2006, the holders will have the right to put the notes to Baxter at $50 per senior note plus accrued and unpaid interest, but only after the holders have satisfied their obligations under the purchase contracts.

Note 6 (In Part): Financial Instruments and Risk Management

Equity Forward Agreements (In Part)

In order to partially offset the potentially dilutive effect of employee stock options, the company has periodically entered into forward agreements with independent third parties related to the company's common stock. The forward agreements, which have a fair value of zero at inception, require the company to purchase its common stock from the counterparties on specified future dates and at specified prices. The company may, at its option, terminate and settle these agreements at any time before maturity. The agreements include certain Baxter stock price thresholds, below which the counterparty has the right to terminate the agreements. If the thresholds were met in the future, the number of shares that could potentially be issued by the company under all

of the agreements is subject to contractual maximums, and the maximum at December 31, 2002 was 115 million shares. The contracts give the company the choice of net-share, net-cash or physical settlement upon maturity or upon any earlier settlement date. In accordance with GAAP, these contracts are not recorded in the financial statements until they are settled. The settlements of these contracts (whether by net-share, net-cash or physical settlement) are classified within stockholders' equity.

At December 31, 2002, the company had outstanding forward agreements related to 15 million shares, which all mature in 2003, and have exercise prices ranging from $33 to $52 per share, with a weighted-average exercise price of $49 per share (the company's common stock closed at $28 on December 31, 2002). At December 31, 2001, agreements related to 31 million shares were outstanding at exercise prices ranging from $33 to $55 per share, with a weighted-average exercise price of $49 per share. In 2002, management decided to exit substantially all of the forward agreements and the company completed a significant amount of the terminations during 2002. During 2002, the company physically settled forward agreements related to 22 million shares. Management expects to complete the exit strategy during 2003. Consistent with its strategy for funding the company's other obligations, management is funding the exit of the forward agreements through cash flows from operations, by issuing additional debt, by entering into other financing arrangements, or by issuing common stock. As noted above, a portion of the proceeds from the December 2002 issuance of the equity units was used to settle certain of the foward agreements. The settlement of the outstanding forward agreements has not had and is not expected to have a material impact on the company's earnings per diluted common share.

Stock Issuance Costs

5.53

TEMPLE-INLAND INC. AND SUBSIDIARIES (DEC)

Consolidated Statements of Shareholders' Equity

(In millions)	Common Stock	Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Treasury Stock	Total
Balance at year-end 1999	$61	$364	$ (31)	$1,838	$(305)	$1,927
Comprehensive income						
Net income	—	—	—	195	—	195
Other comprehensive income, net of tax						
Unrealized gains on securities	—	—	23	—	—	23
Minimum pension liability	—	—	(2)	—	—	(2)
Foreign currency translation adjustment	—	—	2	—	—	2
Comprehensive income for the year 2000						218
Dividends paid on common stock—$1.28 per share	—	—	—	(65)	—	(65)
Stock-based compensation	—	1	—	—	—	1
Stock issued for stock plans—57,999 shares	—	—	—	—	2	2
Stock acquired for treasury—5,095,906 shares	—	—	—	—	(250)	(250)
Balance at year-end 2000	$61	$365	$ (8)	$1,968	$(553)	$1,833
Comprehensive income						
Net income	—	—	—	109	—	109
Other comprehensive income, net of tax						
Unrealized gains on securities	—	—	7	—	—	7
Minimum pension liability	—	—	(1)	—	—	(1)
Foreign currency translation adjustment	—	—	1	—	—	1
Comprehensive income for the year 2001						116
Dividends paid on common stock—$1.28 per share	—	—	—	(63)	—	(63)
Stock-based compensation	—	3	—	—	—	3
Stock issued for stock plans—185,097 shares	—	(1)	—	—	8	7
Balance at year-end 2001	$61	$367	$ (1)	$2,014	$(545)	$1,896
Comprehensive income						
Net income	—	—	—	53	—	53
Other comprehensive income, net of tax						
Unrealized gains on securities	—	—	(1)	—	—	(1)
Minimum pension liability	—	—	(123)	—	—	(123)
Foreign currency translation adjustment	—	—	(8)	—	—	(8)
Derivative financial instruments	—	—	(3)	—	—	(3)
Comprehensive loss for the year 2002						(82)
Dividends paid on common stock—$1.28 per share	—	—	—	(67)	—	(67)
Stock-based compensation	—	2	—	—	—	2
Stock issued for cash—4,140,000 shares	—	27	—	—	188	215
Fees related to sale of upper DECS^{SM} and stock	—	(20)	—	—	—	(20)
Present value of equity purchase contract adjustment payments	—	(10)	—	—	—	(10)
Equity purchase contracts	—	—	—	—	—	—
Stock issued for stock plans—307,109 shares	—	2	—	—	13	15
Balance at year-end 2002	$61	$368	$(136)	$2,000	$(344)	$1,949

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 2 (In Part): Capital Stock

In connection with the issuance of the Upper DECS[SM] units the company issued contracts to purchase common stock. The purchase contracts represent an obligation to purchase by May 2005 shares of common stock based on an aggregate purchase price of $345 million. The actual number of shares that will be issued on the stock purchase date will be determined by a settlement rate that is based on the average market price of the company's common stock for 20 days preceding the stock purchase date. The average price per share will not be less than $52, in which case 6.635 million shares would be issued, and will not be higher than $63.44, in which case 5.438 million shares would be issued. If a holder elects to purchase shares prior to May 2005, the number of shares that would be issued will be based on a fixed price of $63.44 per share (the settlement rate resulting in the fewest number of shares issued to the holder) regardless of the actual market price of the shares at that time. Accordingly, if the purchase contracts had been settled at year-end 2002, the settlement rate would have resulted in the issuance of 5.438 million shares of common stock and the receipt of $345 million cash. The purchase contracts are considered to be equity instruments as they can only be settled with shares of common stock and therefore were included as a component of shareholders' equity based on their fair value. Subsequent changes in fair value are not recognized. At the date of issuance the purchase contracts had no value. The purchase contracts also provide for contract adjustment payments at an annual rate of 1.08 percent. The $10 million present value of the contract adjustment payments was recorded as a liability with a corresponding offset to shareholders' equity at the time the Upper DECS[SM] were issued. The accretion of this contract adjustment liability is recorded as a component of interest expense. Accretion charged to interest expense for the year 2002 was $0.4 million.

OTHER COMPONENTS OF STOCKHOLDERS' EQUITY

5.54 Certain items such as unearned compensation expense related to stock issuances to employees, and employee stock ownership plans are presented as separate components of stockholders' equity. Other items such as foreign currency translation adjustments, unrealized gains and losses on certain investments in debt and equity securities, and minimum pension liability adjustments are considered components of other comprehensive income. *SFAS No. 130,* which is effective for fiscal years beginning after December 15, 1997, permits presentation of components of other comprehensive income and total comprehensive income in a statement of changes in stockholders' equity. In addition, the Standard allows disclosure of accumulated balances, by component, included in accumulated other comprehensive income in a statement of changes in stock-holders' equity.

5.55 Examples of statements reporting changes in separate components of stockholders' equity, other than those classified as components of other comprehensive income, follow. See sections 2 and 4 for examples of presentation of other comprehensive income and related accumulated balances in statements of changes in stockholders' equity.

Unearned Compensation Expense

5.56

HUMANA INC. (DEC)

Consolidated Statements of Stockholders' Equity

	Common Stock		Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Unearned Restricted Stock Compensation	Treasury Stock	Total Stockholders' Equity
	Issued Shares	Amount						
Balances, January 1, 2000	167,609	$27,935	$898,698	$371,378	$(28,490)	$ (1,510)	$ —	$1,268,011
Comprehensive income:								
Net income	—	—	—	90,052	—	—	—	90,052
Other comprehensive income:								
Net unrealized investment gains, net of $12,721 tax	—	—	—	—	19,981	—	—	19,981
Comprehensive income								110,033
Common stock repurchases	—	—	—	—	—	—	(26,432)	(26,432)
Restricted stock grants (forfeitures), net	2,990	498	20,525	(479)	—	(33,029)	12,485	—
Restricted stock amortization	—	—	—	—	—	7,069	—	7,069
Restricted stock market value adjustment	—	—	1,707	—	—	(1,707)	—	—
Stock option exercises	290	49	1,568	—	—	—	—	1,617
Stock option tax benefit	—	—	123	—	—	—	—	123
Balances, December 31, 2000	170,889	28,482	922,621	460,951	(8,509)	(29,177)	(13,947)	1,360,421
Comprehensive income:								
Net income	—	—	—	117,171	—	—	—	117,171
Other comprehensive income:								
Net unrealized investment gains, net of $12,847 tax	—	—	—	—	20,179	—	—	20,179
Comprehensive income								137,350
Common stock repurchases	—	—	—	—	—	—	(1,867)	(1,867)
Restricted stock grants (forfeitures), net	(433)	(72)	(1,699)	—	—	815	956	—
Restricted stock amortization	—	—	—	—	—	9,492	—	9,492
Restricted stock market value adjustment	—	—	(988)	—	—	988	—	—
Stock option exercises	237	39	2,244	—	—	—	9	2,292
Stock option tax benefit	—	—	261	—	—	—	—	261
Balances, December 31, 2001	170,693	28,449	922,439	578,122	11,670	(17,882)	(14,849)	1,507,949
Comprehensive income:								
Net income	—	—	—	142,755	—	—	—	142,755
Other comprehensive income:								
Net unrealized investment gains, net of $6,465 tax	—	—	—	—	10,785	—	—	10,785
Comprehensive income								153,540
Common stock repurchases	—	—	—	—	—	—	(74,035)	(74,035)
Restricted stock forfeitures	(331)	(55)	(2,317)	—	—	2,372		—
Restricted stock amortization	—	—	—	—	—	8,994	—	8,994
Stock option exercises	973	162	8,763	—	—	—	(1,103)	7,822
Stock option tax benefit	—	—	2,204	—	—	—	—	2,204
Balances, December 31, 2002	171,335	$28,556	$931,089	$720,877	$22,455	$ (6,516)	$(89,987)	$1,606,474

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9 (In Part): Employee Benefit Plans

Stock Based Compensation (In Part)

We have plans under which restricted stock awards and options to purchase our common stock have been granted to officers, directors, key employees and consultants. We granted awards of restricted stock of 155,000 shares (125,000 from treasury) in 2001, and 4,785,000 shares (1,700,000 from treasury) in 2000. There were no grants of restricted stock in 2002. Restricted stock forfeitures were 331,274 shares in 2002, 463,500 shares in 2001, and 94,500 shares in 2000. These awards generally vest three years from the date of grant. Unearned compensation under the restricted stock award plans is amortized over the vesting periods. Compensation expense recognized related to our stock award plans was $9.0 million in 2002, $9.5 million in 2001, and $7.1 million in 2000.

5.57

PULTE HOMES, INC. (DEC)

Consolidated Statements of Shareholders' Equity

($000's omitted, except per share data)	Common Stock	Additional Paid-In Capital	Unearned Compensation	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
Shareholders' equity, December 31, 1999	$433	$ 77,070	$ —	$ (259)	$1,016,075	$1,093,319
Stock option exercise, including tax benefit of $9,837	16	38,605	—	—	—	38,621
Cash dividends declared—$.16 per share	—	—	—	—	(6,583)	(6,583)
Stock repurchases	(33)	(6,082)	—	—	(60,268)	(66,383)
Comprehensive income:						
Net income	—	—	—	—	188,513	188,513
Foreign currency translation adjustments	—	—	—	444	—	444
Total comprehensive income						188,957
Shareholders' equity, December 31, 2000	416	109,593	—	185	1,137,737	1,247,931
Common stock issued and stock options exchanged in merger	168	729,219	—	—	—	729,387
Stock option exercise, including tax benefit of $4,982	7	18,512	—	—	—	18,519
Restricted stock award	1	5,557	(5,558)	—	—	—
Restricted stock award amortization	—	—	1,699	—	—	1,699
Cash dividends declared—$.16 per share	—	—	—	—	(8,110)	(8,110)
Comprehensive income:						
Net income	—	—	—	—	301,393	301,393
Change in fair value of derivatives, net of income taxes of $371	—	—	—	(592)	—	(592)
Foreign currency translation adjustments	—	—	—	(13,562)	—	(13,562)
Total comprehensive income						287,239
Shareholders' equity, December 31, 2001	592	862,881	(3,859)	(13,969)	1,431,020	2,276,665
Stock option exercise, including tax benefit of $20,651	17	60,759	—	—	—	60,776
Restricted stock award	3	11,316	(11,319)	—	—	—
Restricted stock award amortization	—	—	5,312	—	—	5,312
Cash dividends declared—$.16 per share	—	—	—	—	(9,773)	(9,773)
Stock repurchases	(1)	(1,794)	—	—	(3,002)	(4,797)
Comprehensive income:						
Net income	—	—	—	—	453,645	453,645
Change in fair value of derivatives, net of income taxes of $833	—	—	—	(1,288)	—	(1,288)
Foreign currency translation adjustments	—	—	—	(20,114)	—	(20,114)
Total comprehensive income						432,243
Shareholders' equity, December 31, 2002	$611	$933,162	$ (9,866)	$(35,371)	$1,871,890	$2,760,426

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8 (In Part): Stock Compensation Plans and Management Incentive Compensation

Exclusive of the Employee Plans and Director Plan above, the Company awarded 241,241 and 157,961 shares of restricted stock to certain key employees during 2002 and 2001, respectively. In connection with the restricted stock awards, which cliff vest at the end of three years, the Company recorded compensation expense of $5.3 million and $1.7 million during 2002 and 2001, respectively. In addition, the Company's nonemployee directors can elect to defer, for a maximum of eight years, certain amounts of the consideration they receive for their service as directors. The cash deferred may be tied to either Company stock or certain stock indices. At December 31, 2002, 2001 and 2000 there were 19,300, 20,000 and 18,800 phantom stock units outstanding, respectively.

Employee Stock Ownership Plan

5.58

SEARS, ROEBUCK AND CO. (DEC)

Consolidated Statements of Shareholders' Equity

(Dollars in millions; shares in thousands)	Common Shares Outstanding	Common Stock Issued	Capital in Excess of Par Value	Retained Earnings	Treasury Stock	Deferred ESOP Expense	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
Balance, beginning of year 2000	369,128	$323	$3,554	$5,952	$(2,569)	$(134)	$ (287)	$ 6,839
Net income				1,343				1,343
Total other comprehensive income							38	38
Total comprehensive income								1,381
Dividends to shareholders ($0.92 per share)				(316)				(316)
Stock options exercised and other changes	1,963		(16)		76			60
Shares repurchased	(37,888)				(1,233)			(1,233)
ESOP expense recognized						38		38
Balance, end of year 2000	333,203	323	3,538	6,979	(3,726)	(96)	(249)	6,769
Net income				735				735
Total other comprehensive income							(582)	(582)
Total comprehensive income								153
Dividends to shareholders ($0.92 per share)				(301)				(301)
Stock options exercised and other changes	3,349		(38)		128			90
Shares repurchased	(16,106)				(625)			(625)
ESOP expense recognized						33		33
Balance, end of year 2001	320,446	323	3,500	7,413	(4,223)	(63)	(831)	6,119
Net income				1,376				1,376
Total other comprehensive loss							(225)	(225)
Total comprehensive income								1,151
Dividends to shareholders ($0.92 per share)				(292)				(292)
Stock options exercised and other changes	4,517		5		176			181
Shares repurchased	(8,229)				(427)			(427)
ESOP expense recognized						21		21
Balance, end of year 2002	316,734	$323	$3,505	$8,497	$(4,474)	$ (42)	$(1,056)	$ 6,753

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 10 (In Part): Benefit Plans

Expenses for retirement and savings-related benefit plans were as follows:

(Millions)	2002	2001	2000
Sears 401(k) Savings Plan	$ 26	$ 23	$ 29
Pension plans	70	68	116
Postretirement benefits	(60)	(65)	(68)
Total	$ 36	$ 26	$ 77

Sears 401(k) Savings Plan

Most domestic employees are eligible to become members of the Sears 401(k) Savings Plan (the "Plan"). Under the terms of the Plan, the Company matches a portion of employee contributions with Sears common shares. Per the Plan, the Company match is 70% of eligible employee contributions. The Company's matching contributions were $72 million, $76 million and $72 million in 2002, 2001 and 2000, respectively. Matching contributions were made at the end of each calendar quarter, based on the quarter-end stock price.

The Plan includes an Employee Stock Ownership Plan ("the ESOP") to prefund a portion of the Company's anticipated contribution. The Company provided the ESOP with a loan that was used to purchase Sears common shares in 1989. The purchased shares represent deferred compensation expense, which is presented as a reduction of shareholders' equity and recognized as expense when the shares are allocated to employees to fund the Company contribution. The per share cost of Sears common shares purchased by the ESOP in 1989 was $15.27. The Company uses the ESOP shares or cash to fund the Company contribution, which thereby reduces expense. The Company contribution funded with ESOP shares was $56 million, $76 million and $72 million in 2002, 2001 and 2000, respectively, and the Company contribution funded with cash was $16 million in 2002.

The ESOP loan bears interest at 6.1% and is repaid from dividends on the ESOP shares and additional cash payments provided by the Company. The Company has contributed cash to the ESOP annually in the amount equal to the ESOP's required interest and principal payments on the loan, less dividends received on the ESOP shares. The cash payments amounted to $11, $33 and $118 million in 2002, 2001 and 2000, respectively. The balance of the ESOP loan was $16 and $38 million at December 28, 2002 and December 29, 2001, respectively. Cash on hand in the ESOP at December 28, 2002 was $3 million.

In 2002, the ESOP allocated 1.3 million shares to employees. At December 28, 2002, 23.2 million ESOP shares had been allocated and 2.7 million are available for future allocation. All ESOP shares are considered outstanding in the calculation of earnings per share.

Stock Loan Program

5.59

UNIVERSAL FOREST PRODUCTS, INC. (DEC)

Consolidated Statements of Shareholders' Equity

(In thousands, except share and per share data)	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Earnings	Officers' Stock Notes Receivable	Total
Balance at December 25, 1999	$20,212	$78,625	$115,327	$1,033	$ (635)	$214,562
Comprehensive earnings:						
Net earnings			30,438			
Foreign currency translation adjustment				(173)		
Total comprehensive earnings						30,265
Cash dividends—$.080 per share			(1,605)			(1,605)
Issuance of 79,664 shares under employee stock plans	80	400				480
Issuance of 2,100 shares under stock grant programs	2	30				32
Repurchase of 635,411 shares	(635)		(7,515)			(8,150)
Tax benefits from non-qualified stock options exercised		5				5
Issuance of officers' stock notes receivable	60	740			(800)	0
Payments received on officers' stock notes receivable					180	180
Balance at December 30, 2000	$19,719	$79,800	$136,645	$ 860	$(1,255)	$235,769
Comprehensive earnings:						
Net earnings			33,142			
Foreign currency translation adjustment				(302)		
Total comprehensive earnings						32,840
Cash dividends—$.085 per share			(1,683)			(1,683)
Issuance of 164,764 shares under employee stock plans	165	705				870
Issuance of 13,464 shares under stock grant programs	13	173				186
Repurchase of 109,482 shares	(109)		(1,427)			(1,536)
Tax benefits from non-qualified stock options exercised		316				316
Transfer to temporary equity	(2,000)		(34,000)			(36,000)
Payments received on officers' stock notes receivable					100	100
Balance at December 29, 2001	$17,788	$80,994	$132,677	$ 558	$(1,155)	$230,862
Comprehensive earnings:						
Net earnings			36,637			
Foreign currency translation adjustment				(259)		
Total comprehensive earnings						36,378
Cash dividends—$.090 per share			(1,605)			(1,605)
Issuance of 133,125 shares under employee stock plans	133	710				843
Issuance of 7,877 shares under stock grant programs	8	125				133
Repurchase of 199,435 shares	(199)		(3,488)			(3,687)
Tax benefits from non-qualified stock options exercised		22				22
Issuance of officers' stock notes receivable	12	288			(300)	0
Payments received on officers' stock notes receivable					54	54
Balance at December 28, 2002	$17,742	$82,139	$164,221	$ 299	$(1,401)	$263,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

J. Officers' Stock Notes Receivable

Officers' stock notes receivable represent notes obtained by us from certain officers for the purchase of our common stock. On April 30, 2002, we sold 12,555 shares of common stock to three officers in exchange for additional notes receivable totaling approximately $300,000. On April 21, 2000, we sold 60,376 shares of common stock to eight officers in exchange for additional notes receivable totaling almost $800,000. Interest on all of the outstanding notes range from fixed rates of five to eleven percent per annum and a variable rate of the prime rate less 10% (minimum 6%, maximum 12%). Each loan is evidenced by a promissory note from the participating officer and is secured by all of the shares purchased with the loan proceeds. All loans are recourse loans. On December 28, 2002, payments on the notes are due as follows (in thousands):

2003	$ 99
2004	57
2005	61
2006	173
2007	189
Thereafter	822
	$1,401

As of August 1, 2002, we no longer issue notes to executive officers under this program.

Section 6: Statement of Cash Flows

GENERAL

6.01 Effective for fiscal years ending after July 15, 1988, Statement of Financial Accounting Standards No. 95, *Statement of Cash Flows,* 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 Accounting Principles Board (APB) Opinion No. 19, *Reporting Changes in Financial Position,* which required a statement summarizing changes in financial position.

6.02 This section reviews the format and content of the Statement of Cash Flows.

PRESENTATION IN ANNUAL REPORT

6.03 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.

6.04

TABLE 6-1: PRESENTATION IN ANNUAL REPORT

	2002	2001	2000	1999
Final statement	294	301	296	288
Follows income statement and balance sheet	280	273	280	280
Between income statement and balance sheet	26	26	24	32
Total Companies	**600**	**600**	**600**	**600**

CASH FLOWS FROM OPERATING ACTIVITIES

6.05 Paragraphs 21–24 of *SFAS No. 95* define those transactions and events that 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.

6.06 Table 6-2 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.

6.07 Paragraph 29 of *SFAS No. 95* states that the reconciliation of net income to net cash flow from operating activities shall separately report all major classes of reconciling items. For example, major classes of deferrals of past operating cash receipts and payments, and accurals of expected future operating cash receipts and payments, including at a minimum changes during the period in receivables pertaining to operating activities, in inventory, and in payables pertaining to operating activities, shall be separately reported. Table 6-3 lists the major types of items used by the survey companies to reconcile net income to net cash flow from operating activities. Besides changes in trade receivables, trade payables and inventory, depreciation and amortization expense is the most frequently presented reconciling item.

6.08 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.

6.09 Examples of reporting cash flows from operating activities and related interest and income tax payment disclosures follow.

6.10

TABLE 6-2: METHOD OF REPORTING CASH FLOWS FROM OPERATING ACTIVITIES

	2002	2001	2000	1999
Indirect method	593	592	593	593
Direct method	7	8	7	7
Total Companies	**600**	**600**	**600**	**600**

6.11

TABLE 6-3: CASH FLOWS FROM OPERATING ACTIVITIES—RECONCILING ITEMS

	2002	2001
Income Statement Items		
Depreciation and/or amortization	600	600
Gain or loss on sale of property	213	195
Employee related costs	182	157
Gain or loss on sale of assets other than property	163	163
Provision for bad debt	144	134
Intangible asset amortization	143	151
Equity in investee's earnings	142	145
Restructuring	140	187
Changes in Operating Assets and Liabilities		
Accounts receivable	527	567
Inventories	480	525
Accounts receivable combined with inventories and/or other items	79	20
Accounts payable	300	291
Accounts payable combined with other items	270	285
Income taxes payable	233	226
Employee benefits payable	101	96

6.12

TABLE 6-4: INTEREST AND INCOME TAX PAYMENTS

	2002	2001	2000	1999
Interest Payments				
Notes to financial statements	312	333	315	306
Bottom of Statement of Cash Flows	259	245	233	251
Within Statement of Cash Flows	8	8	20	10
Amount not disclosed	21	14	32	33
Total Companies	**600**	**600**	**600**	**600**
Income Tax Payments				
Notes to financial statements	312	331	315	318
Bottom of Statement of Cash Flows	262	247	235	249
Within Statement of Cash Flows	9	11	23	11
Amount not disclosed	17	11	27	22
Total Companies	**600**	**600**	**600**	**600**

DIRECT METHOD

6.13

THE ROWE COMPANIES (NOV)

Consolidated Statements of Cash Flows

(In thousands)	2002	2001	2000
Increase (decrease) in cash			
Cash flows from operating activities:			
Cash received from customers	$ 336,978	$ 329,683	$ 379,400
Cash paid to suppliers and employees	(315,415)	(328,948)	(354,570)
Income taxes received (paid), net	2,839	585	(6,183)
Interest paid	(5,980)	(4,642)	(5,693)
Interest received	347	480	288
Other receipts–net	1,340	1,109	1,156
Net cash and cash equivalents provided by (used in) operating activities	20,109	(1,733)	14,398
Cash flows from investing activities:			
Proceeds from sale of property and equipment	—	1,056	21
Capital expenditures	(3,323)	(3,317)	(9,155)
Payments to acquire businesses	—	—	(5,160)
Net cash used in investing activities	(3,323)	(2,261)	(14,294)
Cash flows from financing activities:			
Restricted cash deposited to collateralize letters of credit	(1,938)	—	—
Net borrowings (repayments) under line of credit	(9,368)	5,368	(164)
Proceeds from issuance of long-term debt	43,139	6,865	13,020
Payments to reduce long-term debt	(57,821)	(3,821)	(11,922)
Proceeds from loans against life insurance policies	—	3,014	—
Proceeds from issuance of common stock	38	27	51
Dividends paid	—	(1,379)	(1,849)
Purchase of treasury stock	(19)	(16)	(951)
Net cash provided by (used in) financing activities	(25,969)	10,058	(1,815)
Net increase (decrease) in cash and cash equivalents	(9,183)	6,064	(1,711)
Cash at beginning of year	9,457	3,393	5,104
Cash at end of year	$ 274	$ 9,457	$ 3,393

Reconciliation of Net Earnings (Loss) to Net Cash Provided by (Used in) Operating Activities

(In thousands)	2002	2001	2002
Net earnings (loss)	$ 2,020	$ (6,189)	$ 3,544
Adjustments to reconcile net earnings (loss) to net cash provided by (used in) operating activities, net of disposition of business:			
Loss on disposition of Wexford	—	—	5,455
Depreciation and amortization	8,889	8,569	8,581
Provision for deferred compensation	218	173	816
Payments made for deferred compensation	(2,802)	(813)	(160)
Deferred income taxes	1,031	1,001	(2,099)
Provision for losses on accounts receivable	262	4,421	1,485
Loss (gain) on disposition of assets	640	15	29
Change in operating assets and liabilities net of effects of disposition of business:			
Decrease (increase) in accounts receivable	(956)	4,649	5,564
Decrease (increase) in inventories	3,863	227	(832)
Decrease (increase) in prepaid expenses and other	(1,995)	1,679	(887)
Decrease (increase) in other miscellaneous assets	1,231	(352)	472
Increase (decrease) in accounts payable	(1,881)	(10,277)	(4,750)
Increase (decrease) in accrued expenses	6,265	(4,433)	(1,715)
Increase (decrease) in customer deposits	3,324	(403)	(1,105)
Total adjustments	18,089	4,456	10,854
Net cash provided by (used in) operating activities	$20,109	$ (1,733)	$14,398

6.14

TECH DATA CORPORATION AND SUBSIDIARIES (JAN)

Consolidated Statement of Cash Flows

(In thousands)	2003	2002	2001
Cash flows from operating activities:			
Cash received from customers	$ 15,897,728	$ 17,511,511	$ 20,114,486
Cash paid to suppliers and employees	(15,685,447)	(16,406,265)	(20,047,551)
Interest paid	(25,421)	(55,871)	(94,823)
Income taxes paid	(61,811)	(72,745)	(62,048)
Net cash provided by (used in) operating activities	125,049	976,630	(89,936)
Cash flows from investing activities:			
Acquisition of businesses, net of cash acquired	(1,125)	(183)	(19,198)
Disposition of subsidiaries, net of cash sold	(2,289)	—	—
Expenditures for property and equipment	(26,276)	(28,466)	(38,079)
Software development costs	(32,862)	(20,719)	(22,705)
Net cash used in investing activities	(62,552)	(49,368)	(79,982)
Cash flows from financing activities:			
Proceeds from the issuance of common stock, net of related tax benefit	28,587	36,432	35,539
Net borrowings (repayments) on revolving credit loans	91,306	(1,118,167)	248,712
Proceeds from issuance of long-term debt, net of expense	—	284,200	—
Principal payments on long-term debt	(301,227)	(634)	(557)
Net cash (used in) provided by financing activities	(181,334)	(798,169)	283,694
Effect of exchange rate changes on cash	18,101	(10,091)	(6,637)
Net (decrease) increase in cash and cash equivalents	(100,736)	119,002	107,139
Cash and cash equivalents at beginning of year	257,927	138,925	31,786
Cash and cash equivalents at end of year	$ 157,191	$ 257,927	$ 138,925
Reconciliation of net (loss) income to net cash provided by (used in) operating activities:			
Net (loss) income	$ (199,818)	$ 110,777	$ 177,983
Adjustments to reconcile net (loss) income to net cash provided by (used in) operating activities:			
Depreciation and amortization	49,849	63,488	63,922
Provision for losses on accounts receivable	31,243	40,764	41,447
Special charges	328,872	27,000	—
Loss on disposition of subsidiaries	5,745	—	—
Deferred income taxes	17,453	(11,848)	(1,789)
Changes in assets and liabilities:			
Decrease (increase) in accounts receivable	159,256	314,000	(313,197)
Decrease (increase) in inventories	26,881	702,219	(146,093)
Increase in prepaid and other assets	(18,256)	(6,248)	(11,603)
(Decrease) increase in accounts payable	(239,059)	(264,722)	11,863
(Decrease) increase in accrued expenses	(37,117)	1,200	87,531
Total adjustments	324,867	865,853	(267,919)
Net cash provided by (used in) operating activities	$ 125,049	$ 976,630	$ (89,936)

INDIRECT/RECONCILIATION METHOD

6.15

BARNES & NOBLE, INC. (JAN)

Consolidated Statements of Cash Flows

(Thousands of dollars)	2002	2001	2000
Cash flows from operating activities:			
Net earnings (loss)	$ 99,948	$ 63,967	$ (51,966)
Adjustments to reconcile net earnings (loss) to net cash flows from operating activities:			
Depreciation and amortization (including amortization of deferred financing fees)	151,586	150,118	146,317
Loss on disposal of property and equipment	6,690	4,019	3,313
Deferred taxes	7,122	(32,131)	(54,098)
Impairment charge	25,328	—	106,833
Increase in other long-term liabilities for scheduled rent increases in long-term leases	2,822	5,829	9,417
Other expense, net	16,498	11,730	9,346
Equity in net loss of Barnes & Noble.com	26,795	88,378	103,936
Minority interest	19,142	—	—
Changes in operating assets and liabilities, net	(26,932)	165,481	(192,566)
Net cash flows from operating activities	328,999	457,391	80,532
Cash flows from investing activities:			
Acquisition of consolidated subsidiaries, net of cash received	(122,593)	(13,412)	(157,817)
Purchases of property and equipment	(179,545)	(168,833)	(134,292)
Proceeds from the partial sale of investments	—	6,072	2,962
Purchase of investments	(4,209)	(5,581)	(12,802)
Net increase in other noncurrent assets	(4,459)	(14,648)	(86)
Net cash flows from investing activities	(310,806)	(196,402)	(302,035)
Cash flows from financing activities:			
Proceeds from GameStop initial public offering	346,112	—	—
Net increase (decrease) in revolving credit facility	(149,000)	(517,900)	235,300
Proceeds from issuance of long-term debt	—	300,000	—
Proceeds from exercise of common stock options	8,133	39,126	18,539
Purchase of treasury stock through repurchase program	(64,014)	—	(30,580)
Net cash flows from financing activities	141,231	(178,774)	223,259
Net increase in cash and cash equivalents	159,424	82,215	1,756
Cash and cash equivalents at beginning of year	108,218	26,003	24,247
Cash and cash equivalents at end of year	$ 267,642	$ 108,218	$ 26,003
Changes in operating assets and liabilities, net:			
Receivables, net	$ (7,403)	$ (14,065)	$ (29,004)
Merchandise inventories	(94,281)	(46,387)	(103,668)
Prepaid expenses and other current assets	(4,914)	6,926	(29,972)
Accounts payable and accrued liabilities	79,666	219,007	(29,922)
Changes in operating assets and liabilities, net	$ (26,932)	$ 165,481	$(192,566)

6.16

POLO RALPH LAUREN CORPORATION (MAR)

Consolidated Statements of Cash Flows

(Dollars in thousands)	2002	2001	2000
Cash flows from operating activities:			
Net income	$ 172,500	$ 59,262	$ 143,497
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for (benefit from) deferred income taxes	21,216	(23,430)	6,761
Depreciation and amortization	83,919	78,599	66,280
Cumulative effect of change in accounting principle	—	—	3,967
Provision for losses on accounts receivable	2,920	547	2,734
Changes in deferred liabilities	(15,628)	(27,989)	3,155
Provision for restructuring	16,000	98,836	—
Foreign currency gains	(1,820)	(5,846)	—
Other	9,173	(9,885)	4,770
Changes in assets and liabilities, net of acquisitions			
Accounts receivable	(92,314)	(68,968)	(32,746)
Inventories	82,721	(44,626)	53,325
Prepaid expenses and other	24,143	(22,967)	1,216
Other assets	6,142	8,042	(9,801)
Accounts payable	(11,001)	30,683	31,281
Accrued expenses and other	(4,213)	28,028	(31,750)
Net cash provided by operating activities	293,758	100,286	242,689
Cash flows from investing activities:			
Purchases of property and equipment, net	(88,008)	(105,170)	(122,010)
Acquisitions, net of cash acquired	(23,702)	(20,929)	(235,144)
Proceeds from restricted cash for Club Monaco acquisition	—	—	44,217
Cash surrender value—officers' life insurance	(4,242)	(5,152)	(5,385)
Net cash used in investing activities	(115,952)	(131,251)	(318,322)
Cash flows from financing activities:			
Repurchases of common stock	(2,067)	(13,833)	(41,262)
Proceeds from exercise of stock options	24,486	10,297	—
(Repayments of) proceeds from short-term borrowings, net	(52,166)	2,939	(39,400)
Repayments of long-term debt	(10,576)	(25,289)	(37,358)
Proceeds from long-term debt	—	—	319,610
Net cash (used in) provided by financing activities	(40,323)	(25,886)	201,590
Effect of exchange rate changes on cash	(928)	(5,501)	(5,844)
Net (decrease) increase in cash and cash equivalents	136,555	(62,352)	120,113
Cash and cash equivalents at beginning of period	102,219	164,571	44,458
Cash and cash equivalents at end of period	$ 238,774	$ 102,219	$ 164,571

ADJUSTMENTS TO RECONCILE NET INCOME TO OPERATING CASH FLOWS

Sale of Property

6.17

ANALOGIC CORPORATION AND SUBSIDIARIES (JUL)

Consolidated Statements of Cash Flows

(In thousands)	2002	2001	2000
Operating activities:			
Net income	$ 3,330	$15,231	$ 14,066
Adjustments to reconcile net income to net cash provided by operating activities:			
Deferred income taxes	(825)	(1,181)	(2,562)
Depreciation and amortization	15,128	15,886	14,343
Minority interest in net income of consolidated subsidiaries		530	487
Allowance for doubtful accounts	99	492	91
Impairment of assets	8,883	3,200	
Loss (gain) on sale of equipment	86	(109)	(158)
Equity (gain) loss in unconsolidated affiliates	(614)	(1,890)	1,286
Compensation from stock grants	1,054	976	644
Other than temporary decline in equity investments	142	487	110
Net changes in operating assets and liabilities	66,703	(6,117)	(13,382)
Net cash provided by operating activities	$93,986	$27,505	$ 14,925

Employee Related Costs

6.18

MERRIMAC INDUSTRIES, INC. (DEC)

Consolidated Statements of Cash Flows

	2002	2001	2000
Cash flows from operating activities:			
Net income (loss)	$(2,135,467)	$ 24,079	$ 315,056
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	2,909,363	2,366,194	1,842,679
Amortization of goodwill	—	148,669	154,216
Amortization of deferred income	(87,288)	(87,288)	—
Deferred and other compensation	64,934	66,564	13,219
Deferred income taxes	507,000	(80,000)	330,000
Changes in operating assets and liabilities:			
Accounts receivable	1,830,810	(14,923)	(1,842,289)
Income tax refunds receivable	(105,591)	(152,399)	351,622
Inventories	781,874	(1,169,669)	(714,112)
Other current assets	333,571	(307,488)	35,068
Deferred tax assets	130,000	(291,000)	(231,000)
Other assets	(141,232)	76,308	(188,874)
Accounts payable	(2,377,474)	212,286	1,673,613
Accrued liabilities	(78,996)	198,153	319,860
Income taxes payable	(230,417)	95,736	173,000
Deferred compensation	(41,250)	(50,178)	(262,071)
Other liabilities	124,174	205,885	—
Loan to officer-stockholder	—	—	(280,000)
Net cash provided by operating activities	$ 1,484,011	$ 1,240,929	$ 1,689,987

Sale of Assets Other Than Property

6.19

KLA-TENCOR CORPORATION (JUN)

Consolidated Statements of Cash Flows

(In thousands)	2002	2001	2000
Cash flows from operating activities:			
Net income	$ 216,166	$ 66,683	$ 253,798
Adjustments to reconcile net income to net cash provided by operating activities:			
Cumulative effect of accounting change, net of tax benefit	—	306,375	—
Depreciation and amortization	69,590	55,649	63,338
Restructuring charges	—	(4,297)	(7,838)
In-process research and development	—	698	3,200
Net (gain) loss on sale of marketable securities	6,290	(7,703)	5,306
Deferred income taxes	36,037	(56,939)	(60,522)
Changes in assets and liabilities, net of assets acquired and liabilities assumed in business combinations:			
Accounts receivable	125,005	83,761	(185,262)
Inventories	71,430	(101,750)	(95,780)
Other assets	(4,974)	(14,522)	(13,549)
Accounts payable	(7,754)	5,723	18,969
Deferred profit	(228,202)	(31,835)	—
Other current liabilities	459	106,075	270,857
Net cash provided by operating activities	$ 284,047	$ 407,918	$ 252,517

Provision for Bad Debt

6.20

TARGET CORPORATION (JAN)

Consolidated Statements of Cash Flows

(Millions)	2002	2001	2000
Operating activities			
Net earnings	$ 1,654	$ 1,368	$1,264
Reconciliation to cash flow:			
Depreciation and amortization	1,212	1,079	940
Bad debt provision	460	230	—
Deferred tax provision	248	49	1
Other noncash items affecting earnings	226	212	234
Changes in operating accounts providing/(requiring) cash:			
Accounts receivable	(2,194)	(1,193)	—
Inventory	(311)	(201)	(450)
Other current assets	15	(91)	(9)
Other assets	(174)	(178)	28
Accounts payable	524	584	62
Accrued liabilities	(21)	29	(23)
Income taxes payable	(79)	124	87
Other	30	—	—
Cash flow provided by operations	$ 1,590	$ 2,012	$2,134

Intangible Asset Amortization

6.21

SKYWORKS SOLUTIONS, INC. (SEP)

Consolidated Statements of Cash Flows

(In thousands)	2002	2001	2000
Cash flows from operating activities:			
Net loss	$(236,064)	$(318,924)	$(66,479)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation	47,695	58,708	61,710
Amortization of intangible assets	12,878	15,267	5,327
Amortization of deferred compensation	53	—	—
Contribution of common shares to savings and retirement plan	874	—	—
Compensation expense	30	—	—
Deferred income taxes	(23,117)	—	—
Provision for (recoveries of) losses on accounts receivable	(1,178)	(468)	3,538
Purchased in-process research and development charge	65,500	—	24,362
Inventory provisions	2,704	60,978	3,132
Asset impairments	111,817	86,209	—
Loss on sale of assets	209	80	4
Changes in assets and liabilities net of acquisition:			
Receivables	(84,924)	27,276	(39,846)
Inventories	(4,413)	(8,378)	(65,150)
Accounts payable	36,635	(2,547)	1,961
Accrued expenses and other current liabilities	(19,471)	(6,003)	14,210
Other	(8,322)	(1,604)	3,401
Net cash used in operating activities	$ (99,094)	$ (89,406)	$(53,830)

Equity Earnings/(Loss)

6.22

ARMSTRONG HOLDINGS, INC., AND SUBSIDIARIES (DEC)

Consolidated Statements of Cash Flows

(Amounts in millions)	2002	2001	2000
Cash flows from operating activities:			
Net (loss)/earnings	$(2,142.8)	$ 92.8	$ 12.2
Adjustments to reconcile net earnings (loss) to net cash provided by operating activities:			
Cumulative effect of change in accounting principle, net	593.8	—	—
Depreciation and amortization, continuing operations	136.7	156.8	164.4
Depreciation and amortization, discontinued operations	—	—	4.1
Loss (gain) on sale of businesses, net	—	0.9	(183.9)
Reversal of loss on expected disposal of discontinued business	—	(31.4)	—
Deferred income taxes	(870.4)	23.7	(35.7)
Equity (earnings) from affiliates, net	(21.7)	(16.5)	(18.0)
Chapter 11 reorganization costs, net	23.5	12.5	103.3
Chapter 11 reorganization costs payments	(23.0)	(15.0)	(2.6)
Restructuring and reorganization charges, net of reversals	1.9	9.0	18.8
Restructuring and reorganization payments	(2.1)	(14.1)	(7.9)
Recoveries (payments) for asbestos-related claims, net	16.0	32.2	(199.2)
Charge for asbestos liability, net	2,500.0	22.0	236.0
Changes in operating assets and liabilities net of effects of reorganizations, restructuring, acquisitions and dispositions			
Decrease in receivables	11.7	45.8	37.2
(Increase)/decrease in inventories	18.1	(50.7)	13.8
(Increase)/decrease in other current assets	(19.8)	25.6	(12.6)
(Increase) in other noncurrent assets	(42.0)	(71.0)	(41.6)
Increase/(decrease) in accounts payable and accrued expenses	30.1	15.0	(80.1)
Increase in income taxes payable	0.2	10.1	25.9
Increase/(decrease) in other long-term liabilities	11.9	3.0	(23.5)
Other, net	1.4	21.4	17.2
Net cash provided by operating activities	$ 223.5	$272.1	$ 27.8

Restructuring Charge

6.23

DELPHI CORPORATION (DEC)

Consolidated Statements of Cash Flows

(In millions)	2002	2001	2000
Cash flows from operating activities:			
Net income (loss)	$ 343	$ (370)	$ 1,062
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization, excluding amortization of goodwill	988	1,115	905
Amortization of goodwill	—	35	31
Deferred income taxes	36	(356)	406
Venture impairments	—	74	—
Restructuring	225	536	—
Acquisition-related in-process research and development	—	—	51
Changes in operating assets and liabilities:			
Accounts receivable, net	582	810	238
Inventories, net	(153)	118	172
Prepaid expenses and other	(55)	39	(82)
Accounts payable	284	(113)	(314)
Accrued liabilities	129	(519)	(2,091)
Other long-term liabilities	(149)	81	(25)
Other	(157)	(90)	(85)
Net cash provided by operating activities	$2,073	$1,360	$ 268

Changes in Assets and Liabilities

6.24

CRANE CO. (DEC)

Consolidated Statements of Cash Flows

(In thousands)	2002	2001	2000
Operating activities:			
Net (loss) income	$ (11,448)	$ 88,620	$ 123,729
Cumulative effect of a change in accounting principle	28,076	—	—
Loss (gain) on sale of assets	—	13,799	(26,646)
Income from joint venture	(2,917)	(915)	—
Depreciation and amortization	49,790	74,610	55,281
Asbestos-related charges	115,285	2,216	—
Deferred income taxes	(29,781)	(2,019)	(2,689)
Cash provided from operating working capital	58,279	34,090	5,338
Other	(9,843)	(12,839)	(3,837)
Total provided from operating activities	197,441	197,562	151,176
Investing activities:			
Capital expenditures	(25,496)	(32,144)	(29,977)
Proceeds from disposition of capital assets	5,628	7,926	1,779
Joint venture investment	—	(12,000)	—
Sale of equity investments	—	—	45,556
Payments for acquisitions, net of cash and liabilities assumed of $9,010 in 2002, $43,764 in 2001 and $909 in 2000	(82,225)	(191,168)	(11,921)
Proceeds from divestitures	2,705	19,645	—
Total (used for) provided from investing activities	(99,388)	(207,741)	5,437
Financing activities:			
Equity:			
Dividends paid	(23,897)	(23,918)	(24,323)
Reacquisition of shares—open market	(6,475)	(28,434)	(62,296)
Reacquisition of shares—stock incentive program	(3,206)	(2,279)	(4,374)
Stock options exercised	4,294	9,097	12,388
	(29,284)	(45,534)	(78,605)
Debt:			
Issuance of long-term debt	32,860	197,300	86,200
Repayments of long-term debt	(92,306)	(109,728)	(158,576)
Net increase (decrease) in short-term debt	909	(21,441)	2,393
	(58,537)	66,131	(69,983)
Total (used for) provided from financing activities	(87,821)	20,597	(148,588)
Effect of exchange rate on cash and cash equivalents	5,194	(181)	(344)
Increase in cash and cash equivalents	15,426	10,237	7,681
Cash and cash equivalents at beginning of year	21,163	10,926	3,245
Cash and cash equivalents at end of year	$ 36,589	$ 21,163	$ 10,926
Detail of cash provided from operating working capital (net of effects of acquisitions):			
Accounts receivable	$ 21,082	$ 17,888	$ (9,810)
Inventories	43,753	21,412	17,806
Other current assets	(2,672)	791	(140)
Accounts payable	(3,023)	(17,869)	8,300
Accrued liabilities	(10)	14,497	(13,002)
U.S. and foreign taxes on income	(851)	(2,629)	2,184
Total	$ 58,279	$ 34,090	$ 5,338

6.25

IKON OFFICE SOLUTIONS, INC. (SEP)

Consolidated Statements of Cash Flows

(In thousands)	2002	2001	2000
Cash flows from operating activities			
Net income	$150,334	$ 15,205	$ 29,082
Additions (deductions) to reconcile net income to net cash provided by operating activities of continuing operations:			
Depreciation	116,837	119,993	133,012
Amortization	14,210	58,575	62,082
Provisions for losses on accounts receivable	4,685	7,758	21,631
Provision for deferred income taxes	73,611	42,411	57,409
Provision for lease default reserves	67,730	66,631	61,740
Restructuring (reversals) charges, net	(10,497)	34,500	51,249
Asset impairment charges		29,082	53,919
Gain on asset securitization			(73)
Extraordinary gain on early extinguishment of debt			(3,049)
Gain on sale of investment			(3,739)
Changes in operating assets and liabilities, net of effects from acquisitions and divestitures:			
Decrease (increase) in accounts receivable	68,807	77,133	(25,668)
(Increase) decrease in inventories	(3,089)	21,406	12,982
(Increase) decrease in prepaid expenses and other current assets	(3,042)	(1,525)	9,270
Increase (decrease) in accounts payable, deferred revenues and accrued expenses	5,163	(44,477)	49,955
Decrease in accrued shareholder litigation settlement			(117,652)
Decrease in accrued restructuring	(20,943)	(15,757)	(21,471)
Other	12,828	914	2,872
Net cash provided by operating activities of continuing operations	476,634	411,849	373,551
Gain from discontinued operations		(2,142)	(2,526)
Net cash provided by operating activities	$476,634	$409,707	$ 371,025

INTEREST AND INCOME TAX PAYMENTS

6.26

THE BLACK & DECKER CORPORATION AND SUBSIDIARIES (DEC)

Consolidated Statement of Cash Flows

(Millions of dollars)	2002	2001	2000
Operating activities			
Net earnings	$ 229.7	$ 108.0	$ 282.0
Adjustments to reconcile net earnings to cash flow from operating activities:			
Gain on sale of business	—	—	(20.1)
Non-cash charges and credits:			
Depreciation and amortization	127.8	159.4	163.4
Restructuring and exit costs	50.7	99.8	39.1
Other	(8.6)	(4.4)	(9.2)
Changes in selected working capital items (excluding the effects of acquired businesses):			
Trade receivables	16.4	68.6	12.7
Inventories	(8.2)	126.8	(123.1)
Trade accounts payable	19.3	(54.6)	13.6
Restructuring spending	(37.8)	(24.9)	(12.6)
Other assets and liabilities	62.3	(99.1)	4.1
Cash flow from operating activities	451.6	379.6	349.9
Investing activities			
Proceeds from disposal of assets	4.6	12.3	4.8
Capital expenditures	(96.6)	(134.8)	(200.2)
Proceeds from sale of business	—	—	25.0
Purchase of businesses	—	(30.5)	(35.5)
Cash inflow from hedging activities	—	—	193.6
Cash outflow from hedging activities	—	—	(189.9)
Cash inflow from other investing activities	1.4	—	—
Cash flow from investing activities	(90.6)	(153.0)	(202.2)
Cash flow before financing activities	361.0	226.6	147.7
Financing activities			
Net (decrease) increase in short-term borrowings	(7.2)	(390.0)	225.6
Proceeds from long-term debt (net of debt issue cost of $3.1 in 2001)	—	393.8	—
Payments on long-term debt	(33.9)	(48.6)	(213.8)
Issuance of preferred stock of subsidiary	—	—	188.0
Increase in long-term deposit	—	—	(50.0)
Purchase of common stock	(43.1)	(59.0)	(269.8)
Issuance of common stock	20.8	27.9	9.9
Cash dividends	(38.6)	(38.8)	(39.9)
Cash flow from financing activities	(102.0)	(114.7)	(150.0)
Effect of exchange rate changes on cash	13.6	(2.4)	(10.0)
Increase (decrease) in cash and cash equivalents	272.6	109.5	(12.3)
Cash and cash equivalents at beginning of year	244.5	135.0	147.3
Cash and cash equivalents at end of year	$ 517.1	$ 244.5	$ 135.0

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 6 (In Part): Long-Term Debt

Principal payments on long-term debt obligations due over the next five years are as follows: $310.7 million in 2003, $.4 million in 2004, $.4 million in 2005, $154.8 million in 2006, and $150.0 million in 2007. Interest payments on all indebtedness were $100.8 million in 2002, $122.2 million in 2001, and $145.1 million in 2000.

Note 9 (In Part): Income Taxes

Income tax payments were $47.0 million in 2002, $74.3 million in 2001, and $98.8 million in 2000.

6.27

DEERE & COMPANY (OCT)

Statement of Consolidated Cash Flows

(In millions of dollars)	2002	2001	2000
Cash flows from operating activities			
Net income (loss)	$ 319.2	$ (64.0)	$ 485.5
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Provision for doubtful receivables	160.7	113.0	75.0
Provision for depreciation and amortization	725.3	718.3	647.9
Undistributed earnings of unconsolidated affiliates	22.7	19.5	(1.2)
Credit for deferred income taxes	(1.2)	(230.3)	(132.9)
Changes in assets and liabilities:			
Receivables	158.2	316.9	(53.8)
Inventories	85.8	136.5	(184.0)
Accounts payable and accrued expenses	144.0	40.7	540.0
Other	263.6	62.8	(296.5)
Net cash provided by operating activities	1,878.3	1,113.4	1,080.0
Cash flows from investing activities			
Collections of receivables	6,987.0	6,966.3	6,655.1
Proceeds from sales of financing receivables	2,967.8	1,728.0	978.3
Proceeds from maturities and sales of marketable securities	75.4	32.4	247.8
Proceeds from sales of equipment on operating leases	495.2	391.7	334.6
Proceeds from sale of a business	53.5		
Cost of receivables acquired	(9,955.3)	(9,795.7)	(9,126.5)
Purchases of marketable securities	(87.8)	(75.7)	(61.9)
Purchases of property and equipment	(358.7)	(491.0)	(426.7)
Cost of operating leases acquired	(487.9)	(775.2)	(939.9)
Acquisitions of businesses, net of cash acquired	(19.0)	(315.2)	(643.3)
Decrease (increase) in receivables from unconsolidated affiliates	14.8	(112.0)	(135.2)
Other	1.0	81.5	7.4
Net cash used for investing activities	(314.0)	(2,364.9)	(3,110.3)
Cash flows from financing activities			
Increase (decrease) in short-term borrowings	(1,413.2)	(506.6)	1,785.8
Proceeds from long-term borrowings	4,573.7	4,818.3	2,814.0
Principal payments on long-term borrowings	(2,771.0)	(2,118.5)	(2,377.4)
Proceeds from issuance of common stock	48.0	17.8	15.9
Repurchases of common stock	(1.2)	(1.3)	(.6)
Dividends paid	(208.9)	(206.5)	(206.0)
Other	(1.5)	(2.8)	(1.3)
Net cash provided by financing activities	225.9	2,000.4	2,030.4
Effect of exchange rate changes on cash	(5.3)	(10.6)	(3.9)
Net increase (decrease) in cash and cash equivalents	1,784.9	738.3	(3.8)
Cash and cash equivalents at beginning of year	1,030.0	291.7	295.5
Cash and cash equivalents at end of year	$ 2,814.9	$ 1,030.0	$ 291.7

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

26 (In Part): Cash Flow Information

Cash payments for interest and income taxes consisted of the following in millions of dollars:

	2002	2001	2000
Interest:			
Equipment operations	$ 312*	$220	$152
Financial services	413	540	489
Intercompany eliminations	(187)*	(34)	(23)
Consolidated	$ 538	$726	$618
Income taxes:			
Equipment operations	$ 188	$119	$393
Financial services	131	61	77
Intercompany eliminations	(118)	(48)	(57)
Consolidated	$ 201	$132	$413

* Includes interest compensation to Financial Services for financing trade receivables.

6.28

EXIDE TECHNOLOGIES AND SUBSIDIARIES (MAR)

Consolidated Statements of Cash Flows

(In thousands)	2002	2001	2000
Cash flows from operating activities:			
Net loss	$(304,082)	$(164,585)	$(136,042)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities—			
Depreciation and amortization	100,730	99,595	95,706
Net (gain) loss on asset sales	(1,079)	(18,500)	21,584
Purchased research and development	(8,185)	—	14,262
Deferred income taxes	(15,156)	(11,369)	16,199
Amortization of original issue discount on notes	10,768	10,642	9,992
Provision for doubtful accounts	24,731	12,066	6,859
Non-cash provision for restructuring	10,400	42,381	19,336
Goodwill impairment charge	105,000	—	—
Minority interest	211	1,623	1,725
Amortization of deferred financing costs	13,126	5,262	3,610
Debt-to-equity conversion non-cash charge	13,873	—	—
Provision for excess inventories	10,000	—	—
Net change from sales of receivables	(35,211)	94,933	(23,483)
Changes in assets and liabilities excluding effects of acquisitions and divestitures—			
Receivables	118,138	7,331	(29,139)
Inventories	87,043	(4,680)	50,324
Prepaid expenses and other	515	2,768	1,466
Payables	(59,246)	(36,565)	27,970
Accrued expenses	(77,276)	33,958	(29,132)
Noncurrent liabilities	(2,115)	28,314	42,033
Other, net	1,150	(12,984)	2,378
Net cash (used in) provided by operating activities	$ (6,665)	$ 90,190	$ 95,648

(continued)

(In thousands)	2002	2001	2000
Cash flows from investing activities:			
GNB acquisition, net of cash acquired of $17,098 in fiscal 2001	$ (965)	$(331,902)	$ —
Other acquisitions of businesses	—	—	(2,582)
Capital expenditures	(61,323)	(69,495)	(63,953)
Proceeds from sales of assets	4,833	45,477	53,105
Investment in joint venture	(1,007)	—	—
Other	—	—	807
Net cash used in investing activities	(58,462)	(355,920)	(12,623)
Cash flows from financing activities:			
Increase (decrease) in short-term borrowings	718	(8,503)	7,486
Borrowings under senior secured credit facilities agreement	881,135	604,274	639,089
Repayments under senior secured credit facilities agreement	(788,635)	(569,432)	(709,673)
GNB acquisition debt	—	250,000	—
Decrease in other debt	(12,958)	—	(8,448)
Financing costs and other	(5,489)	(15,000)	(732)
Dividends paid	(1,051)	(1,871)	(1,709)
Net cash provided by (used in) financing activities	73,720	259,468	(73,987)
Effect of exchange rate changes on cash and cash equivalents	38	1,224	(1,524)
Net increase (decrease) in cash and cash equivalents	8,631	(5,038)	7,514
Cash and cash equivalents, beginning of year	23,072	28,110	20,596
Cash and cash equivalents, end of year	$ 31,703	$ 23,072	$ 28,110
Supplemental disclosures of cash flow information:			
Cash paid during the year for—			
Interest	$ 117,721	$ 93,764	$ 89,955
Income taxes (net of refunds)	$ 15,051	$ 9,682	$ 16,180

CASH FLOWS FROM INVESTING ACTIVITIES

6.29 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 and 13 of *SFAS No. 95* and paragraph 7 of SFAS No. 104, *Statement of Cash Flows—Net Reporting of Certain Cash Receipts and Cash Payments and Classification of Cash Flows From Hedging Activities,* 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

6.30

INTERNATIONAL FLAVORS & FRAGRANCES INC. (DEC)

Consolidated Statement of Cash Flows

(Dollars in thousands)	2002	2001	2000
Cash flows from investing activities:			
Proceeds from investments	$ 257	$ 8,250	$ 1,566
Purchases of investments	(176)	(19,786)	(1,111)
Acquisition of minority interest	(11,791)	—	—
Investments in acquired businesses, net of cash received	—	—	(953,295)
Additions to property, plant and equipment	(81,815)	(52,016)	(60,696)
Proceeds from disposal of assets	64,634	14,900	11,301
Net cash used in investing activities	$(28,891)	$(48,652)	$(1,002,235)

6.31

NUCOR CORPORATION (DEC)

Consolidated Statements of Cash Flows

	2002	2001	2000
Investing activities			
Capital expenditures	$(243,598,096)	$(261,145,658)	$(415,404,602)
Investment in affiliates	(5,573,268)	—	—
Disposition of plant and equipment	448,546	22,650,119	5,128,217
Acquisitions (net of cash acquired)	(652,688,811)	(121,904,000)	—
Cash used in investing activities	$(901,411,629)	$(360,399,539)	$(410,276,385)

Investments

6.32

INTEL CORPORATION (DEC)

Consolidated Statements of Cash Flows

(In millions)	2002	2001	2000
Cash flows provided by (used for) investing activities:			
Additions to property, plant and equipment	$(4,703)	$ (7,309)	$ (6,674)
Acquisitions, net of cash acquired	(57)	(883)	(2,317)
Purchases of available-for-sale investments	(6,309)	(7,141)	(17,188)
Maturities and sales of available-for-sale investments	5,634	15,398	17,124
Other investing activities	(330)	(395)	(980)
Net cash used for investing activities	$(5,765)	$ (330)	$(10,035)

6.33

JACOBS ENGINEERING GROUP INC. AND SUBSIDIARIES (SEP)

Consolidated Statements of Cash Flows

(In thousands)	2002	2001	2000
Cash flows from investing activities:			
Acquisition of businesses, net of cash acquired	$(43,529)	$(28,605)	$ (27,284)
Additions to property and equipment	(37,182)	(44,451)	(44,369)
Disposals of property and equipment	5,376	17,506	3,357
Net increase in other, non-current assets	(23,009)	(6,892)	(33,806)
Purchases of investments	(2,686)	(4,209)	(7,772)
Proceeds from sales of investments	8,499	3,023	3,169
Net cash used for investing activities	$(92,531)	$(63,628)	$(106,705)

Business Combinations

6.34

H.J. HEINZ COMPANY AND SUBSIDIARIES (APR)

Consolidated Statements of Cash Flows

(Dollars in thousands)	2002	2001	2000
Investing activities:			
Capital expenditures	$(213,387)	$ (411,299)	$ (452,444)
Proceeds from disposals of property, plant and equipment	18,966	257,049	45,472
Acquisitions, net of cash acquired	(834,838)	(672,958)	(394,418)
Proceeds from divestitures	32,859	151,112	726,493
Purchases of short-term investments	—	(1,484,201)	(1,175,538)
Sales and maturities of short-term investments	17,314	1,493,091	1,119,809
Investment in The Hain Celestial Group, Inc.	—	(79,743)	(99,764)
Other items, net	(15,209)	(27,210)	(38,284)
Cash used for investing activities	$(994,295)	$ (774,159)	$ (268,674)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 (In Part): Acquisitions

All of the following acquisitions have been accounted for as purchases and, accordingly, the respective purchase prices have been allocated to the respective assets and liabilities based upon their estimated fair values as of the acquisition date. Operating results of businesses acquired have been included in the Consolidated Statements of Income from the respective acquisition dates forward. Pro forma results of the company, assuming all of the following acquisitions had been made at the beginning of each period presented, would not be materially different from the results reported. There are no significant contingent payments, options or commitments associated with any of the acquisitions.

Fiscal 2002

The company acquired the following businesses for a total of $837.3 million, which was paid primarily in cash, including obligations to sellers of $2.5 million:

- In July 2001, the company completed the acquisition of Borden Food Corporation's pasta sauce, dry bouillon and soup business including such brands as *Classico* pasta sauces, *Aunt Millie's* pasta sauce, *Mrs. Grass Recipe* soups and *Wyler's* bouillons and soups.
- In August 2001, the company completed the acquisition of Delimex Holdings, Inc., a leading maker of frozen Mexican food products such as taquitos, quesadillas, tamales and rice bowls.
- In September 2001, the company completed the acquisition of Anchor Food Products branded retail business, which includes the retail licensing rights to the *T.G.I. Friday's* brand of frozen snacks and appetizers and the *Poppers* brand of retail appetizer lines.
- The company also made other smaller acquisitions.

The preliminary allocations of the purchase price resulted in goodwill of $581.4 million, which was assigned to the U.S. Frozen segment ($375.3 million) and the Heinz North America segment ($206.1 million). Of that amount, $375.3 million is expected to be deductible for tax purposes. In addition, $192.1 million of intangible assets were acquired, of which $97.2 million was assigned to brands and trademarks that are not subject to amortization. The remaining $94.9 million of acquired intangible assets has a weighted-average useful lifi of approximately 27 years. The intangible assets that make up that amount include brands and trademarks of $39.1 million (38-year weighted-average useful life), licensing agreements of $45.8 million (20-year weighted-average useful life) and patents of $10.0 million (18-year weighted-average useful life).

Sale of Discontinued Operation

6.35

CROMPTON CORPORATION (DEC)

Consolidated Statements of Cash Flows

(In thousands of dollars)	2002	2001	2000
Cash flows from investing activities			
Proceeds from sale of business units	$ 80,000	$ 35,061	$ —
Capital expenditures	(100,309)	(136,642)	(154,814)
Merger related expenditures	(1,990)	(5,855)	(66,740)
Other investing activities	464	6,788	(25,303)
Net cash used in investing activities	$ (21,835)	$(100,648)	$(246,857)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Divestitures and Joint Ventures

In June 2002, the Company sold its industrial specialties business unit (excluding retained accounts receivable and accounts payable, with a net value of approximately $10 million) for $95 million, including cash proceeds of $80 million and a note receivable of $15 million due February 2003. The sale resulted in a pre-tax loss of $34.7 million (included in other expense, net).

In December 2001, the Company sold its industrial colors business unit for $32 million, which resulted in a pre-tax loss of $17.3 million (included in other expense, net).

Also in December 2001, the Company sold its equity interest in the nitrile rubber joint venture for $3.1 million. The sale resulted in a pre-tax loss of $1.8 million (included in other expense, net).

In March 2001, the Company sold its equity interest in Yorkshire Group PLC for $7 million. The sale resulted in a pre-tax loss of $1.5 million (included in other expense, net).

Finance Receivables

6.36

PACCAR INC. (DEC)

Consolidated Statements of Cash Flows

(Millions of dollars)	2002	2001	2000
Investing activities:			
Finance receivables originated	$(1,829.3)	$(1,560.1)	$(2,256.5)
Collections on finance receivables	1,869.7	1,897.9	1,729.5
Net (increase) decrease in wholesale receivables	(205.1)	45.5	.6
Marketable securities purchases	(659.3)	(636.8)	(268.6)
Marketable securities sales and maturities	537.1	628.6	408.5
Acquisition of property, plant and equipment	(78.8)	(83.9)	(142.9)
Acquisition of equipment for operating leases	(261.4)	(225.4)	(225.0)
Proceeds from asset disposals	28.5	18.8	36.1
Other	5.6	(9.5)	(7.1)
Net cash (used in) provided by investing activities	$ (593.0)	$ 75.1	$ (725.4)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Currencies in millions)

D. Finance and Other Receivables

Finance and other receivables are as follows:

	2002	2001
Retail notes and contracts	$2,804.4	$3,015.4
Wholesale financing	634.9	398.7
Direct financing leases	1,540.4	1,380.6
Interest and other receivables	63.3	61.7
	5,043.0	4,856.4
Less allowance for losses	(109.1)	(104.7)
	4,933.9	4,751.7
Unearned interest:		
Retail notes and contracts	(90.7)	(130.5)
Direct financing leases	(184.0)	(181.3)
	(274.7)	(311.8)
	$4,659.2	$4,439.9

The Company's customers are principally concentrated in the United States, which represented 68% of total receivables at December 31, 2002, and 74% at December 31, 2001. Terms for substantially all finance and other receivables range up to 60 months. Repayment experience indicates some receivables will be paid prior to contracted maturity, while others will be extended or renewed.

Annual payments due on retail notes and contracts beginning January 1, 2003, are $1,153.4, $774.5, $507.8, $254.8, $104.8 and $9.1 thereafter.

Annual minimum lease payments due on direct financing leases beginning January 1, 2003, are $463.6, $363.6, $288.4, $183.5, $83.0 and $43.7 thereafter. Estimated residual values included with direct financing leases amounted to $114.6 in 2002 and $98.8 in 2001.

Capitalized Software

6.37

ALLEN TELECOM INC. (DEC)

Consolidated Statements of Cash Flows

(Amounts in thousands)	2000	2001	2002
Cash flows from investing activities:			
Capital expenditures	$(15,082)	$(10,044)	$(6,761)
Investments in wireless communications subsidiaries (net of cash acquired)	(8,512)	(5,689)	(616)
Capitalized software product costs	(4,088)	(2,191)	(2,413)
Sales and retirements of fixed assets	1,631	4,864	1,180
Cash used by investing activities	$(26,051)	$(13,060)	$(8,610)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Computer Software Costs

The Company's policy is to capitalize costs incurred in creating computer software products once technological feasibility is established and to amortize such costs over periods ranging from three to ten years. The Company also capitalizes costs incurred in the development of computerized databases, which are amortized over periods of three to five years. The Company reviews the amounts capitalized for impairment whenever events or changes in circumstances indicate that the carrying amounts of the assets may not be recoverable. In 2000, 2001 and 2002, approximately $4,088,000, $2,191,000 and $2,413,000, respectively, of these costs were capitalized and approximately $2,532,000, $4,022,000 and $3,277,000, respectively, were amortized.

Restricted Cash

6.38

AT&T CORP. AND SUBSIDIARIES (DEC)

Consolidated Statements of Cash Flows

(Dollars in millions)	2002	2001	2000
Investing activities			
Capital expenditures and other additions	$(3,878)	$(5,767)	$ (7,025)
Proceeds from sale or disposal of property, plant and equipment	468	73	555
Increase in other receivables	—	—	(981)
Investment distributions and sales	10	1,585	414
Investment contributions and purchases	(2)	(101)	(1,787)
Net dispositions (acquisitions) of businesses, net of cash disposed/acquired	(18)	15	(23,742)
Decrease in AT&T Canada obligation	(3,449)	—	—
Proceeds from AT&T Broadband	5,849	—	—
Increase in restricted cash	(442)	—	—
Other investing activities, net	33	(100)	(112)
Net cash used in investing activities of continuing operations	$(1,429)	$(4,295)	$(32,678)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8 (In Part): Debt Obligations

The holders of certain private debt with an outstanding balance of $0.9 billion at December 31, 2002, have an annual put right to cause AT&T to repay the debt upon payment of an exercise fee. In exchange for the debt holders agreeing to not exercise their put right for 2002, AT&T posted a cash-collateralized letter of credit in 2002, totaling $0.4 billion, and expiring in March, 2005. The $0.4 billion is considered restricted cash and is included in "Other assets" at December 31, 2002. The annual put right in 2003 expired on February 13, 2003, without exercise by the debt holders. The debt holders could accelerate repayment of the debt based on certain events such as the occurrence of unfavorable local law or regulation changes in its country of operation.

Life Insurance Policies

6.39

DARDEN RESTAURANTS, INC. (MAY)

Consolidated Statements of Cash Flows

(In thousands)	2002	2001	2000
Cash flows—investing activities			
Purchases of land, buildings, and equipment	$(318,392)	$(355,139)	$(268,946)
Increase in other assets	(24,741)	(10,730)	(1,820)
Purchase of trust-owned life insurance	(31,500)	—	—
Proceeds from disposal of land, buildings, and equipment (including net assets held for disposal)	10,741	13,492	20,998
Purchases of short-term investments	(9,904)	—	—
Net cash used by investing activities	$(373,796)	$(352,377)	$(249,768)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollar amounts in thousands)

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

Trust-Owned Life Insurance

In August 2001, the Company caused a trust that it previously had established to purchase life insurance policies covering certain Company officers and other key employees (trust-owned life insurance or TOLI). The trust is the owner and sole beneficiary of the TOLI policies. The policies, which had an initial cash surrender value of $31,500, were purchased to offset a portion of the Company's obligations under its non-qualified deferred compensation plan. The cash surrender value of the policies is included in other assets while changes in cash surrender value are included in selling, general, and administrative expenses.

Capitalized Interest

6.40

ALLIED WASTE INDUSTRIES, INC. (DEC)

Consolidated Statements of Cash Flows

(In thousands)	2002	2001	2000
Investing activities			
Cost of acquisitions, net of cash acquired	$ (51,366)	$(249,462)	$ (802,876)
Proceeds from divestitures and other, net of cash divested	82,629	359,866	1,039,182
Accruals for acquisition price and severance costs	—	(1,668)	(27,820)
Net distributions from unconsolidated affiliates	—	—	15,372
Capital expenditures, excluding acquisitions	(542,324)	(500,912)	(389,918)
Capitalized interest	(20,622)	(45,704)	(45,352)
Proceeds from sale of fixed assets	30,250	30,879	42,874
Change in deferred acquisition costs, notes receivable and other	(22,344)	(27,047)	(41,413)
Cash used for investing activities	$(523,777)	$(434,048)	$ (209,951)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Interest Expense Capitalized

We capitalize interest in connection with the construction of our landfill assets. Actual acquisition permitting and construction costs incurred related to landfill assets under active development qualify for interest capitalization. Interest capitalization ceases when the construction of a landfill asset is complete and available for use.

During the years ended December 31, 2002, 2001 and 2000, we incurred gross interest expense (including payments under interest rate swap contracts) of $794.6 million, $856.7 million and $908.2 million of which $20.6 million, $45.7 million and $45.4 million was capitalized.

CASH FLOWS FROM FINANCING ACTIVITIES

6.41 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 and 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.

Debt Proceeds/Repayments

6.42

AIR PRODUCTS AND CHEMICALS, INC. AND SUBSIDIARIES (SEP)

Consolidated Cash Flows

(Millions of dollars)	2002	2001	2000
Financing activities			
Long-term debt proceeds	$ 61.3	$ 121.0	$ 820.9
Payments on long-term debt	(203.6)	(796.6)	(418.0)
Net (decrease) increase in commercial paper and short-term borrowings	(170.9)	8.0	(182.1)
Dividends paid to shareholders	(175.6)	(165.2)	(155.7)
Purchase of treasury stock	—	(87.2)	—
Issuance of stock for options and award plans	103.8	87.1	15.0
Cash (used for) provided by financing activities	$(385.0)	$(832.9)	$ 80.1

6.43

FORTUNE BRANDS, INC. AND SUBSIDIARIES (DEC)

Consolidated Statement of Cash Flows

(In millions)	2002	2001	2000
Financing activities			
Proceeds from sale of minority interest in wholly-owned subsidiary, net	$ —	$ 373.0	$ —
Increase (decrease) increase in short-term debt, net	122.5	(950.9)	159.4
Issuance of long-term debt	25.0	—	—
Repayment of long-term debt	(102.1)	(13.7)	(43.4)
Dividends to stockholders	(153.4)	(148.0)	(147.7)
Cash purchases of common stock for treasury	(271.1)	(272.8)	(256.1)
Proceeds received from exercise of stock options	135.4	54.0	2.7
Other financing activities, net	24.6	5.6	1.1
Net cash used by financing activities	$(219.1)	$(952.8)	$(284.0)

Capital Stock Proceeds/Payments

6.44

AMETEK, INC. (DEC)

Consolidated Statement of Cash Flows

(In thousands)	2002	2001	2000
Cash provided by (used for):			
Financing activities:			
Net change in short-term borrowings	$(59,012)	$ 37,747	$25,154
Additional long-term borrowings	—	73,321	3,003
Reduction in long-term borrowings	(23,751)	(721)	(271)
Repurchases of common stock	(7,346)	(11,628)	(1,611)
Cash dividends paid	(7,896)	(7,878)	(7,697)
Proceeds from stock options and other	13,415	12,501	7,649
Total financing activities	$(84,590)	$103,342	$26,227

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6 (In Part): Stockholders' Equity

In 2002, the Company repurchased 236,900 shares of its common stock under its current share repurchase authorization at a total cost of $7.3 million. This compares with repurchases of 440,000 shares at a total cost of $11.6 million in 2001. At December 31, 2002, approximately $8.3 million of the current $50 million authorization was unexpended. At December 31, 2002, the Company held approximately 0.8 million shares in its treasury at a cost of $24.2 million compared with approximately 0.6 million shares at a cost of $17.9 million at the end of 2001. The number of shares outstanding at December 31, 2002 was 33.1 million shares, compared with 32.8 million shares at December 31, 2001.

6.45

AMPCO-PITTSBURGH CORPORATION (DEC)

Consolidated Statements of Cash Flows

(In thousands)	2002	2001	2000
Cash flows from financing activities:			
Dividends paid	$(3,848)	$(3,842)	$(3,841)
(Repayment of) proceeds from short-term borrowings	—	(2,000)	2,000
Repayment of industrial revenue bond	(1,350)	—	—
Proceeds from the issuance of common stock	238	16	125
Net cash flows used in financing activities	$(4,960)	$(5,826)	$(1,716)

Exercise of Stock Options

6.46

ABBOTT LABORATORIES (DEC)

Consolidated Statement of Cash Flows

(Dollars in thousands)	2002	2001	2000
Cash flow from (used in) financing activities:			
Proceeds from (repayments of) commercial paper, net	$(1,306,000)	$ 2,741,000	$ (670,000)
Proceeds from issuance of long-term debt, net	—	3,000,000	—
Other borrowing transactions, net	286,872	1,540	(2,769)
Purchases of common shares	—	(17,364)	(464,856)
Proceeds from stock options exercised	137,004	169,422	135,570
Dividends paid	(1,427,850)	(1,270,782)	(1,145,894)
Net cash (used in) from financing activities	$(2,309,974)	$ 4,623,816	$(2,147,949)

Dividends Paid

6.47

CAMPBELL SOUP COMPANY (JUL)

Consolidated Statements of Cash Flows

(Millions)	2002	2001	2000
Cash flows from financing activities:			
Long-term borrowings	$ 1,100	$ 1,028	$ —
Repayments of long-term borrowings	(628)	—	(7)
Short-term borrowings	776	1,962	1,028
Repayments of short-term borrowings	(1,691)	(2,007)	(1,206)
Dividends paid	(286)	(374)	(384)
Treasury stock purchases	(5)	(618)	(394)
Treasury stock issuances	14	24	20
Other, net	(6)	—	—
Net cash provided by (used in) financing activities	$ (726)	$ 15	$ (943)

Debt Issuance Costs

6.48

GEORGIA-PACIFIC CORPORATION AND SUBSIDIARIES (DEC)

Consolidated Statements of Cash Flows

(In millions)	2002	2001	2000
Cash flows from financing activities:			
Repayments of long-term debt	$(5,081)	$(2,631)	$ (123)
Additions to long-term debt	5,731	631	5,937
Fees paid to issue debt	(14)	(39)	(38)
Increase (decrease) in bank overdrafts	71	(94)	14
Decrease in accounts receivable secured borrowings and short-term notes	(1,574)	(690)	(300)
Common stock repurchased	—	—	(140)
Proceeds from option plan exercises	4	129	26
Employee stock purchase plan	37	36	—
Cash dividends paid	(118)	(175)	(166)
Cash (used for) provided by financing activities	$ (944)	$(2,833)	$5,210

Lease Obligation Payments

6.49

WAL-MART STORES, INC. (JAN)

Consolidated Statements of Cash Flows

(Amounts in millions)	2003	2002	2001
Cash flows from financing activities			
Increase/(decrease) in commercial paper	$ 1,836	$(1,533)	$(2,022)
Proceeds from issuance of long-term debt	2,044	4,591	3,778
Purchase of company stock	(3,232)	(1,214)	(193)
Dividends paid	(1,328)	(1,249)	(1,070)
Payment of long-term debt	(1,263)	(3,519)	(1,519)
Payment of capital lease obligations	(216)	(167)	(173)
Proceeds from issuance of company stock	—	—	581
Other financing activities	(63)	113	176
Net cash used in financing activities	$(2,222)	$(2,978)	$ (442)

Minority Interest Distributions

6.50

VALERO ENERGY CORPORATION AND SUBSIDIARIES (DEC)

Consolidated Statements of Cash Flows

(Millions of dollars)	2002	2001	2000
Cash flows from financing activities:			
Cash payment to UDS shareholders in connection with UDS acquisition	$(2,055.2)	$ —	$ —
Financing required to fund cash portion of UDS acquisition, net of issuance costs	—	2,052.6	—
Increase (decrease) in short-term debt, net	(47.0)	173.0	27.0
Long-term debt borrowings, net of issuance costs	4,517.4	543.1	1,899.3
Long-term debt repayments	(2,828.1)	(18.5)	(1,647.0)
Proceeds from common stock offering, net	—	—	166.8
Cash distributions to minority interest in consolidated partnership	(13.7)	—	—
Issuance of common stock in connection with employee benefit plans	102.0	78.4	17.4
Proceeds from offering of preferred securities of subsidiary trust, net	—	—	166.7
Common stock dividends	(42.3)	(20.7)	(18.7)
Purchase of treasury stock	(45.5)	(156.7)	(64.3)
Net cash provided by (used in) financing activities	$ (412.4)	$2,651.2	$ 547.2

FOREIGN CURRENCY CASH FLOWS

6.51 Paragraph 25 of *SFAS No. 95* specifies 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. Examples of reporting foreign currency cash flows follow.

6.52

CROWN HOLDINGS, INC. AND SUBSIDIARIES (DEC)

Consolidated Statements of Cash Flows

(In millions)	2002	2001	2000
Cash flows from operating activities			
Net loss	$(1,205)	$(972)	$(174)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Depreciation and amortization	375	499	495
Cumulative effect of a change in accounting	1,014	(4)	
Provision for asbestos	30	51	255
Asbestos-related payments	(114)	(118)	(94)
Provision for restructuring	19	48	52
Provision for asset impairments and loss/gain on sale of assets	247	213	27
Gain from early extinguishment of debt	(28)		
Deferred income taxes	(31)	480	(96)
Changes in assets and liabilities, net of businesses acquired:			
Receivables	161	110	(110)
Inventories	20	377	(26)
Accounts payable and accrued liabilities	(12)	(221)	(33)
Other, net	(61)	(153)	(26)
Net cash provided by operating activities	415	310	270
Cash flows from investing activities			
Capital expenditures	(115)	(168)	(262)
Proceeds from sale of businesses	661		
Proceeds from sale of property, plant and equipment	45	28	28
Acquisition of businesses, net of cash acquired			(11)
Other, net		(23)	(3)
Net cash provided by/(used for) investing activities	591	(163)	(248)
Cash flows from financing activities			
Proceeds from long-term debt	87	2	4
Payments of long-term debt	(264)	(77)	(216)
Net change in short-term debt	(924)	(397)	601
New term loan borrowing		400	
Stock repurchased			(49)
Dividends paid			(127)
Common stock issued	3		2
Repayment of shareholder notes		4	
Acquisition of minority interests			(81)
Minority contributions, net of dividends paid	(30)	5	(7)
Net cash provided by/(used for) financing activities	(1,128)	(63)	127
Effect of exchange rate changes on cash and cash equivalents	29	(10)	(34)
Net change in cash and cash equivalents	(93)	74	115
Cash and cash equivalents at January 1	456	382	267
Cash and cash equivalents at December 31	$ 363	$ 456	$ 382

6.53

LEAR CORPORATION AND SUBSIDIARIES (DEC)

Consolidated Statements of Cash Flows

(In millions)	2002	2001	2000
Cash flows from operating activities:			
Net income	$ 13.0	$ 26.3	$ 274.7
Adjustments to reconcile net income to net cash provided by operating activities—			
Cumulative effect of a change in accounting principle	298.5	—	—
Depreciation	301.0	302.0	302.3
Amortization of goodwill	—	90.2	89.9
Net change in recoverable customer engineering and tooling	46.5	110.3	23.5
Net change in working capital items	(51.4)	57.5	55.1
Other, net	59.7	(1.5)	(13.6)
Net cash provided by operating activities before net change in sold accounts receivable	667.3	584.8	731.9
Net change in sold accounts receivable	(122.2)	245.0	21.2
Net cash provided by operating activities	545.1	829.8	753.1
Cash flows from investing activities:			
Additions to property, plant and equipment	(272.6)	(267.0)	(322.3)
Cost of acquisitions, net of cash acquired	(15.2)	—	(11.8)
Net proceeds from disposition of businesses and other assets	—	50.6	116.9
Other, net	28.5	15.3	(7.9)
Net cash used in investing activities	(259.3)	(201.1)	(225.1)
Cash flows from financing activities:			
Issuance of senior notes	250.3	223.4	—
Repayments of subordinated notes	—	(345.5)	—
Long-term revolving credit repayments, net	(583.4)	(451.0)	(307.8)
Other long-term debt repayments, net	1.4	(4.0)	(56.2)
Short-term repayments, net	(31.4)	(8.0)	(32.1)
Proceeds from exercise of stock options	47.4	10.1	2.1
Purchase of treasury stock	—	—	(77.9)
Increase (decrease) in drafts	19.8	(70.5)	(52.6)
Other, net	0.1	—	0.7
Net cash used in financing activities	(295.8)	(645.5)	(523.8)
Effect of foreign currency translation	14.1	5.6	(12.3)
Net change in cash and cash equivalents	4.1	(11.2)	(8.1)
Cash and cash equivalents at beginning of year	87.6	98.8	106.9
Cash and cash equivalents at end of year	$ 91.7	$ 87.6	$ 98.8

NONCASH ACTIVITIES

6.54 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.

6.55

ADVO, INC. (SEP)

Consolidated Statements of Cash Flows

(In thousands)	2002	2001	2000
Cash flows from operating activities:			
Net income	$ 42,008	$ 50,992	$ 48,820
Adjustments to reconcile net income to net cash flows from operating activities:			
Depreciation	29,080	25,794	23,484
Amortization	2,631	4,834	3,663
Deferred income taxes	1,048	2,978	(922)
Provision for bad debts	8,086	7,202	8,245
Other	(173)	250	769
Change in operating assets and liabilities, net of effects of acquisitions:			
Accounts receivable	(8,764)	(10,488)	(30,419)
Inventories	779	185	1,014
Prepaid expenses and other current assets	250	(900)	(778)
Investment in deferred compensation plan	(149)	(155)	(367)
Other assets	(4,580)	324	(1,401)
Accounts payable	(5,409)	(6,454)	1,152
Accrued compensation and benefits	3,215	(6,129)	3,809
Deferred compensation plan	149	155	367
Customer advances	(4,968)	1,373	5,724
Federal and state income taxes payable	2,365	39	2,792
Other liabilities	1,154	(2,775)	6,732
Net cash provided by operating activities	66,722	67,225	72,684
Cash flows from investing activities:			
Acquisitions, net of cash acquired	(1,457)	(14,676)	(1,250)
Expenditures for property, plant and equipment	(37,387)	(32,360)	(38,287)
Proceeds from disposals of property, plant and equipment	648	618	698
Distributions from equity affiliates	303	—	—
Proceeds from sale of business	378	—	—
Net cash used by investing activities	(37,515)	(46,418)	(38,839)
Cash flows from financing activities:			
Proceeds on term loan	—	—	30,725
Payments on term loan	(11,250)	—	—
Revolving line of credit—net	(4,500)	(5,000)	(37,791)
Note payable	(2,391)	4,105	—
Payment of debt issue costs	—	—	(2,290)
Proceeds from exercise of stock options	3,355	5,271	4,452
Purchases of common stock for treasury	(19,853)	(13,458)	(32,279)
Net cash used by financing activities	(34,639)	(9,082)	(37,183)
Effect of exchange rate changes on cash and cash equivalents	(15)	—	—
(Decrease) increase in cash and cash equivalents	(5,447)	11,725	(3,338)
Cash and cash equivalents at beginning of year	17,728	6,003	9,341
Cash and cash equivalents at end of year	$ 12,281	$ 17,728	$ 6,003

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 14: Supplemental Cash Flow Information

Cash paid for income taxes was $20.9 million, $24.8 million, and $27.2 million in fiscal 2002, 2001, and 2000, respectively. Cash paid for interest expense in fiscal 2002, 2001, and 2000 was $12.5 million, $17.1 million, and $14.9 million, respectively.

Non-cash investing and financing activities are excluded from the consolidated statement of cash flows. For fiscal 2002, non-cash activities included $4.2 million to record the change in the fair value of the interest rate swap agreements in accordance with Statement No. 133 and $1.0 million of realized and unrealized gains and losses from the change in the investment balances of the deferred compensation plan. For fiscal 2001, non-cash activities included a $0.4 million note received by the Company in conjunction with the sale of a business, $5.3 million to record the fair value of interest rate swap agreements and $3.2 million of realized and unrealized gains and losses from the change in the investment balances of the deferred compensation plan.

6.56

FIRST DATA CORPORATION (DEC)

Consolidated Statements of Cash Flows

(In millions)	2002	2001	2000
Cash and cash equivalents at January 1	$ 704.4	$ 708.0	$ 810.2
Cash flows from operating activities			
Net income	1,237.9	871.9	929.6
Adjustments to reconcile to net cash provided by operating activities:			
Depreciation and amortization	538.5	638.4	588.8
Non-cash portion of charges (gains) related to restructuring, impairments, litigation, investment (gains) and losses and divestitures, net	61.0	191.5	(71.3)
Other non-cash items, net	93.5	48.8	(51.1)
Increase (decrease) in cash, excluding the effects of acquisitions and dispositions, resulting from changes in:			
Accounts receivable	(177.0)	(52.4)	(16.1)
Other assets	10.2	(67.5)	9.7
Accounts payable and other liabilities	(167.2)	(289.6)	39.2
Income tax accounts	315.9	66.6	(247.6)
Net cash provided by operating activities	1,912.8	1,407.7	1,181.2
Cash flows from investing activities			
Current year acquisitions, net of cash acquired	(619.4)	(954.5)	(52.9)
Payments related to other businesses previously acquired	(208.1)	(32.9)	(47.3)
Proceeds from dispositions, net of expenses paid	—	1.8	35.7
Additions to property and equipment, net	(211.9)	(187.1)	(148.8)
Payments to secure customer service contracts, including outlays for conversion, and capitalized systems development costs	(206.4)	(178.8)	(143.6)
Other investing activities	79.3	(153.3)	5.1
Net cash used in investing activities	(1,166.5)	(1,504.8)	(351.8)
Cash flows from financing activities			
Short-term borrowings, net	71.5	(578.4)	348.6
Proceeds from issuance of long-term debt	—	1,839.3	—
Principal payments on long-term debt	(14.7)	(91.1)	(125.0)
Proceeds from issuance of common stock	206.4	251.2	251.9
Proceeds from issuance of subsidiary stock	—	22.2	135.0
Purchase of treasury shares	(849.1)	(1,318.5)	(1,509.8)
Cash dividends	(45.4)	(31.2)	(32.3)
Net cash (used in) provided by financing activities	(631.3)	93.5	(931.6)
Change in cash and cash equivalents	115.0	(3.6)	(102.2)
Cash and cash equivalents at December 31	$ 819.4	$ 704.4	$ 708.0

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Supplemental Cash Flow Information

Supplemental cash flow information for the years ended December 31, 2002, 2001 and 2000 are summarized as follows:

(In millions)	2002	2001	2000
Income taxes paid	$105.0	$270.7	$569.9
Interest paid	119.6	111.5	97.2

Significant non-cash transactions in 2002 included a $33.3 million note that was converted into 1.83 million shares. In addition, the Company entered into $33.2 million in capital lease agreements to finance the purchase of equipment and software.

6.57

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

Consolidated Statements of Cash Flows

($ in millions)	2002	2001	2000
Cash flows from operating activities:			
Income/(loss) from continuing operations	$ 371	$ 114	$ (568)
Adjustments to reconcile income/(loss) from continuing operations to net cash provided by operating activities			
Asset impairments, PVOL and other unit closing costs	104	56	454
Depreciation and amortization, including intangible assets	667	717	695
Net gains on sale of assets	(18)	(81)	(11)
Company contributions to savings and profit sharing plans	47	58	—
Benefit plans expense/(income)	30	(73)	(79)
Vesting of restricted stock awards	4	6	—
Deferred taxes	141	86	(95)
Change in cash from:			
Receivables	(6)	3	33
Sale of drugstore receivables	—	200	—
Inventory	82	381	772
Pension contribution	(300)	—	—
Prepaid expenses and other assets	(36)	(29)	(67)
Accounts payable	138	(458)	365
Current income taxes payable	3	(70)	(150)
Other liabilities	102	22	154
Net cash from operating activities	1,329	932	1,503
Cash flows from investing activities:			
Capital expenditures	(658)	(631)	(678)
Proceeds from sale of discontinued operations	—	1,306	—
Proceeds from sale of assets	38	61	62
Proceeds from sale of investment securities	—	—	268
Net cash from investing activities	(620)	736	(348)
Cash flows from financing activities:			
Change in short-term debt	(2)	15	(330)
Proceeds from equipment financing	27	—	—
Proceeds from the issuance of long-term debt	—	630	—
Payment of long-term debt, including capital leases	(939)	(263)	(816)
Common stock issued, net	30	30	28
Preferred stock redeemed	(30)	(36)	(47)
Dividends paid, preferred and common	(161)	(161)	(294)
Net cash from financing activities	(1,075)	215	(1,459)
Cash received from discontinued operations	—	13	93
Net (decrease)/increase in cash and short-term investments	(366)	1,896	(211)
Cash and short-term investments at beginning of year	2,840	944	1,155
Cash and short-term investments at end of year	$ 2,474	$2,840	$ 944
Supplemental cash flow information			
Interest paid	$ 422	$ 420	$ 489
Interest received	39	51	49
Income taxes paid/(received)	60	68	(97)

Non-cash transactions: In 2002, the Company exchanged certain notes and debentures with a carrying amount of $227 million for new notes recorded at a fair value of $225 million and issued 2.9 million shares of common stock to fund the 2001 contribution of $58 million to the savings plan. Eckerd acquired $15 million, $6 million and $40 million of equipment utilizing capital leases in 2002, 2001 and 2000, respectively.

6.58

JDS UNIPHASE CORPORATION (JUN)

Consolidated Statements of Cash Flows

(In millions)	2002	2001	2000
Operating activities:			
Net loss	$(8,738.3)	$(56,121.9)	$ (904.7)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Depreciation expense	336.6	155.4	52.3
Amortization expense	1,308.7	5,387.0	898.4
Amortization of deferred compensation and other stock-based compensation expense	124.9	52.6	0.5
Acquired in-process research and development	25.3	393.2	360.7
Reduction of goodwill and other long-lived assets	5,979.4	50,085.0	—
Gain on sale of subsidiaries	(0.1)	(1,770.2)	—
(Gain) loss on sale of investments	(15.0)	559.1	—
Reduction in fair value of investments	225.8	522.1	—
Loss on equity method investments	54.6	883.9	—
Loss on disposal of property and equipment	19.5	—	—
Noncash restructuring charges	148.3	133.3	—
Tax benefit on non-qualified stock options	23.0	142.7	47.8
Change in deferred income taxes, net	340.8	(598.3)	(78.9)
Changes in operating assets and liabilities:			
Accounts receivable	343.7	(21.0)	(132.9)
Inventories	194.3	190.3	(94.7)
Other current assets	(9.3)	(92.4)	5.5
Income taxes payable	0.7	(31.3)	18.6
Accounts payable and other liabilities	(277.2)	183.7	108.5
Net cash provided by operating activities	85.7	53.2	281.1
Investing activities:			
Purchases of available-for-sale investments	(3,971.4)	(1,523.7)	(2,395.9)
Purchases of other investments	(46.8)	(70.3)	—
Sales of available-for-sale investments	3,798.5	2,164.4	1,757.3
Sales of other investments	38.0	—	—
Acquisitions of businesses, net of cash acquired	(176.9)	175.7	99.9
Purchase of property, plant and equipment and licenses	(132.5)	(735.3)	(275.3)
Proceeds from sale of property and equipment	9.8	—	—
Other assets, net	8.6	(14.1)	(0.9)
Net cash used in investing activities	(472.7)	(3.3)	(814.9)
Financing activities:			
Repayment of debt acquired	(32.8)	(26.6)	(45.1)
Proceeds from issuance of common stock in a public offering	—	—	713.5
Proceeds from issuance of common stock other than in a public offering	65.1	417.7	113.7
Net cash provided by financing activities	32.3	391.1	782.1
Effect of exchange rates on cash and cash equivalents	4.3	2.8	(4.7)
Increase (decrease) in cash and cash equivalents	(350.4)	443.8	243.6
Cash and cash equivalents at beginning of period	762.8	319.0	75.4
Cash and cash equivalents at end of period	$ 412.4	$ 762.8	$ 319.0
Supplemental disclosure of cash flow information:			
Net cash provided by operating activities excluding indirect acquisition costs paid to certain SDL executives	$ 85.7	$ 354.1	$ 281.1
Cash paid for interest	1.9	1.7	3.4
Cash paid for taxes	20.3	174.0	73.0
Cash received for tax refunds	121.8	20.0	5.1
Non-cash transactions:			
Proceeds from sale of subsidiary	$ —	$ 1,953.3	$ —
Common stock issued in connection with acquisitions	274.2	41,446.2	21,234.5
Common stock issued in connection with litigation settlement	2.3	—	—
Common stock to be issued in connection with the acquisition of UNL	20.9	90.8	—

CASH AND CASH EQUIVALENTS

6.59 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. Examples of cash and cash equivalents disclosure follow.

6.60

TABLE 6-5: CASH AND CASH EQUIVALENTS

	2002	2001	2000	1999
Cash and cash equivalents	492	489	473	485
Cash and equivalents	44	46	45	35
Cash	41	38	50	46
Cash and short-term investments	9	10	11	14
Cash and short-term cash investments	6	5	5	4
Cash and temporary cash investments	3	4	6	5
Cash and temporary investments	2	3	2	3
Cash and marketable securities	—	1	1	1
Other descriptive captions	3	4	7	7
Total Companies	**600**	**600**	**600**	**600**

6.61

AMERON INTERNATIONAL CORPORATION (NOV)

Consolidated Balance Sheets

(Dollars in thousands)	2002	2001
Current assets		
Cash and cash equivalents	$ 10,360	$ 11,315
Receivables, less allowances of $6,652 in 2002 and $6,699 in 2001	131,283	135,963
Inventories	88,020	92,534
Deferred income taxes	16,528	19,242
Prepaid expenses and other current assets	6,671	6,654
Total current assets	$252,862	$265,708

Consolidated Statements of Cash Flows

(Dollars in thousands)	2002	2001	2000
Net change in cash and cash equivalents	$ (955)	$ (199)	$ 993
Cash and cash equivalents at beginning of year	11,315	11,514	10,521
Cash and cash equivalents at end of year	$10,360	$11,315	$11,514

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Cash and Cash Equivalents

Cash equivalents represent liquid investments with maturities of three months or less when purchased.

6.62

ANHEUSER-BUSCH COMPANIES, INC. (DEC)

Consolidated Balance Sheet

(In millions)	2002	2001
Current assets:		
Cash	$ 188.9	$ 162.6
Accounts receivable	630.4	620.9
Inventories:		
Raw materials and supplies	294.1	352.4
Work in process	82.8	79.8
Finished goods	186.7	159.6
Total inventories	563.6	591.8
Other current assets	121.8	175.1
Total current assets	$1,504.7	$1,550.4

Consolidated Statement of Cash Flows

(In millions)	2002	2001	2000
Net increase in cash during the year	$ 26.3	$ 2.7	$ 7.8
Cash, beginning of year	162.6	159.9	152.1
Cash, end of year	$188.9	$162.6	$159.9

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Cash

Cash includes cash in banks, demand deposits and investments in short-term marketable securities with maturities of 90 days or less.

6.63

BECTON, DICKINSON AND COMPANY (SEP)

Consolidated Balance Sheets

(Thousands of dollars)	2002	2001
Current assets		
Cash and equivalents	$ 243,115	$ 82,129
Short-term investments	1,850	4,571
Trade receivables, net	745,998	768,047
Inventories	697,696	707,744
Prepaid expenses, deferred taxes and other	240,048	200,451
Total current assets	$1,928,707	$1,762,942

Consolidated Statements of Cash Flows

(Thousands of dollars)	2002	2001	2000
Net increase (decrease) in cash and equivalents	$160,986	$32,933	$(10,736)
Opening cash and equivalents	82,129	49,196	59,932
Closing cash and equivalents	$243,115	$82,129	$ 49,196

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.

6.64

RPM, INC. AND SUBSIDIARIES (MAY)

Consolidated Balance Sheets

(In thousands)	2002	2001
Current assets		
Cash and short-term investments (Note A)	$ 42,172	$ 23,926
Trade accounts receivable (less allowances of $15,884 in 2002 and $17,705 in 2001)	397,659	411,718
Inventories	251,446	277,494
Prepaid expenses and other current assets	110,037	106,282
Total current assets	$801,314	$819,420

Consolidated Statements of Cash Flows

(In thousands)	2002	2001	2000
Net increase (decrease) in cash and short-term investments	$18,246	$ (7,414)	$11,611
Cash and short-term investments at beginning of year	23,926	31,340	19,729
Cash and short-term investments at end of year	$42,172	$23,926	$31,340

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

6) Cash and Short-Term Investments

For purposes of the statement of cash flows, the Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. The Company does not believe it is exposed to any significant credit risk on cash and short-term investments.

Section 7: Independent Auditors' Report

PRESENTATION IN ANNUAL REPORT

7.01 This section reviews the format and content of Independent Auditors' Reports appearing in the annual reports of the 600 survey companies. Statement on Auditing Standards (SAS) No. 58, *Reports on Audited Financial Statements,* and its amendments, applies to auditors' reports issued in connection with audits of historical financial statements that are intended to present financial position, results of operations, and cash flows in conformity with generally accepted accounting principles.

7.02 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.

7.03

TABLE 7-1: PRESENTATION IN ANNUAL REPORT

	2002	2001	2000	1999
Precedes financial statements and notes	343	309	296	259
Follows financial statements and notes	250	283	294	319
Between financial statements and notes	6	4	5	16
Other	1	4	5	6
Total Companies	**600**	**600**	**600**	**600**

TITLE

7.04 Paragraph 8a of *SAS No. 58* states that the title of an auditors' report should include the word *independent*.

7.05 The titles of auditors' reports presented in the annual reports of 598 survey companies included the words *independent* and *report*. 399 titles identified the auditors as auditors, 160 as accountants, 21 as public accountants, and 19 as certified public accountants.

ADDRESSEE

7.06 Paragraph 9 of *SAS 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 is customarily addressed to the client and not to the directors or stockholders of the Company whose financial statements are being audited.

7.07 Table 7-2 summarizes the addressee mentioned in the auditors' reports of the survey companies.

7.08

TABLE 7-2: ADDRESSEE OF AUDITORS' REPORTS

	2002	2001	2000	1999
Board of Directors and Stockholders	500	462	468	471
Board of Directors	53	43	40	42
Stockholders	31	43	45	47
Company	10	47	42	35
Other or no addressee	6	5	5	5
Total Companies	**600**	**600**	**600**	**600**

AUDITORS' STANDARD REPORT

7.09 Paragraph 8 of *SAS 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,* as amended by SAS No. 93, *Omnibus Statement on Auditing Standards—2000,* follow:

> *INDEPENDENT AUDITORS' REPORT*
>
> We have audited the accompanying balance sheet of X Company as of December 31, 20XX, 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 auditing standards generally accepted in the United States of America. 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, 20XX, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying balance sheet of X Company as of December 31, 20X2 and 20X1, 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 auditing standards generally accepted in the United States of America. 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, 20X2 and 20X1, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

7.10 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 of *SAS No. 58*.

7.11 As permitted by Statement of Financial Accounting Standards No. 130, *Reporting Comprehensive Income,* 93 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. Although a Company may include the term "comprehensive income" in the title of the statement in which it is presented, *SFAS No. 130* does not require the use of the term in a Company's financial statements. *SFAS No. 130* acknowledges the use of equivalent terms. Standard auditors' reports for each situation follow.

Statement of Comprehensive Income

7.12

REPORT OF INDEPENDENT AUDITORS

Board of Directors and Stockholders
PACCAR Inc

We have audited the accompanying consolidated balance sheets of PACCAR Inc and subsidiaries as of December 31, 2002 and 2001, and the related consolidated statements of income, stockholders' equity, comprehensive income and cash flows for each of the three years in the period ended December 31, 2002. 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 auditing standards generally accepted in the United States. 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 PACCAR Inc and subsidiaries at December 31, 2002 and 2001, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2002, in conformity with accounting principles generally accepted in the United States.

Statement of Operations and Comprehensive Income

7.13

INDEPENDENT AUDITORS' REPORT

The Board of Directors

We have audited the accompanying balance sheets of Potlatch Corporation and consolidated subsidiaries as of December 31, 2002 and 2001 and the related statements of operations and comprehensive loss, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2002. 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 auditing standards generally accepted in the United States of America. 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 Potlatch Corporation and consolidated subsidiaries as of December 31, 2002 and 2001 and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2002, in conformity with accounting principles generally accepted in the United States of America.

Statement of Changes in Shareholders' Equity

7.14

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders of
Olin Corporation

We have audited the accompanying consolidated balance sheets of Olin Corporation and subsidiaries as of December 31, 2002 and 2001 and the related consolidated statements of income, shareholders' equity and cash flows for each of the years in the three-year period ended December 31, 2002. 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 auditing standards generally accepted in the United States of America. 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 Olin Corporation and subsidiaries as of December 31, 2002 and 2001, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2002 in conformity with accounting principles generally accepted in the United States of America.

REFERENCE TO REPORT OF OTHER AUDITORS

7.15 When the opinion of a principal auditor is based in part on the report of another auditor, SAS No. 1, section 543, *Part of Audit Performed by Other Independent Auditors,* as amended by SAS No. 64, *Omnibus Statement on Auditing Standards—1990,* 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 introductory, 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.

7.16 Paragraphs 12 and 13 of *SAS No. 58* reaffirm the requirements of *section 543*. Paragraph 13 presents an example of an auditors' report referring to the report of other auditors.

7.17 The auditors' report for 18 survey companies made reference to the report of other auditors. The reference to other auditors in 9 of these reports related to prior year financial statements. Examples of auditors' reports making reference to reports of other auditors follow.

7.18

REPORT OF INDEPENDENT ACCOUNTANTS

To the Shareholders
BellSouth Corporation

In our opinion, based on our audits and the report of other auditors, the accompanying consolidated balance sheets and the related consolidated statements of income, cash flows and shareholders' equity and comprehensive income present fairly, in all material respects, the financial position of BellSouth Corporation and its subsidiaries at December 31, 2002 and 2001, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2002 in conformity with accounting principles generally accepted in the United States of America. 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 Cingular Wireless LLC, an equity method investee, which was formed on October 2, 2000. BellSouth's consolidated financial statements include an investment of $3,202 million and $2,489 million as of

December 31, 2002 and 2001, respectively, and equity method income of $497 million and $675 million for the years then ended. Those statements were audited by other auditors whose report thereon has been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for Cingular Wireless LLC, is based solely on the report of the other auditors. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, 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 and the report of other auditors provide a reasonable basis for our opinion.

As discussed in Note A to the consolidated financial statements, in 2000 BellSouth Corporation adopted Staff Accounting Bulletin No. 101 and changed its method of accounting for certain revenues.

As discussed in Note D to the consolidated financial statements, in 2002 BellSouth Corporation adopted Financial Accounting Standards Board Statement No. 142 and changed its method of accounting for goodwill and other intangible assets.

7.19

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

The Board of Directors and Shareholders of
Hecla Mining Company

We have audited the accompanying consolidated balance sheets of Hecla Mining Company as of December 31, 2002 and 2001, and the related consolidated statements of operations and comprehensive loss, cash flows and changes in shareholders' equity 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 did not audit the financial statements of the Greens Creek Joint Venture, a 29.73 percent owned subsidiary, which statements reflect total assets and revenues constituting 31.1 percent and 22.1 percent, respectively, of the related consolidated totals as of and for the year ended December 31, 2002, and 33.7 percent and 26.3 percent, respectively, of the related consolidated totals as of and for the year ended December 31, 2001. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Greens Creek Joint Venture, is based solely on the reports of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 reports of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Hecla Mining Company at December 31, 2002 and 2001 and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the consolidated financial statements, the Company changed its method of accounting for derivative instruments and hedging activities in 2001.

7.20

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders of
Mandalay Resort Group

We have audited the accompanying consolidated balance sheets of Mandalay Resort Group and subsidiaries (the "Company") as of January 31, 2003 and 2002, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended January 31, 2003. Our audits also included the consolidated financial statement schedule listed in the index at Item 15(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 these financial statements and financial statement schedule based on our audits. We did not audit the financial statements of Elgin Riverboat Resort-Riverboat Casino, owner of Grand Victoria Casino, the Company's investment in which is accounted for by use of the equity method. The Company's equity of $249,040,000 and $251,022,000 in the Grand Victoria Casino's net assets as of January 31, 2003 and 2002, respectively, and of $48,998,000, $63,564,000 and $58,856,000 in that entity's net income for each of the three years in the period ended January 31, 2003 are included in the accompanying financial statements. The financial statements of Grand Victoria Casino were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for such company, is based solely on the report of such other auditors.

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

believe that our audits and the report of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of the other auditors, such consolidated financial statements present fairly, in all material respects, the financial position of Mandalay Resort Group and subsidiaries as of January 31, 2003 and 2002, and the results of their operations and their cash flows for each of the three years in the period ended January 31, 2003 in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such consolidated 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 described in Note 10 and Note 4, respectively, to the consolidated financial statements, the Company adopted Statements of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities, and No. 138, Accounting for Certain Derivative Instruments and Certain Hedging Activities—an Amendment of FASB Statement No. 133, as of February 1, 2001, and adopted Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets, as of February 1, 2002.

UNCERTAINTIES

7.21 Effective for auditors' reports issued or reissued on or after February 29, 1996, SAS No. 79, *Amendment to Auditing Standards No. 58,* amends *SAS No. 58* to eliminate the requirement for an explanatory paragraph for uncertainties as defined in paragraphs 29 and 30 of amended *SAS No. 58. SAS No. 79* does not apply to uncertainties related to going concern situations for which SAS No. 59, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern,* as amended, and SAS No. 85, *Management Representations,* provide guidance.

7.22 Table 7-3 summarizes the nature of uncertainties for which an explanatory paragraph was included in an auditors' report. Examples of explanatory language for a going concern situation follow.

7.23

TABLE 7-3: UNCERTAINTIES

	2002	2001	2000	1999
Going concern	20	21	17	7
Other	8	3	2	—
Total Uncertainties	**28**	**24**	**19**	**7**
Total Companies	**26**	**24**	**19**	**7**

7.24

REPORT OF INDEPENDENT AUDITORS

To the Board of Directors and Stockholders of
Bethlehem Steel Corporation

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of Bethlehem Steel Corporation and its subsidiaries ("Bethlehem") at December 31, 2002 and 2001, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2002 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the accompanying index presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedule are the responsibility of the company's management; our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, 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 our opinion.

The accompanying consolidated financial statements have been prepared assuming that Bethlehem will continue as a going concern, which contemplates continuity of the company's operations and realization of its assets and payments of its liabilities in the ordinary course of business. As more fully described in the notes to the consolidated financial statements, on October 15, 2001, Bethlehem filed a voluntary petition for reorganization under Chapter 11 of the United States Bankruptcy Code. The uncertainties inherent in the bankruptcy process and the company's recurring losses from operations raise substantial doubt about Bethlehem's ability to continue as a going concern. Bethlehem is currently operating its business as a Debtor-in-Possession under the jurisdiction of the Bankruptcy Court, and continuation of the company as a going concern is contingent upon, among other things, the confirmation of a Plan of Reorganization, the company's ability to comply with all debt covenants under the existing debtor-in-possession financing agreements, and Bethlehem's ability to generate sufficient cash from operations and obtain financing sources to meet its future obligations. If no reorganization plan is approved, it is possible that the company's assets may be liquidated. The consolidated financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amount and classification of liabilities that may result from the outcome of these uncertainties.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A (In Part): Accounting Policies

Reorganization Under Chapter 11

On October 15, 2001, Bethlehem and 22 of its wholly owned subsidiaries filed voluntary petitions for reorganization under chapter 11 of the United States Bankruptcy Code. See Note B, *Reorganization Under Chapter 11*.

B. Reorganization Under Chapter 11

On October 15, 2001, Bethlehem Steel Corporation and 22 of its wholly owned subsidiaries (collectively, the Debtors) filed voluntary petitions for reorganization under chapter 11 of the United States Bankruptcy Code (the Code) in the United States Bankruptcy Court for the Southern District of New York (the Court). The wholly owned subsidiaries that did not file for chapter 11 reorganization are not material in relation to Bethlehem's consolidated financial position and results of operations. Bethlehem continues to manage its properties and operate its businesses under Sections 1107 and 1108 of the Code as a debtor-in-possession. These consolidated financial statements have been prepared in conformity with generally accepted accounting principles on a going concern basis, which contemplates continuity of operations, realization of assets and payment of liabilities. Under the Code, actions by creditors to collect indebtedness owed by the Debtors prior to October 15, 2001 (pre-petition) are stayed and certain other pre-petition contractual obligations may not be enforced against the Debtors. Due to material uncertainties, it is not possible to predict the length of time the Debtors will operate under chapter 11 protection, the outcome of the reorganization in general, the effect of the reorganization on the Debtors' businesses or the recovery by creditors of the Debtors. Any recovery by Bethlehem's equity holders appears unlikely.

Bethlehem continues to pursue various strategic alternatives including, among other things, possible consolidation opportunities, joint ventures with other steel operations, a stand-alone plan of reorganization and liquidation of part or all of Bethlehem's assets. There can be no assurance that any such alternatives will be implemented. Bethlehem has an exclusive right to file a reorganization plan through July 31, 2003. After further consideration of such alternatives and negotiations with various parties in interest, Bethlehem expects to present a chapter 11 plan. That plan will likely cause a material change to the carrying amount of assets and liabilities in the financial statements.

The bar date for creditors, other than employees and former employees, to file proofs of claim with the Court was September 30, 2002. Differences between the amounts reflected on Bethlehem's records and claims by creditors will be investigated and resolved in connection with our claims resolution process. That process has commenced and, in light of the number of creditors, will take considerable time to complete. Accordingly, the ultimate number and amount of allowed claims is not presently known. It is reasonably possible that the amount of claims ultimately allowed by the Court will differ materially from the amounts presently recorded by Bethlehem. These amounts are not currently capable of being reasonably estimated.

On January 6, 2003, International Steel Group (ISG) provided a proposal to purchase substantially all of our assets under section 363 of the Code. Management and the Board of Directors are currently in discussions with ISG regarding the proposal to determine whether it believes such a transaction can be developed that is in the best interest of Bethlehem's creditors and other constituents. Any sale of assets under the proposal will require the approval of the Court and, if approved, an open auction for the assets.

These consolidated financial statements have been prepared in accordance with the AICPA's Statement of Position 90-7, *Financial Reporting by Entities in Reorganization Under the Bankruptcy Code* (SOP 90-7). SOP 90-7 provides for segregating pre-petition liabilities that are subject to compromise, identifying all transactions and events that are directly associated with the reorganization of the Debtors and discontinuing interest accrual on unsecured or undersecured debt. SOP 90-7 requires that prepetition liabilities, including claims that become known after a petition is filed, be reported on the basis of the expected amount of the claim allowed rather than the amounts for which those claims might be settled. Until other information is available, recorded liability amounts represent our best estimate for potential allowed claims.

Except for secured debt and capital lease obligations, all recorded liabilities of the Debtors that arose pre-petition have been classified as liabilities subject to compromise. The Court authorized, but did not require, payments of certain pre-petition wages, employee benefits and other obligations. Net changes in pension, other postemployment benefits and certain other accrued liabilities since October 15, 2001, are included in liabilities subject to compromise. Liabilities subject to compromise at December 31, 2002 and 2001 follows:

(Dollars in millions)	2002	2001
Pension liability	$2,849.0	$1,624.0
Other postemployment benefits	2,059.0	2,005.7
Unsecured debt	526.7	526.7
Accounts payable	190.7	220.8
Accrued employment costs	186.7	270.6
Other accrued liabilities	194.6	152.8
Accrued taxes and interest	66.7	77.5
Total	$6,073.4	$4,878.1

Net costs resulting from reorganization of the businesses have been reported in the statements of operations separately as reorganization items. For the years ended December 31, 2002 and 2001, the following have been incurred:

(Dollars in millions)	2002	2001
Professional fees	$17.9	$ 7.1
(Gains) losses from termination of contracts	(2.0)	1.4
Interest income	(1.4)	(0.4)
Total	$14.5	$ 8.1

Interest on unsecured debt that was not charged to earnings for the year ended December 31, 2002, was about $45 million and about $9 million for the period from October 15 to December 31, 2001.

7.25

REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Shareholders
Burlington Industries, Inc.

We have audited the accompanying consolidated balance sheets of Burlington Industries, Inc. and subsidiary companies (Debtors-in-Possession as of November 15, 2001) as of September 28, 2002 and September 29, 2001, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended September 28, 2002. Our audits also included the financial statement schedule listed in the Index for Item 15a. These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. 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 Burlington Industries, Inc. and subsidiary companies (Debtors-in-Possession as of November 15, 2001) at September 28, 2002 and September 29, 2001, and the consolidated results of their operations and their cash flows for each of the three years in the period ended September 28, 2002, in conformity with accounting principles generally accepted in the United States. 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.

As discussed in Note B to the Consolidated Financial Statements, in 2000 the Company changed its method for measuring impairment of goodwill.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note A to the financial statements, on November 15, 2001, the Company filed a voluntary petition for relief under Chapter 11 of the United States Bankruptcy Code ("Chapter 11"). The Company is currently operating its business under the jurisdiction of Chapter 11 and the United States Bankruptcy Court in Wilmington, Delaware (the "Bankruptcy Court"), and continuation of the Company as a going concern is contingent upon, among other things, the ability to formulate a plan of reorganization which will be approved by the requisite parties under the United States Bankruptcy Code and be confirmed by the Bankruptcy Court, the ability to comply with its debtor-in-possession financing facility, obtain adequate financing sources, and the ability to return to profitability and generate sufficient cash flows from operations to meet its future obligations. In addition, the Company has experienced operating losses in 2002, 2001 and 2000. These matters raise substantial doubt about the Company's ability to continue as a going concern. Management's plans as to these matters are also described in Note A. The accompanying 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 may result from the outcome of this uncertainty.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note A. Proceedings Under Chapter 11 of the Bankruptcy Code

On November 15, 2001 (the "Petition Date"), the Company and certain of its domestic subsidiaries (collectively, the "Debtors"), filed voluntary petitions for reorganization under Chapter 11 of the United States Bankruptcy Code (the "Bankruptcy Code") in the United States Bankruptcy Court for the District of Delaware (Case Nos. 0-11282 through 01-11306) (the "Bankruptcy Court"). The Chapter 11 cases pending for the Debtors (the "Chapter 11 Cases") are being jointly administered for procedural purposes only. International operations, joint venture partnerships, Nano-Tex, LLC and Burlington WorldWide Limited and certain other subsidiaries were not included in the filing.

In conjunction with the commencement of the Chapter 11 Cases, the Debtors sought and obtained several orders from the Bankruptcy Court which were intended to enable the Debtors to operate in the normal course of business during the Chapter 11 Cases. The most significant of these orders (i) permit the Debtors to operate their consolidated cash management system during the Chapter 11 Cases in substantially the same manner as it was operated prior to the commencement of the Chapter 11 Cases, (ii) authorize payment of prepetition employee salaries, wages, and benefits and reimbursement of prepetition employee business expenses, (iii) authorize payment of prepetition sales, payroll, and use taxes owed by the Debtors, (iv) authorize payment of certain prepetition obligations to customers, and (v) authorize limited payment of prepetition obligations to certain critical vendors to aid the Debtors in maintaining the operation of their businesses. Subsequent orders set guidelines for sales of assets, authorized severance payments to terminated employees and authorized retention incentive payments to certain managers.

On December 12, 2001, the Bankruptcy Court entered an order (the "DIP Financing Order") authorizing the Debtors to enter into a debtor-in-possession financing facility (the "DIP Financing Facility") with JPMorgan Chase Bank and a syndicate of financial institutions, and to grant first priority mortgages, security interests, liens (including priming liens), and superiority claims on substantially all of the assets of the Debtors to secure the DIP Financing Facility. Under the original terms of the DIP Financing Order, a $190.0 million revolving credit facility, including up to $50.0 million for postpetition letters of credit, was available to the Company until the earliest of (i) November 15, 2003, (ii) the date on which the plan of reorganization becomes effective, (iii) any material noncompliance with any of the terms of the Final DIP Financing Order, or (iv) any event of default shall have occurred and be continuing under the DIP Financing Facility. Effective September 28, 2002, the Company elected to reduce the commitment amount under the DIP Financing Facility to

$100.0 million. Amounts borrowed under the DIP Financing Facility bear interest at the option of the Company at the rate of the London Interbank Offering Rate ("LIBOR") plus 3.0% per annum, or the Alternate Base Rate plus 2.0%. In addition, there is an unused commitment fee of 0.50% on the unused commitment and a letter of credit fee of 3.0% per annum on letters of credit outstanding. The DIP Financing Facility is secured by, in part, the receivables that formerly secured the Receivables Facility described below. On November 16, 2001, the Company borrowed $95.0 million under an Interim DIP Financing Facility principally in order to repay all loans and accrued interest related to such Receivables Facility, as well as certain other financing fees. At September 28, 2002, principal amount of $0.0 million was outstanding and the Company had approximately $96.1 million in unused capacity available under this Facility. The documentation evidencing the DIP Financing Facility contains financial covenants requiring the Company to maintain minimum levels of earnings before interest, taxes, depreciation, amortization, restructuring and reorganization items ("EBITDA"), as defined. In addition, the DIP Financing Facility contains covenants applicable to the Debtors, including limiting the incurrence of additional indebtedness and guarantees thereof, the creation of liens and other encumbrances on properties, the making of investments or acquisitions, the sale or other disposition of property or assets, the making of cash dividend payments, the making of capital expenditures beyond certain limits, and entering into certain transactions with affiliates. In addition, proceeds from sales of certain assets must be used to repay specified borrowings and permanently reduce the commitment amount under the Facility.

The Debtors are currently operating their businesses as debtors-in-possession pursuant to the Bankruptcy Code. Pursuant to the Bankruptcy Code, prepetition obligations of the Debtors, including obligations under debt instruments, generally may not be enforced against the Debtors, and any actions to collect prepetition indebtedness are automatically stayed, unless the stay is lifted by the Bankruptcy Court. The rights of and ultimate payments by the Company under prepetition obligations may be substantially altered. This could result in claims being liquidated in the Chapter 11 Cases at less (and possibly substantially less) than 100% of their face value. In addition, as debtors-in-possession, the Debtors have the right, subject to Bankruptcy Court approval and certain other limitations, to assume or reject executory contracts and unexpired leases. In this context, "assumption" means that the Debtors agree to perform their obligations and cure all existing defaults under the contract or lease, and "rejection" means that the Debtors are relieved from their obligations to perform further under the contract or lease, but are subject to a claim for damages for the breach thereof. Any damages resulting from rejection of executory contracts and unexpired leases will be treated as general unsecured claims in the Chapter 11 Cases unless such claims had been secured on a prepetition basis prior to the Petition Date. The Debtors are in the process of reviewing their executory contracts and unexpired leases to determine which, if any, they will reject. The Debtors cannot presently determine or reasonably estimate the ultimate liability that may result from rejecting contracts or leases or from the filing of claims for any rejected contracts or leases, and no provisions have yet been made for these items. The Bankruptcy Court established July 22, 2002 as the "bar date" as of which all claimants were required to submit and characterize claims against the debtors. Debtors are assessing the claims filed and their impact on the development of a plan of reorganization. The amount of the claims filed or to be filed by the creditors could be significantly different than the amount of the liabilities recorded by the Company.

The United States trustee for the District of Delaware has appointed an Official Committee of Unsecured Creditors in accordance with the provisions of the Bankruptcy Code. The Bankruptcy Code provides that the Debtors have exclusive periods during which only they may file and solicit acceptances of a plan of reorganization. The initial exclusive period of the Debtors to file a plan for reorganization expired on March 15, 2002; and subsequent rulings by the Bankruptcy Court have extended this period to January 31, 2003. If the Debtors fail to obtain an extension of the exclusive period or file a plan of reorganization during the exclusive period or, after such plan has been filed, if the Debtors fail to obtain acceptance of such plan from the parties entitled to vote on the plan during the exclusive solicitation period, any party in interest, including a creditor, an equity holder, a committee of creditors or equity holders, or an indenture trustee, may file their own plan of reorganization for the Debtors. After a plan of reorganization has been filed with the Bankruptcy Court, the plan, along with a disclosure statement approved by the Bankruptcy Court, will be sent to the parties entitled to vote. Following the solicitation period, the Bankruptcy Court will consider whether to confirm the plan. In order to confirm a plan of reorganization, the Bankruptcy Court, among other things, is required to find that (i) with respect to each class of parties entitled to vote, each holder in such class has accepted the plan or will, pursuant to the plan, receive at least as much as such holder would receive in a liquidation, (ii) each class of parties entitled to vote has accepted the plan by the requisite vote (except as described in the following sentence), and (iii) confirmation of the plan is not likely to be followed by a liquidation or a need for further financial reorganization of the Debtors or any successors to the Debtors unless the plan proposes such liquidation or reorganization. If any class of parties entitled to vote does not accept the plan and, assuming that all of the other requirements of the Bankruptcy Code are met, the proponent of the plan may invoke the "cram down" provisions of the Bankruptcy Code. Under these provisions, the Bankruptcy Court may confirm a plan notwithstanding the non-acceptance of the plan by an impaired class of parties entitled to vote if certain requirements of the Bankruptcy Code are met. These requirements may, among other things, necessitate payment in full for senior classes of creditors before payment to a junior class can be made. As a result of the amount of prepetition indebtedness and the availability of the "cram down" provisions, the holders of the Company's capital stock may receive no value for their interests under the plan of reorganization. Because of such possibility, the value of the Company's outstanding capital stock and unsecured instruments are highly speculative. It is possible that the plan of reorganization will require the issuance of common stock or common stock equivalents, thereby diluting current equity interests. Because of such possibility, the value of the Company's outstanding capital stock and unsecured instruments are highly speculative.

Since the Petition Date, the Debtors have conducted business in the ordinary course. Management believes that it has substantially completed the restructuring steps it has identified as necessary and is evaluating the elements of a plan of reorganization. After developing a plan of reorganization, the Debtors will seek the requisite acceptance of the plan by parties entitled to vote on the plan and confirmation of

the plan by the Bankruptcy Court, all in accordance with the applicable provisions of the Bankruptcy Code. During the pendency of the Chapter 11 Cases, the Debtors have engaged in the process of selling certain assets by court order and pursuant to certain sale procedures approved by the Bankruptcy Court, and the Debtors have engaged in the process of settling certain liabilities pursuant to certain settlement procedures approved by the Bankruptcy Court. The Debtors are in the process of reviewing claims submitted as of the July 22 "bar date" and continuing to evaluate executory contracts and unexpired leases. To date, the Debtors have rejected certain real property leases and other executory contracts that are not necessary for operation of the business going forward. The administrative and reorganization expenses resulting from the Chapter 11 Cases will unfavorably affect the Debtors' results of operations. Future results of operations may also be adversely affected by other factors related to the Chapter 11 Cases. The discussions below under the captions "2001 Restructuring and Impairment" and "2002 Restructuring and Impairment" describe the actions the Company is taking to align manufacturing capacity with market demand and reorganize the manner in which it makes or services products to meet customer demand. The financial reporting charges and cash costs of such actions have required the Company to enter into amendments of certain of the covenants under the DIP Financing Facility.

Basis of Presentation

The accompanying consolidated financial statements are presented in accordance with American Institute of Certified Public Accountants Statement of Position 90-7, "Financial Reporting by Entities in Reorganization under the Bankruptcy Code" (SOP 90-7), and have been prepared in accordance with accounting principles generally accepted in the United States applicable to a going concern, which principles, except as otherwise disclosed, assume that assets will be realized and liabilities will be discharged in the ordinary course of business. The Company is currently operating under the jurisdiction of Chapter 11 of the Bankruptcy Code and the Bankruptcy Court, and continuation of the Company as a going concern is contingent upon, among other things, its ability to formulate a plan of reorganization which will gain approval of the requisite parties under the Bankruptcy Code and be confirmed by the Bankruptcy Court, its ability to comply with the DIP Financing Facility, its ability to return to profitability, generate sufficient cash flows from operations and obtain financing sources to meet future obligations. These matters raise substantial doubt about the Company's ability to continue as a going concern. The accompanying consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that might result from the outcome of these uncertainties.

While under the protection of Chapter 11, the Company may sell or otherwise dispose of assets, and liquidate or settle liabilities, for amounts other than those reflected in the financial statements. As part of its strategic realignment of assets and business restructuring announced in January 2002, the Company terminated its domestic denim manufacturing operations and has closed its Stonewall, Mississippi and Mt. Holly, North Carolina plants. These actions, coupled with the associated indebtedness of the subsidiary in which such business operated, will qualify for treatment as a tax deduction. In a motion filed in August, 2002, the Company obtained permission from the U.S. Bankruptcy Court to take certain actions which allows it to claim a federal income tax deduction for the tax basis of the subsidiary's stock, resulting in a deduction for tax purposes only of approximately $300 million. Such actions included the transfer of $13.7 million of cash to a trust to restrict these funds for the sole benefit of creditors of this subsidiary. There can be no assurances that such tax deduction will be successfully utilized as described for a number of reasons, including limitations imposed upon such use following emergency by companies in Chapter 11 reorganization.

Additionally, the amounts reported on the consolidated balance sheet could materially change because of changes in business strategies and the effects of any proposed plan of reorganization. In the Chapter 11 Cases, substantially all unsecured liabilities as of the Petition Date are subject to compromise or other treatment under a plan of reorganization which must be confirmed by the Bankruptcy Court after submission to any required vote by affected parties. For financial reporting purposes, those liabilities and obligations whose treatment and satisfaction is dependent on the outcome of the Chapter 11 Cases, have been segregated and classified as liabilities subject to compromise in the accompanying consolidated balance sheet. Generally, all actions to enforce or otherwise effect repayment of pre-Chapter 11 liabilities as well as all pending litigation against the Debtors are stayed while the Debtors continue their business operations as debtors-in-possession. The ultimate amount of and settlement terms for such liabilities are subject to approval of a plan of reorganization and accordingly are not presently determinable. The principal categories of obligations classified as liabilities subject to compromise under the Chapter 11 Cases as of September 28, 2002 are identified below (in thousands):

7.25% notes due 2005	$150,000
7.25% notes due 2027	150,000
Total long-term debt	300,000
Interest accrued on above debt	5,293
Accounts payable	50,695
Sundry payables and accrued expenses	10,157
	$366,145

Pursuant to SOP 90-7, professional fees associated with the Chapter 11 Cases are expensed as incurred and reported as reorganization items. Interest expense is reported only to the extent that it will be paid during the Chapter 11 Cases or that it is probable that it will be an allowed claim. During the 2002 fiscal year, the Company recognized a charge of $21.0 million associated with the Chapter 11 Cases. Approximately $4.0 million of this charge related to the non-cash write-off of the unamortized discount on the 7.25% Notes, the non-cash write-off of deferred financing fees associated with the unsecured debt classified as subject to compromise and termination costs related to interest rate swaps in default as a result of the Chapter 11 Cases. In addition, the Company incurred $12.6 million for fees payable to professionals retained to assist with the filing of the Chapter 11 Cases, and $4.4 million has been recorded for service rendered through September 28, 2002 related to retention incentives.

Following is unaudited condensed combined financial information of the Debtors as of and for the fiscal year ended September 28, 2002 (in millions). The Debtor subsidiaries are

wholly-owned subsidiaries of Burlington Industries, Inc. Separate condensed financial information for each of the Debtor subsidiaries are not presented because such financial information would not provide relevant material additional information to users of the consolidated financial statements of Burlington Industries, Inc. Intercompany receivables and payables of entities in reorganization proceedings are not material.

Earnings data:	
Revenue	$ 985.9
Gross profit	129.2
Net loss	(120.9)
Balance sheet data:	
Current assets	$ 457.0
Noncurrent assets	464.3
Current liabilities	585.9
Noncurrent liabilities	396.3

7.26

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Stockholders of
Rouge Industries, Inc.

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of Rouge Industries, Inc. and its subsidiaries at December 31, 2002 and 2001, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2002 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the accompanying index presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedule are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, 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 our opinion.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the consolidated financial statements, the Company has suffered recurring losses from operations and negative cash flows that raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 2. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (In Part): Significant Accounting Policies

Description of the Company

Rouge Steel Company ("Rouge Steel") is the principal operating subsidiary of Rouge Industries, Inc. (together with its subsidiaries, "Rouge Industries" or the "Company"). Rouge Steel is engaged in the production and sale of flat rolled steel products primarily to domestic automotive manufacturers and their suppliers. Other than Rouge Steel, Rouge Industries' wholly-owned subsidiaries include QS Steel Inc. ("QS Steel") and Eveleth Taconite Company ("Eveleth"). QS Steel holds minority ownership interests in two Michigan-based joint ventures. Eveleth holds a 45% interest in Eveleth Mines LLC ("EVTAC"), a Minnesota-based iron ore mining and pellet producing operation. For the purpose of these Notes to Consolidated Financial Statements, "Rouge Industries" or the "Company" refers to Rouge Industries, Inc. and its subsidiaries, unless the context requires otherwise.

The steel industry is cyclical in nature and the domestic steel industry has been adversely affected in recent years by high levels of steel imports, worldwide production overcapacity, increased domestic and international competition, high labor and energy costs and inefficient plants. As a result of the most recent industry downturn and its effect on the Company, management has pursued several initiatives intended to increase liquidity and better position Rouge Industries to compete under current market conditions, including the restructuring of the Company's long-term debt (see Note 2).

Note 2: Liquidity Matters

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed below, the Company has suffered recurring losses from operations and negative cash flows that raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described below. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

During the mid-1990's, the Company was experiencing a relatively stable market environment. Then in 1998, an unprecedented amount of steel imports began flooding the U.S. causing domestic steel prices to decline dramatically. Next, in 2000, natural gas prices began to rise causing a considerable increase in the Company's cost of goods sold. In addition, in late 2001, a fire occurred at Double Eagle Steel Coating Company ("Double Eagle"), the Company's joint venture electrogalvanizing line, which caused that facility to lose production for nine months.

The Company continues to face difficult market conditions, although steel product prices in the spot market and demand for the Company's products improved during 2002. The low prices during the past three years, the cash strain caused by the Powerhouse explosion and the Double Eagle fire and contractual issues related to the startup and operation of the new power plant caused significant operating losses and put considerable pressure on the Company's liquidity. During the three years ended December 31, 2002, the

Company incurred net losses of $281,170,000. The Company responded to the liquidity deterioration by refinancing its revolving loan facility, procuring two subordinated credit facilities and selling or restructuring three joint ventures. During the year ended December 31, 2002, the Company's borrowings increased from $145,549,000 to $186,181,000.

The Company's liquidity is dependent on its operating performance (which is closely related to business conditions in the domestic steel industry), the implementation of operating and capital cost reduction programs, receipt of proceeds from the Double Eagle insurance claim, the impact of the tariffs imposed in response to the Bush Administration's Section 201 relief, and its sources of financing. The Company depends on borrowings to fund operations (see Note 5). In the event that market conditions deteriorate, causing operating losses to continue, and the Company is unable to secure additional financing sources to fund its operations, it may be required to seek bankruptcy protection or commence liquidation or other administrative proceedings.

LACK OF CONSISTENCY

7.27 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 *SAS No. 58,* as amended by *SAS No. 79.* Of the 514 references to lack of consistency, 102 relate to changes made in years prior to 2002. Examples of references to lack of consistency follow.

7.28

TABLE 7-4: LACK OF CONSISTENCY

	2002	2001	2000	1999
Goodwill not amortized (SFAS No. 142)	349	4	N/C*	N/C*
Derivatives (SFAS No. 133)	63	83	N/C*	N/C*
Impairment of long-lived assets (SFAS Nos. 121 and 144)	17	6	2	1
Revenue recognition	16	36	23	3
Business combinations	11	N/C*	N/C*	N/C*
Sales incentives	10	2	N/C*	N/C*
Inventories	9	4	11	6
Pension/postretirement benefits	5	8	7	3
Start up costs	2	9	19	15
Securitization transactions (SFAS No. 140 and EITF 99-20)	1	3	N/C*	N/C*
Internal use software costs	—	2	3	6
Other—described	31	10	12	18
Total References	**514**	**167**	**77**	**52**
Total Companies	**377**	**133**	**69**	**48**

* N/C = Not compiled. Line item was not included in the table for the year shown.

Goodwill Not Amortized

7.29

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders of
Park Place Entertainment Corporation

We have audited the accompanying consolidated balance sheets of Park Place Entertainment Corporation (a Delaware corporation) and Subsidiaries (the "Company") as of December 31, 2002 and 2001, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2002. Our audits also included the financial statement schedule included at Item 14(a)(1). These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 Park Place Entertainment Corporation and Subsidiaries as of December 31, 2002 and 2001, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2002, in conformity with accounting principles generally accepted in the United States of America. 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 described in Note 2 to the consolidated financial statements, the Company adopted Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets," as of January 1, 2002.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Goodwill

As of January 1, 2002, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets." As a result of adopting SFAS No. 142, goodwill is no longer amortized, and intangible assets are to be tested at least annually for impairment. Goodwill amortization of $50 million in 2001 and 2000 is included in depreciation and amortization. (See Note 3—Goodwill and Other Intangible Assets.)

Note 3. Goodwill and Other Intangible Assets—Adoption of Statement of Financial Accounting Standards No. 142

On January 1, 2002, the Company adopted the provisions of SFAS No. 142, "Goodwill and Other Intangible Assets." Under SFAS No. 142, goodwill and indefinite-lived intangible assets are no longer amortized but are reviewed at least annually for impairment. Separable intangible assets that are not deemed to have an indefinite life will continue to be amortized over their useful lives (but with no maximum life).

As of January 1, 2002, the Company had approximately $1.8 billion of unamortized goodwill. Approximately two-thirds of the total related to the acquisition of the Bally's properties in 1996, while the remainder related primarily to the Caesars acquisition in December 1999. In accordance with the initial adoption of SFAS No. 142, each property with assigned goodwill is to be valued as an operating entity. If the fair value of the operating entity is greater than the book value, including assigned goodwill, no further testing is required. However, if the book value, including goodwill, is greater than the fair value of the operating entity, the assets and liabilities of the operating entity will need to be valued. The difference between the fair value of the operating entity and the fair value of the assets is the implied fair value of goodwill. To the extent that the implied fair value of goodwill is less than the book value of goodwill, an impairment charge will be recognized as a cumulative effect of a change in accounting upon adoption.

The Company engaged an independent company to assist in the valuation of properties with a significant amount of assigned goodwill. The fair value of the operating entities was determined using a combination of a discounted cash flow model, a guideline company method using valuation multiples and similar transactions method. Based on this analysis and the tests noted above, the Company completed its implementation analysis of goodwill arising from prior acquisitions and recorded an impairment charge of $979 million which has been recorded as a cumulative effect of accounting change in the first quarter of 2002. During the fourth quarter of 2002, the Company completed the annual impairment testing of goodwill. The test resulted in no impairment recognition as of December 31, 2002.

As a result of the Belle of Orleans transaction (See Note 14), the Company recorded an additional $2 million of goodwill and $10 million in indefinite lived intangible assets. The indefinite lived intangible assets consist of the tradename and gaming license. There were no other additions or adjustments to goodwill during the year ended December 31, 2002.

For the years ended December 31, 2001 and 2000, the Company recorded goodwill amortization of $50 million in each period. If SFAS No. 142 had been in effect for the years ended December 31, 2001 and 2000, the Company would have reported the following (in millions, except per share amounts):

	2001	2000
Net income (loss) as reported	$ (24)	$ 143
Add back: Goodwill amortization	50	50
Adjusted net income	$ 26	$ 193
Net income (loss) per share as reported		
Basic	$(0.08)	$0.48
Diluted	$(0.08)	$0.46
Adjusted net income per share		
Basic	$ 0.09	$0.64
Diluted	$ 0.09	$0.63

7.30

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders
Sanmina-SCI Corporation

We have audited the accompanying consolidated balance sheet of Sanmina-SCI Corporation and subsidiaries as of September 28, 2002, and the related consolidated statements of operations, comprehensive income (loss), stockholders' equity and cash flows for the year then ended. In connection with our audit of the consolidated financial statements, we have also audited the related financial statement schedule listed in Item 15(a)2. These consolidated financial statements and related financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and related financial statement schedule based on our audit. The accompanying consolidated balance sheet of Sanmina-SCI Corporation and subsidiaries as of September 29, 2001 and the related consolidated statements of operations, comprehensive income (loss), stockholders' equity and cash flow for each of the years in the two-year period ended September 29, 2001 and related financial statement schedule were audited by other auditors who have ceased operations. Those auditors expressed an unqualified opinion on those consolidated financial statements and related financial statement schedule in their report dated October 22, 2001.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Sanmina-SCI Corporation and subsidiaries as of September 28, 2002, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion the related financial statement schedule for the year ended September 28, 2002, when considered in relation to the consolidated financial statements taken as a whole presents fairly, in all material respects, the information set forth therein.

As discussed in Note 2 to the consolidated financial statements, the Company adopted the provisions of Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets," on September 30, 2001.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Goodwill and Intangibles (In Part)

Costs in excess of the fair value of tangible and identifiable intangible assets acquired and liabilities assumed in a purchase business combination are recorded as goodwill. SFAS No. 142, "Goodwill and Other Intangible Assets," requires that companies no longer amortize goodwill, but instead test for impairment at least annually using a two-step approach. Sanmina-SCI adopted SFAS No. 142 in the first quarter of fiscal 2002 and no longer amortizes goodwill. Sanmina-SCI evaluates goodwill, at a minimum, on an annual basis and whenever events and changes in circumstances suggest that the carrying amount may not be recoverable. Impairment of goodwill is tested at the reporting unit level by comparing the reporting unit's carrying amount, including goodwill, to the fair value of the reporting unit. The fair values of the reporting units are estimated using a combination of the income, or discounted cash flows, approach and the market approach, which utilizes comparable companies' data. If the carrying amount of the reporting unit exceeds its fair value, goodwill is considered impaired and a second step is performed to measure the amount of impairment loss, if any. Sanmina-SCI completed the first step of the transitional goodwill impairment test in the quarter ended March 30, 2002 and determined that no potential impairment existed. During the fourth quarter of fiscal 2002, we recorded an impairment loss of $299.0 million for the domestic reporting unit and $2.4 billion for the international reporting unit, or a total of $2.7 billion in connection with the annual impairment test. The impairment loss resulted from the extended decline in the electronics industry and the communications sector in particular, which reduced the estimated fair values of the reporting units below the respective carrying values. There can be no assurance that future goodwill impairment tests will not result in further impairment charges.

Sanmina-SCI has determined that there are two reportable units: international and domestic. Goodwill information for each reportable unit is as follows:

(In thousands)	As of September 29, 2001	Goodwill Acquired	Reclassification of Intangible Assets to Goodwill	Impairment Losses	As of September 28, 2002
Units:					
Domestic	$121,203	$1,384,856	$6,146	$ (299,000)	$1,213,205
International	118,663	3,140,782	—	(2,371,000)	888,445
Total	$239,866	$4,525,638	$6,146	$(2,670,000)	$2,101,650

The pro forma effects of the adoption of SFAS No. 142 on net income and earnings per share, net of income tax effects, for Sanmina-SCI for the years ended September 29, 2001 and September 30, 2000 are as follows:

(In thousands, except per share amounts)	2001	2000
Net income as reported	$ 40,446	$210,094
Add back: Goodwill amortization expense	12,686	10,947
Adjusted net income	$ 53,132	$221,041
Basic earnings per share, as reported	$ 0.13	$ 0.69
Add back: Goodwill amortization expense	0.04	0.04
Pro forma	$ 0.17	$ 0.73
Diluted earnings per share, as reported	$ 0.12	$ 0.65
Add back: Goodwill amortization expense	0.04	0.03
Pro forma	$ 0.16	$ 0.68

Derivatives

7.31

INDEPENDENT AUDITORS' REPORT

The Board of Directors
Airgas, Inc.

We have audited the consolidated financial statements of Airgas, Inc. and subsidiaries (the Company) listed in the accompanying index. In connection with our audits of the consolidated financial statements, we also have audited the financial statement schedule listed in the accompanying index. These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 Airgas, Inc. and subsidiaries as of March 31, 2002 and 2001, and the results of their operations and their cash flows for each of the years in the three-year period ended March 31, 2002, in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in note 1 to the consolidated financial statements, the Company changed its method of accounting for goodwill and other intangible assets and derivative instruments and hedging activities for the year ended March 31, 2002.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

n) Accounting and Disclosure Changes

SFAS 133

On April 1, 2001, the Company adopted SFAS No. 133, which requires all derivatives to be recorded on the balance sheet at fair value. In accordance with the transition provisions of SFAS 133, on April 1, 2001, the Company recorded the cumulative effect of this accounting change as a liability and a deferred loss of $6.7 million in the accumulated other comprehensive income (loss) component of stockholders' equity to recognize, at fair value, interest rate swap agreements that are designated as cash flow hedging instruments. Additionally, the Company recorded an asset and adjusted the carrying value of the hedged portion of its fixed rate debt by $6 million to recognize, at fair value, interest rate swap agreements that are designated as fair value hedging instruments.

7.32

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of and Shareholders of
Standard Commercial Corporation

We have audited the accompanying consolidated balance sheets of Standard Commercial Corporation as of March 31, 2002 and 2001, and the related consolidated statements of income and comprehensive income (loss), shareholders' equity, and cash flows for each of the three years in the period ended March 31, 2002. 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 auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 at March 31, 2002 and 2001, and the results of its operations and its cash flows for each of the three years in the period ended March 31, 2002 in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 19, the accompanying fiscal 2001 consolidated financial statements have been restated.

As discussed in Note 2 to the consolidated financial statements, in fiscal 2002 the Company changed its method of accounting for discontinued operations to conform with Statement of Financial Accounting Standards No. 144. As discussed in Note 1 to the consolidated financial statements, in fiscal 2002 the Company adopted Statement of Financial Accounting Standards No. 133 for accounting and reporting derivative instruments.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Significant Accounting Policies (In Part)

l) Derivative Financial Instruments

On April 1, 2001 the Company adopted SFAS 133 "*Accounting for Derivative Instruments and Hedging Activities:* as amended by SFAS 137 and SFAS 138. SFAS 133 establishes new accounting and disclosure requirements for most derivative instruments and hedge transactions involving derivatives. SFAS 133 also requires formal documentation procedures for hedging relationships and effectiveness testing when hedge accounting is to be applied.

In accordance with the transition provisions of SFAS 133, in the year ended March 31, 2002 the Company recorded a cumulative effect loss adjustment of $2.1 million, net of applicable taxes, in other comprehensive income to recognize the fair value of all derivatives designated as cash flow hedging instruments. The Company's derivative usage is principally foreign currency forwards. These contracts typically have maturities of less than one year. As a matter of policy, the Company does not use derivative instruments unless there is an underlying exposure. The Company's foreign currency forwards have been designated and qualify as cash flow hedges under the criteria of SFAS 133. SFAS 133 requires that changes in fair values of derivatives that qualify as cash flow hedges be recognized in other comprehensive income, while the ineffective portion of change in derivatives in fair value be recognized immediately in earnings. At March 31, 2002 the Company had foreign exchange contracts outstanding with a notional value of $32.4 million and a fair value of $32.2 million.

Impairment of Long-Lived Assets

7.33

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors of Agway Inc.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, of comprehensive income, of shareholders' equity and of cash flows present fairly, in all material respects, the financial position of Agway Inc. and its subsidiaries at June 30, 2002 and 2001, and the results of their operations and their cash flows for each of the three years in the period ended June 30, 2002 in conformity with accounting principles generally accepted in the United States of America. 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 auditing standards generally accepted in the United States of America, 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 our opinion.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the financial statements, it is the Company's intention to file for protection under Chapter 11 of the United States Bankruptcy Code on October 1, 2002 as a result of recurring losses from operations and substantial constraints on its ability to obtain continued financing. 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 also described in Note 2. These financial statements do not include any adjustments that might result from the outcome of this uncertainty.

As further discussed in Note 1, the Company adopted the Statement of Financial Accounting Standard No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" in 2002 and the financial statements have been restated to reflect certain business operations as discontinued operations.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Impairment of Long-Lived Assets

SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," was early adopted by the Company on January 1, 2002, and supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of," while retaining many of the requirements of SFAS No. 121. In accordance with SFAS No. 144, long-lived assets to be held and used by an entity are to be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If the sum of the expected future undiscounted cash flows is less than the carrying amount of the asset, an impairment loss is recognized by reducing the recorded value to fair value. The pre-tax charge for impairment is included in other income, net, on the consolidated statements of operations and totaled $1,600, $2,300 and $0 in 2002, 2001 and 2000, respectively.

Disposal of Long-Lived Assets/Discontinued Operations

SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," was early adopted by the Company on January 1, 2002 and supersedes a portion of Accounting Principle Board (APB) No. 30, "Reporting the Results of Operations-Reporting the Effects of Disposal of a Segment of a Business," while retaining many of the requirements of this statement. Under SFAS No. 144, the definition of what

constitutes a discontinued operation is broader, discontinued operations are no longer measured on a net realizable value basis, and future operating losses are no longer recognized before they occur.

As of June 30, 2002, Agway has a number of operations being classified as discontinued operations for financial reporting purposes.

Impact of Recently Issued Accounting Standards (In Part)

SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," was issued in August 2001. SFAS No. 144 provides new guidance on the recognition of impairment losses on long-lived assets to be held and used or to be disposed of and also broadens the definition of what constitutes a discontinued operation and how the results of discontinued operations are to be measured and presented. SFAS No. 144 supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of," and a portion of Accounting Principle Board (APB) No. 30, "Reporting the Results of Operations-Reporting the Effects of Disposal of a Segment of a Business," while retaining many of the requirements of these two statements. Under SFAS No. 144, discontinued operations are no longer measured on a net realizable value basis, and future operating losses are no longer recognized before they occur. This statement broadens the presentation of discontinued operations in the income statement to include a component of an entity (rather than a segment of a business). A component of an entity comprises operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity.

The Company early adopted this new standard on January 1, 2002, and recognized no impact in its financial statements regarding the new guidance on the recognition of impairment losses on long-lived assets to be held and used. As further described in Note 3, the Company has announced the discontinuation of a number of its business operations and has adopted the guidance of SFAS No. 144 regarding the measurement, recognition, and disclosure of these discontinued operations.

7.34

INDEPENDENT AUDITORS' REPORT

The Board of Directors of Bowater Incorporated

We have audited the accompanying consolidated balance sheet of Bowater Incorporated and Subsidiaries as of December 31, 2002 and 2001, and the related consolidated statements of operations, capital accounts and cash flows for each of the years in the three-year period ended December 31, 2002. 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 auditing standards generally accepted in the United States of America. 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 Bowater Incorporated and Subsidiaries at December 31, 2002 and 2001, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2002, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the consolidated financial statements, effective January 1, 2002, the Company adopted the provisions of Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets," and SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets."

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Impairment of Long-Lived Assets and Long-Lived Assets to Be Disposed Of

On October 3, 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," that is applicable to Bowater's fiscal year ended December 31, 2002. This pronouncement supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," and provides a single accounting model for long-lived assets to be disposed of. We adopted the provisions of SFAS No. 144 effective January 1, 2002. In accordance with SFAS No. 144, long-lived assets and intangibles subject to amortization would be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of a long-lived asset or group of assets (herein defined as "long-lived asset") may not be recoverable.

Tests for recoverability of a long-lived asset to be held and used is measured by comparing the carrying amount of the long-lived asset to the sum of the estimated future undiscounted cash flows expected to be generated by the long-lived asset. In estimating the future undiscounted cash flows we use future projections of cash flows directly associated with and that were expected to arise as a direct result of the use and eventual disposition of the long-lived asset. These assumptions include, among other estimates, projections of future product pricing, first quality production levels, product costs, market supply and demand and projected capital spending. Changes in any of these estimates could have a material effect on the estimated future undiscounted cash flows expected to be generated by the long-lived asset. If it is determined that a long-lived asset is not recoverable, an impairment loss would be calculated based on the excess of the carrying amount of the long-lived asset over its fair value.

A long-lived asset classified as held for sale is initially measured and reported at the lower of its carrying amount or fair value less cost to sell. Long-lived assets to be disposed of other than by sale are classified as held and used until the long-lived asset is disposed.

Prior to January 1, 2002, we accounted for long-lived assets in accordance with the provisions of SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and Long-Lived Assets to Be Disposed Of."

Revenue Recognition

7.35

REPORT OF INDEPENDENT AUDITORS

To the Shareholders and Board of Directors
Becton, Dickinson and Company

We have audited the accompanying consolidated balance sheets of Becton, Dickinson and Company as of September 30, 2002 and 2001, and the related consolidated statements of income, comprehensive income, and cash flows for each of the three years in the period ended September 30, 2002. 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 auditing standards generally accepted in the United States. 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 Becton, Dickinson and Company at September 30, 2002 and 2001, and the consolidated results of its operations and its cash flows for each of the three years in the period ended September 30, 2002, in conformity with accounting principles generally accepted in the United States.

As discussed in Note 2 to the financial statements, in fiscal year 2001 the Company changed its method of accounting for revenue recognition in accordance with guidance provided in Securities and Exchange Commission Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements."

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Thousands of dollars, except per-share amounts and numbers of shares)

1 (In Part): Summary of Significant Accounting Policies

Revenue Recognition

Revenue is recognized on the sale of instruments in the Biosciences segment upon completion of installation at the customer's site. The Company also defers revenue recognition related to branded insulin syringe products sold to distributors in the U.S. consumer trade channel. Revenue is recognized for these sales upon the sell-through of such product from the distribution channel partner to the end customer. See Note 2 for additional discussion. Substantially all other revenue is recognized when products are shipped to customers.

2 (In Part): Accounting Changes

Revenue Recognition

Effective October 1, 2000, the Company changed its method of revenue recognition for certain products in accordance with Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements," ("SAB 101"). As a result, the Company recorded the following accounting changes.

The Company changed its accounting method for revenue recognition related to branded insulin syringe products that are sold to distributors in the U.S. consumer trade channel. These products were predominantly sold under incentive programs and these distributors have implied rights of return on unsold merchandise held by them. The Company previously recognized this revenue upon shipment to these distributors, net of appropriate allowances for sales returns. Effective October 1, 2000, the Company changed its method of accounting for revenue related to these product sales to recognize such revenues upon the sell-through of the respective product from the distribution channel partner to the end customer. The Company believes this change in accounting principle is the preferable method. The cumulative effect of this change in accounting method was a charge of $52,184 or $30,789, net of taxes.

The Company also changed its accounting method for recognizing revenue on certain instruments in the Biosciences segment. Prior to the adoption of SAB 101, the Company's accounting policy was to recognize revenue upon delivery of instruments to customers but prior to installation at the customer's site. The Company had routinely completed such installation services successfully in the past, but a substantive effort is required for the installation of these instruments and only the Company can perform the service. Therefore, effective October 1, 2000, the Company recognizes revenues for these instruments upon completion of installation at the customer's site. The cumulative effect of this change in accounting method was a charge of $9,772, or $5,961 net of taxes.

The total cumulative effect of these accounting changes on prior years resulted in an after-tax charge to income of $36,750 for the year ended September 30, 2001. Of the $80,700 of revenues included in the cumulative effect adjustment, $44,300 and $28,500 were included in the restated revenues for the first and second quarters of fiscal 2001, respectively, with the remainder substantially recognized by the end of the third quarter. The adoption of SAB 101 increased Biosciences revenues for 2001 by approximately $3,400 and decreased Medical Systems revenues for 2001 by about $3,100. Consequently, the adoption of SAB 101 had an immaterial effect on revenues for the year ended September 30, 2001.

As of September 30, 2002 and 2001, the deferred profit balances recorded as Accrued Expenses were $10,807 and $62,100, respectively.

If the accounting change were made retroactively, the unaudited pro forma consolidated net income, basic earnings per share, and diluted earnings per share for the year ended September 30, 2000, would have been $385,721, $1.52, and $1.46, respectively.

Business Combinations

7.36

REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Shareholders of
International Multifoods Corporation

We have audited the accompanying consolidated balance sheets of International Multifoods Corporation and subsidiaries as of March 2, 2002, and March 3, 2001, and the related consolidated statements of earnings, cash flows and shareholders' equity for each of the years in the three-year period ended March 2, 2002. 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 auditing standards generally accepted in the United States of America. 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 International Multifoods Corporation and subsidiaries as of March 2, 2002, and March 3, 2001, and the results of their operations and their cash flows for each of the years in the three-year period ended March 2, 2002, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the consolidated financial statements, effective March 4, 2001, the Company adopted the provisions of Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended by SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities," and effective July 1, 2001, the Company adopted the provisions of SFAS No. 141, "Business Combinations," and certain provisions of SFAS No. 142, "Goodwill and Other Intangible Assets," as required for goodwill and intangible assets resulting from business combinations consummated after June 30, 2001.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

New Accounting Pronouncements (In Part)

In June 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 141 (SFAS 141), "Business Combinations," and SFAS 142, "Goodwill and Other Intangible Assets." SFAS 141 requires that all business combinations initiated after June 30, 2001, be accounted for using the purchase method. Under SFAS 142, goodwill and other intangible assets that have indefinite lives will no longer be amortized, but rather will be tested for impairment at least annually in accordance with the provisions of the standard. We adopted SFAS 141 on July 1, 2001, and SFAS 142 on March 3, 2002. With respect to intangible assets acquired after June 30, 2001, we were required to adopt certain provisions of SFAS 142 in fiscal 2002 in connection with our acquisition in November 2001. The provisions adopted provide that goodwill and intangible assets determined to have an indefinite useful life are not amortized.

Sales Incentives

7.37

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Stockholders and Board of Directors of
Golden Enterprises, Inc.

We have audited the accompanying consolidated balance sheets of Golden Enterprises, Inc. and subsidiary as of May 31, 2002 and 2001, and the related consolidated statements of income, changes in stockholders' equity and cash flows for each of the three years in the period ended May 31, 2002. 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 auditing standards generally accepted in the United States of America. 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 consolidated financial position of Golden Enterprises, Inc. and subsidiary as of May 31, 2002 and 2001, and the consolidated results of their operations and their cash flows for each of the three years in the period ended May 31, 2002, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 3 to the financial statements, effective June 1, 2001 the Company changed its accounting policy with respect to slotting fees.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Recent Issued Accounting Standards (In Part)

In November 2001, the Emerging Issues Task Force reached a consensus on Issue No. 01–09 Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products) effective for annual or interim periods

beginning after December 15, 2001. This issue addresses the recognition, measurement and income statement classification for certain sales incentives. The Company implemented this new accounting policy in the fourth quarter of fiscal 2002. The effect of this accounting change is to adopt this policy as of the beginning of fiscal 2002 (June 1, 2001). Certain of these expenses, including slotting fees, previously classified as selling, general and administrative expenses, are now characterized as offsets to net sales. Reclassifications have been made to prior period financial statements to conform to current year presentation. Total vendor sales incentives now characterized as reductions of net sales that previously would have been classified as selling, general and administrative expenses were approximately $11.7 million, $12.9 million and $13.4 million for the years ended 2002, 2001 and 2000, respectively. There was no resulting impact on net income from adopting EITF 01–09.

Note 3: Change in Accounting Policy

The Company changed its accounting policy in the fourth quarter of fiscal 2002 with regard to slotting fees. The effect of this accounting change was to adopt this policy as of the beginning of fiscal 2002 (June 1, 2001). Previously, slotting fees were expensed as incurred. The Company changed this accounting policy to capitalize and amortize such costs over the expected benefit period, which is generally one year. This change in accounting policy was made to more closely match the cost of the shelf space obtained with the slotting fees with the revenues produced by the shelf space. The cumulative effect of this change in accounting policy resulted in a noncash cumulative adjustment of $413,401 ($0.03 per share), net of taxes. The accounting change also increased net income before the cumulative effect in 2002 by $197,141 ($0.02 per share). The effect on income in 2001 and 2000 has not been determined. Quarterly results for 2002 reflecting this change in accounting are included in Note 17, Quarterly Results of Operations. Pro forma earnings per share amounts for previous quarters, assuming the new policy was applied retroactively, are as follows:

	First	Second	Third
Basic earnings per share:			
Net income—as reported	$.09	$.05	$.09
Net income—pro forma	.09	.05	.09
Diluted earnings per share:			
Net income—as reported	$.09	$.05	$.09
Net income—pro forma	.09	.05	.09

Inventories

7.38

REPORT OF INDEPENDENT AUDITORS

Board of Directors and Shareholders
The J.M. Smucker Company

We have audited the accompanying consolidated balance sheets of The J.M. Smucker Company as of April 30, 2002 and 2001, and the related statements of consolidated income, shareholders' equity, and cash flows for each of the three years in the period ended April 30, 2002. 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 auditing standards generally accepted in the United States. 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 The J.M. Smucker Company at April 30, 2002 and 2001, and the consolidated results of its operations and its cash flows for each of the three years in the period ended April 30, 2002, in conformity with accounting principles generally accepted in the United States.

As explained in Note B to the consolidated financial statements, the Company has given retroactive effect to a change in the method of accounting for certain inventory from the last-in, first-out (LIFO) method to the first-in, first-out (FIFO) method.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note B: Change in Accounting Principle

During the fourth quarter of fiscal 2002, the Company changed its method of accounting for certain inventories from the last-in, first-out (LIFO) method to the first-in, first-out (FIFO) method. The effect of the change on fiscal 2002 net income and previously reported quarterly results in fiscal 2002 was not significant. The impact of the retroactive restatement on retained earnings as of May 1, 1999, was an increase of $7,219,000.

The effect of the change on previously reported net income and per share amounts is as follows:

(Dollars in thousands, except per share data)	2001	2000
Net income:		
Net income, as previously stated using the LIFO method	$30,667	$26,357
Effect of the change to the FIFO method	(3,461)	(84)
Net income, as restated	$27,206	$26,273
Earnings per common share:		
Net income per common share, as previously stated using the LIFO method	$ 1.21	$ 0.92
Effect of the change to the FIFO method	(0.14)	—
Net income per common share, as restated	$ 1.07	$ 0.92

The Company adopted LIFO in fiscal 1977, when it was experiencing significant inflation in the cost of fruit and other raw materials, in order to better match current costs with current revenues. However, during the last ten years, on a cumulative basis, the Company has experienced deflation in fruit costs,

primarily resulting from the global sourcing of fruit. The Company believes this trend will continue. The change to FIFO will conform all of the Company's inventory accounting to FIFO and will align the Company's inventory accounting with the majority of consumer product food companies. Further, the change to FIFO will result in an improvement to reporting interim results by eliminating the fluctuations resulting from the need to estimate the Company's fruit costs before the completion of the growing seasons and final pricing by vendors.

Stock-Based Compensation

7.39

REPORT OF INDEPENDENT AUDITORS

To the Shareholders and Board of Directors
Sunoco, Inc.

We have audited the accompanying consolidated balance sheets of Sunoco, Inc. and subsidiaries as of December 31, 2002 and 2001, and the related consolidated statements of operations, comprehensive income and shareholders' equity and cash flows for each of the three years in the period ended December 31, 2002. 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 auditing standards generally accepted in the United States. 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 Sunoco, Inc. and subsidiaries at December 31, 2002 and 2001 and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2002, in conformity with accounting principles generally accepted in the United States.

As discussed in Note 1 to the consolidated financial statements, the Company changed its methods of accounting for goodwill and other indefinite-lived intangible assets and employee stock compensation plans in 2002 and its method of accounting for derivative instruments in 2001.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Stock-Based Compensation

During the fourth quarter of 2002, Sunoco adopted the fair value method of accounting for employee stock compensation plans as prescribed by Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS No. 123") and amended by Statement of Financial Accounting Standards No. 148, "Accounting for Stock-Based Compensation—Transition and Disclosure" ("SFAS No. 148"). The Company recognized $6 million of expense ($4 million after tax) in 2002 for all unvested stock options attributable to the vesting that occurred in 2002 retroactive to January 1, 2002 using the "modified prospective method" transition rules of SFAS No. 148. Prior to January 1, 2002, the Company followed the intrinsic value method of accounting for employee stock compensation plans prescribed by Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB No. 25"). Under APB No. 25, the Company did not recognize compensation expense for stock options because the exercise price of the options equaled the market price of the underlying stock on the date of grant (Note 16).

16 (In Part): Management Incentive Plans

During the fourth quarter of 2002, Sunoco adopted the fair value method of accounting for employee stock compensation plans (Note 1). Stock-based compensation expense for 2002 determined utilizing this method amounted to $11 million ($7 million after tax), which consisted of $6 million related to stock option awards and $5 million related to common stock unit awards. Had the fair value method been followed during 2001 and 2000, the pro forma impact on Sunoco's net income and net income per share of common stock on a diluted basis would have been as follows:

(Millions of dollars, except per share amounts)	2001	2000
Net income, as reported:	$ 398	$ 422
Add back after-tax stock-based compensation expense included in reported net income	4	1
Less after-tax stock-based compensation expense determined under SFAS No. 123	(7)	(4)
Net income, pro forma	$ 395	$ 419
Net income per share:		
As reported	$4.85	$4.82
Pro forma	$4.82	$4.79

The 2002 historical amounts and the 2001 and 2000 pro forma amounts above have been computed in accordance with the fair value method and reflect the estimated fair values of $7.08, $10.38 and $6.95 per option granted during 2002, 2001 and 2000, respectively. These values are calculated using the Black-Scholes option pricing model based on the following weighted-average assumptions:

	2002	2001	2000
Expected life (years)	6	6	6
Risk-free interest rate	3.7%	4.8%	5.4%
Dividend yield	3.3%	2.7%	3.6%
Expected volatility	29.3%	29.3%	28.1%

Investments

7.40

REPORT OF INDEPENDENT AUDITORS

To the Board of Directors and Shareowners of
Sparton Corporation

We have audited the accompanying consolidated balance sheets of Sparton Corporation and subsidiaries as of June 30, 2002 and 2001, and the related consolidated statements of operations, shareowners' equity, and cash flows for each of the three years in the period ended June 30, 2002. Our audits also included the financial statement schedule listed in the index at Item 14(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. 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 Sparton Corporation and subsidiaries at June 30, 2002 and 2001, and the consolidated results of their operations and their cash flows for each of the three years in the period ended June 30, 2002, in conformity with accounting principles generally accepted in the United States. 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.

As discussed in Note 3 to the consolidated financial statements, in the year ended June 30, 2002, the Company changed its method of accounting for its investment in Cybernet Systems Corporation.

NOTES TO FINANCIAL STATEMENTS

3 (In Part): Investment Securities

In June 1999, the Company purchased a 14% interest, 12% on a fully diluted basis, in Cybernet Systems Corporation (Cybernet) for $3,000,000. Cybernet is a privately owned developer of hardware, software, next-generation network computing, and robotics products. It is located in Ann Arbor, Michigan. At June 30, 2002, Sparton changed its method of accounting for its investment in Cybernet. The investment is accounted for under the equity method and is included in other assets on the balance sheets at June 30, 2002 and 2001. The Company believes that the equity method is more appropriate given Sparton's increasing involvement in Cybernet. The use of the cost method in the past was appropriate, but reflective of the more passive involvement at that time. The use of the equity method requires Sparton to record its share of Cybernet's income or loss in earnings ("Equity income (loss) in investment") in Sparton's income statement with a corresponding increase or decrease in the investment account ("Other assets") in Sparton's balance sheets. In addition, Sparton's share of unrealized gains (losses) on available-for-sale securities held by Cybernet, is carried in accumulated other comprehensive income (loss) within the shareowners' equity section of Sparton's balance sheets. The unrealized gains (losses) on available-for-sale securities reflect Cybernet's investment in Immersion Corporation, a publicly traded company. The financial statements were retroactively adjusted to reflect Sparton's share of Cybernet's losses and accumulated other comprehensive income (loss) for all years presented, as required by Accounting Principles Board Opinion No. 18 "The Equity Method of Accounting for Investments In Common Stock."

EMPHASIS OF A MATTER

7.41 Paragraph 19 of *SAS 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.

7.42 The auditors' reports for 10 survey companies included explanatory information emphasizing a matter regarding the financial statements. Examples of such explanatory information follow.

7.43

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Stockholders of
Allen Telecom Inc.

We have audited the accompanying consolidated balance sheets of Allen Telecom Inc. and its subsidiaries (the "Company") as of December 31, 2001 and 2002, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period

ended December 31, 2002. Our audits also included the financial statement schedule listed in the Index at Item (15). These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 Allen Telecom Inc. and its subsidiaries at December 31, 2001 and 2002, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2002, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such 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.

As discussed in Note 1 to the consolidated financial statements, in 2002, the Company changed its method of accounting for goodwill and other intangible assets to conform to Statement of Financial Accounting Standards No. 142.

As discussed in Note 14 to the consolidated financial statements, effective February 18, 2003, the Company signed a definitive agreement under which Andrew Corporation would acquire the Company in a stock-for-stock transaction.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 14: Subsequent Event

On February 18, 2003, Andrew Corporation (Andrew) and the Company announced the signing of a definitive agreement under which Andrew will acquire the Company in a stock-for-stock transaction. Under the terms of the agreement, which has been unanimously approved by the Board of Directors of both companies, the Company's shareholders will receive 1.775 shares of newly-issued Andrew stock for each share of the Company that they own. Completion of the transaction, which is expected to occur in the first half of 2003, is subject to approval of shareholders of both companies, expiration of the applicable waiting period under the Hart-Scott-Rodino Act and other customary closing conditions.

7.44

INDEPENDENT AUDITORS' REPORT

Board of Directors and Stockholders
Commercial Metals Company

We have audited the consolidated balance sheets of Commercial Metals Company and subsidiaries at August 31, 2002 and 2001, and the related consolidated statements of earnings, stockholders' equity, and cash flows for each of the three years in the period ended August 31, 2002. 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 auditing standards generally accepted in the United States of America. 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 Commercial Metals Company and subsidiaries at August 31, 2002 and 2001, and the results of their operations and their cash flows for each of the three years in the period ended August 31, 2002 in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 14, the accompanying 2001 and 2000 financial statements have been restated.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 14. Restatement of Prior Periods

In August 2002, the Company uncovered a theft and accounting fraud which had occurred over four years at a rebar fabrication facility in South Carolina. The total adjustment required to restate the accounting records to their proper balances was $2.7 million pre-tax. In a second, unrelated incident, the Company discovered accounting errors related to losses on rebar fabrication and placement jobs at one facility in California, some of which dated from the acquisition of the facility in May 2000. The resulting charge was $1.9 million pre-tax. The South Carolina incident resulted in a $900 thousand pre-tax expense fiscal 2002. The remaining $3.7 million pre-tax for both instances was attributed $885 thousand in 2001, $2.6 million in 2000 and $227 thousand in 1999. All reported periods have been restated. The effects of the restatement were as follows:

	2001		2000	
($ in thousands, except per share)	As Previously Reported	As Restated	As Previously Reported	As Restated
At August 31:				
Cash	$ 33,289	$ 32,921	$ 20,067	$ 20,057
Accounts receivable	204,032	202,095	354,045	352,203
Inventories	236,679	223,859	277,455	270,368
Total assets	1,084,800	1,081,671	1,172,862	1,170,092
Accounts payable	201,292	201,114	194,538	194,205
Other payables and accrued expenses	133,464	133,895	142,680	142,732
Income taxes payable	1,105	—	678	—
Retained earnings	424,688	422,309	407,128	405,317
Total stockholders' equity	435,473	433,094	420,616	418,805
For the year ended August 31:				
Selling, general and administrative expenses	$ 211,539	$ 212,424	$ 208,808	$ 211,403
Earnings before income taxes	39,300	38,415	73,255	70,660
Net earnings	24,340	23,772	46,255	44,590
Basic EPS	0.93	0.91	1.65	1.59
Diluted EPS	0.92	0.90	1.62	1.56

In addition to the above, beginning retained earnings as of September 1, 1999 was reduced by $146 thousand.

DEPARTURES FROM UNQUALIFIED OPINIONS

7.45 *SAS 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 20–63 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

7.46 Paragraphs 65–74 of *SAS 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 that differed from the opinion originally expressed.

7.47 Auditing Interpretation No. 15 of SAS No. 1, section 508, *Reporting as Successor Auditor When Prior-Period Audited Financial Statements Were Audited by a Predecessor Auditor Who Has Ceased Operations,* discusses how the successor auditor's report is affected if prior-period financial statements audited by a predecessor auditor who has ceased operations are presented for comparative purposes with current-period audited financial statements. The interpretation provides guidance on how the successor auditor should refer to the predecessor auditor's report and any subsequent restatement of the prior-period financial statements. Additionally, the interpretation provides guidance on how to report on any procedures applied by the successor auditor to determine the appropriateness of restatement adjustments made to the prior-period financial statements.

7.48 In 2002, 114 auditor 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

7.49

REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Stockholders of
Oxford Industries, Inc.

We have audited the accompanying consolidated balance sheet of Oxford Industries, Inc. and Subsidiaries as of May 31, 2002, and the related consolidated statement of earnings, stockholders' equity, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Oxford Industries, Inc. and Subsidiaries as of and for the year ended June 1, 2001 and for the year ended June 2, 2000 were audited by other auditors, whose report dated July 13, 2001, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States. 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 consolidated financial position of Oxford Industries, Inc. and Subsidiaries at May 31, 2002, and the consolidated results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States.

As discussed in Note A, the Company changed its method of calculating LIFO inventories in the year ended May 31, 2002.

7.50

REPORT OF INDEPENDENT AUDITORS

To the Shareholders of Smithfield Foods, Inc.

We have audited the accompanying consolidated balance sheet of Smithfield Foods, Inc. (a Virginia corporation) and subsidiaries as of April 28, 2002, and the related consolidated statements of income, shareholders' equity, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. The consolidated balance sheet of Smithfield Foods, Inc. and subsidiaries as of April 29, 2001, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the two years in the period ended April 29, 2001, were audited by other auditors whose report dated June 5, 2001, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States. 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 2002 financial statements referred to above present fairly, in all material respects, the financial position of Smithfield Foods, Inc. and subsidiaries as of April 28, 2002, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States.

As discussed in Note 1 to the Consolidated Financial Statements, effective April 30, 2001, the Company adopted Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended, and Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets."

Predecessor Auditors' Report Reissued

7.51

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders
Skyworks Solutions, Inc.

We have audited the accompanying consolidated balance sheet of Skyworks Solutions, Inc. and subsidiaries as of September 30, 2002 and the related consolidated statement of operations, stockholders' equity and cash flows for the year then ended. We have also audited the financial statement schedule for the year ended September 30, 2002. These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audit.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Skyworks Solutions, Inc. and subsidiaries at September 30, 2002, and the results of their operations and their cash flows for the year ended September 30, 2002 in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the related financial statement schedule for the year ended September 30, 2002, 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.

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders
Skyworks Solutions, Inc.

We have audited the accompanying consolidated balance sheet of Skyworks Solutions, Inc. and subsidiaries (formerly the combined balance sheet of the Washington Business and the Mexicali Operations of Conexant Systems, Inc.) as of September 30, 2001, and the related consolidated statements of operations, stockholders' equity (formerly Conexant's net investment and comprehensive income), and cash flows for the years ended September 30, 2000 and 2001. Our audits also included the financial statement schedule listed in the Index at Item 15 for the years ended September 30, 2000 and 2001. These financial statements and the financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and the financial statements schedule based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 addressing the accounting principles used and significant estimates made by the 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 Skyworks Solutions, Inc. and subsidiaries (formerly the Washington Business and the Mexicali Operations of Conexant Systems, Inc.) at September 30, 2001, and the results of their operations and their cash flows for the years ended September 30, 2000 and 2001, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such 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.

Predecessor Auditors' Report Not Reissued

7.52

INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Board of Directors of
Halliburton Company

We have audited the accompanying consolidated balance sheet of Halliburton Company and subsidiaries as of December 31, 2002, and the related consolidated statements of operations, shareholders' 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 2001 and 2000 consolidated financial statements of Halliburton Company and subsidiaries were audited by other auditors who have ceased operations. Those auditors expressed an unqualified opinion on those consolidated financial statements, before the restatement described in Note 4 to the consolidated financial statements and before the revision described in Note 22 to the consolidated financial statements, in their report dated January 23, 2002 (except with respect to matters discussed in Note 9 to those financial statements, as to which the date was February 21, 2002).

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 2002 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Halliburton Company and subsidiaries as of December 31, 2002, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed above, the 2001 and 2000 consolidated financial statements of Halliburton Company and subsidiaries were audited by other auditors who have ceased operations. As described in Note 4, the Company changed the composition of its reportable segments in 2002, and the amounts in the 2001 and 2000 consolidated financial statements relating to reportable segments have been restated to conform to the 2002 composition of reportable segments. We audited the adjustments that were applied to restate the disclosures for reportable segments reflected in the 2001 and 2000 consolidated financial statements. In our opinion, such adjustments are appropriate and have been properly applied. Also, as described in Note 22, these consolidated financial statements have been revised to include the transitional disclosures required by Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets, which was adopted by the Company as of January 1, 2002. In our opinion, the disclosures for 2001 and 2000 in Note 22 are appropriate. However, we were not engaged to audit, review, or apply any procedures to the 2001 and 2000 consolidated financial statements of Halliburton Company and subsidiaries other than with respect to such adjustments and revisions and, accordingly, we do not express an opinion or any other form of assurance on the 2001 and 2000 consolidated financial statements taken as a whole.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

This report is a copy of a previously issued report, the predecessor auditor has not reissued this report, the previously issued report refers to financial statements not physically included in this document, and the prior-period financial statements have been revised or restated.

To the Shareholders and Board of Directors of
Halliburton Company

We have audited the accompanying consolidated balance sheets of Halliburton Company (a Delaware corporation) and subsidiary companies as of December 31, 2001 and 2000, and the related consolidated statements of income, cash flows, and shareholders' equity for each of the three years in the period ended December 31, 2001. 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 auditing standards generally accepted in the United States of America. 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 Halliburton Company and subsidiary companies as of December 31, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States of America.

OPINION EXPRESSED ON SUPPLEMENTARY FINANCIAL INFORMATION

7.53 Many survey companies provide to stockholders a copy of the Securities and Exchange Commission Form 10-K in lieu of the annual report. The auditor's report included in the Form 10-K generally expresses an opinion on supplementary financial information to the basic financial statements, such as valuation account schedules.

7.54

REPORT OF INDEPENDENT AUDITORS

Board of Directors and Stockholders
American Biltrite Inc.

We have audited the accompanying consolidated balance sheets of American Biltrite Inc. and subsidiaries (the Company) as of December 31, 2002 and 2001, and the related consolidated statements of operation, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2002. Our audits also include the financial statement schedule listed in the Index at Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. 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 Biltrite Inc. and subsidiaries at December 31, 2002 and 2001, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2002, in conformity

with accounting principles generally accepted in the United States. 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.

As discussed in Note 1 to the consolidated financial statements, effective January 1, 2002, the Company adopted Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets."

7.55

INDEPENDENT AUDITORS' REPORT

To General Dynamics Corporation

We have audited the accompanying Consolidated Balance Sheets of General Dynamics Corporation (a Delaware corporation) and subsidiaries as of December 31, 2002 and 2001, and the related Consolidated Statements of Earnings, Shareholders' Equity and Cash Flows for each of the years in the three year period ended December 31, 2002. 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 auditing standards generally accepted in the United States of America. 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 Dynamics Corporation and subsidiaries as of December 31, 2002 and 2001, and the results of their operations and their cash flows for each of the years in the three year period ended December 31, 2002, in conformity with accounting principles generally accepted in the United States of America.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The condensed consolidated financial statements provided in Note U are presented for purposes of complying with the Securities and Exchange Commission's rules and are not part of the basic financial statements. These condensed consolidating financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

As discussed in Note H to the financial statements, General Dynamics Corporation changed its method of accounting for goodwill and other intangible assets to adopt the provisions of the Financial Accounting Standards Board's Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets.*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars in millions)

U. Condensed Consolidating Financial Statements

The floating rate notes described in Note J are fully and unconditionally guaranteed on an unsecured, joint and several basis by certain 100-percent owned subsidiaries of General Dynamics Corporation (the Guarantors). The following condensed consolidating financial statements illustrate the composition of the parent, the Guarantors on a combined basis (each Guarantor together with its majority-owned subsidiaries) and all other subsidiaries on a combined basis as of December 31, 2002 and 2001, for the balance sheet, as well as the statements of earnings and cash flows for each of the three years in the period ended December 31, 2002.

Condensed Consolidating Statement of Earnings

Year Ended December 31, 2002	Parent	Guarantors on a Combined Basis	Other Subsidiaries on a Combined Basis	Consolidating Adjustments	Total Consolidated
Net sales	$ —	$12,187	$1,642	$ —	$13,829
Cost of sales	(31)	10,039	1,336	—	11,344
General and administrative expenses	—	798	105	—	903
Operating earnings	31	1,350	201	—	1,582
Interest expense	(37)	(5)	(16)	—	(58)
Interest income	2	2	9	—	13
Other income, net	(4)	37	14	—	47
Earnings from continuing operations before income taxes	(8)	1,384	208	—	1,584
Provision for income taxes	7	467	59	—	533
Discontinued operations, net of tax	—	(134)	—	—	(134)
Equity in net earnings of subsidiaries	932	—	—	(932)	—
Net earnings	$917	$ 783	$ 149	$(932)	$ 917

Year Ended December 31, 2001	Parent	Guarantors on a Combined Basis	Other Subsidiaries on a Combined Basis	Consolidating Adjustments	Total Consolidated
Net sales	$ —	$11,454	$600	$ —	$12,054
Cost of sales	(24)	9,285	499	—	9,760
General and administrative expenses	—	767	41	—	808
Operating earnings	24	1,402	60	—	1,486
Interest expense	(52)	(4)	(12)	—	(68)
Interest income	4	4	4	—	12
Other expense, net	(34)	(32)	61	—	(5)
Earnings from continuing operations before income taxes	(58)	1,370	113	—	1,425
Provision for income taxes	(40)	499	23	—	482
Discontinued operations, net of tax	—	—	—	—	—
Equity in net earnings of subsidiaries	961	—	—	(961)	—
Net earnings	$943	$ 871	$ 90	$(961)	$ 943

Year Ended December 31, 2000	Parent	Guarantors on a Combined Basis	Other Subsidiaries on a Combined Basis	Consolidating Adjustments	Total Consolidated
Net sales	$ —	$10,026	$279	$ —	$10,305
Cost of sales	(14)	8,123	229	—	8,338
General and administrative expenses	—	625	17	—	642
Operating earnings	14	1,278	33	—	1,325
Interest expense	(60)	(1)	(11)	—	(72)
Interest income	5	5	2	—	12
Other expense, net	(7)	(29)	29	—	(7)
Earnings from continuing operations before income taxes	(48)	1,253	53	—	1,258
Provision for income taxes	(90)	450	(1)	—	359
Discontinued operations, net of tax	—	2	—	—	2
Equity in net earnings of subsidiaries	859	—	—	(859)	—
Net earnings	$901	$ 805	$ 54	$(859)	$ 901

DATING OF REPORT

7.56 SAS No. 1, Section 530, *Dating of the Independent Auditor's Report,* as amended by SAS No. 7, *Communications Between Predecessor and Successor Auditors,* SAS No. 29, *Reporting on Information Accompanying the Basic Financial Statements in Auditor-Submitted Documents,* and SAS No. 98, *Omnibus Statement on Auditing Standards—2002,* discusses dating of the independent auditors' reports. Paragraphs 1 and 5 of *section 530* state:

> 1. Generally, the date of completion of the field work 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 field work is disclosed in the financial statements.
>
> 5. The independent auditor has two methods available for dating the report when a subsequent event disclosed in the financial statements occurs after completion of the field work but before issuance of the related financial statements. The auditor may use "dual dating," for example, "February 16, 20XX, except for Note X, as to which the date is March 1, 20XX," or may date the report as of the later date. In the former instance, the responsibility for events occurring subsequent to the completion of field work 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 the report and, accordingly, the procedures outlined in Section 560.12 generally should be extended to that date.

7.57 Auditors' reports for 63 survey companies used dual dating. Examples of dual dating follow.

7.58

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders of
3Com Corporation

We have audited the accompanying consolidated balance sheets of 3Com Corporation and subsidiaries (3Com) as of May 31, 2002 and June 1, 2001, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended May 31, 2002. Our audits also included the financial statement schedule listed in the Index at Item 8. These financial statements and financial statement schedule are the responsibility of 3Com'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 auditing standards generally accepted in the United States of America. 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 referred to above present fairly, in all material respects, the financial position of 3Com Corporation and subsidiaries at May 31, 2002 and June 1, 2001, and the results of their operations and their cash flows for each of the three years in the period ended May 31, 2002 in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule referred to above, 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.

June 24, 2002
(July 16, 2002 as to Note 21).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 21. Subsequent Event

In July 2002, 3Com sold its 639,000 square foot manufacturing and office facility in Mount Prospect that was classified as held for sale as of May 31, 2002. The estimated net realizable value of this property as of May 31, 2002 was $17.4 million. Net proceeds from the sale were $17.8 million, resulting in a $0.4 million credit that will be recorded against restructuring charges in the first quarter of fiscal 2003. Additionally, as a portion of 3Com's term loan was collateralized by the Mount Prospect facility, 3Com repaid approximately $7.5 million of the term loan balance with the proceeds from this sale as was required under the terms of the agreement.

7.59

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Shareholders of
Curtiss-Wright Corporation

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of earnings, stockholders' equity and of cash flows present fairly, in all material respects, the financial position of Curtiss-Wright Corporation and its subsidiaries at December 31, 2002 and 2001, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2002, in conformity with accounting principles generally accepted in the United States of America. 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 auditing standards generally accepted in the United States of America, 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 our opinion.

As discussed in Notes 1-K and 9 to the Consolidated Financial Statements, effective January 1, 2002, Curtiss-Wright Corporation changed its method of accounting for goodwill and other intangibles.

March 12, 2003, except for Note 21
as to which the date is
March 19, 2003.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

21. Subsequent Events

Acquisitions

On February 28, 2003, the Corporation acquired the assets of Collins Technologies from G.L. Collins Corporation. The purchase price of the acquisition, subject to adjustment as provided for in the Asset Purchase Agreement, was $12.0 million in cash and the assumption of certain liabilities. Management funded the purchase price from credit available under the Corporation's Short-Term Credit Agreement. Revenues of the purchased business totaled approximately $8.3 million for the year ending March 31, 2002. Management intends to incorporate the operations of G.L. Collins Corporation into the Corporation's Motion Control Segment.

On March 11, 2003, the Corporation acquired selected assets of Advanced Material Process Corp. ("AMP"), a private company with operations located in Wayne, Michigan. The purchase price of the acquisition, subject to adjustment as provided for in the Asset Purchase Agreement, was $5.7 million in cash and the assumption of certain liabilities. Management funded the purchase price from credit available under the Corporation's Short-Term Credit Agreement. Annual sales of the purchased business are approximately $5.0 million. Management intends to incorporate the operations of AMP into the Corporation's Metal Treatment Segment.

On March 19, 2003, the Corporation entered into an agreement to acquire selected assets of E/M Engineered Coatings Solutions ("E/M Coatings"). The purchase price of the acquisition, subject to adjustment as provided in the Asset Purchase Agreement, was $16.7 million in cash and the assumption of certain liabilities. Management's intention is to fund the purchase price from credit available under the Corporation's Short-Term Credit Agreement. Revenues of the purchased business totaled approximately $26.0 million for the year ending December 31, 2002. Management intends to incorporate the operations of E/M Coatings into the Corporation's Metal Treatment Segment.

7.60

REPORT OF INDEPENDENT AUDITORS

To the Board of Directors and Stockholders of
Lennar Coporation

We have audited the accompanying consolidated balance sheets of Lennar Corporation and subsidiaries (the "Company") as of November 30, 2002 and 2001, and the related consolidated statements of earnings, stockholders' equity and cash flows for each of the three years in the period ended November 30, 2002. 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 auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 the Company as of November 30, 2002 and 2001, and the results of its operations and its cash flows for each of the three years in the period ended November 30, 2002, in conformity with accounting principles generally accepted in the United States of America.

January 7, 2003, except for Note 18,
as to which the date is
February 5, 2003.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

18. Subsequent Event

On February 5, 2003, the Company issued $350 million of 5.95% senior notes due 2013 at a price of 98.287%. The senior notes are guaranteed on a joint and several basis by substantially all of the Company's subsidiaries, other than subsidiaries engaged in mortgage and reinsurance activities. Proceeds from the offering, after underwriting discount and expenses, were approximately $342 million. The Company added the proceeds to its general working capital so that the proceeds are available for use in the Company's operations, for acquisitions and to purchase or repay outstanding indebtedness.

7.61

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders
Motorola, Inc.

We have audited the accompanying consolidated balance sheets of Motorola, Inc. and Subsidiaries as of December 31, 2002 and 2001, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 2002. 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 auditing standards generally accepted in the United States of America. 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 Motorola, Inc. and Subsidiaries as of December 31, 2002 and 2001, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2002, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Notes 1 and 8 to the consolidated financial statements, the Company adopted the provisions of Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" on January 1, 2002.

January 21, 2003, except as to the
fifth paragraph of Note 9,
which is as of March 4, 2003.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars in millions)

9 (In Part): Commitments and Contingencies

Iridium Program (In Part)

On November 20, 2000, the United States Bankruptcy Court for the Southern District of New York issued an Order that approved the bid of Iridium Satellite LLC ("New Iridium") for the assets of Iridium LLC and its operating subsidiaries (collectively "Old Iridium"). The Bankruptcy Order provided, among other things, that all obligations of Motorola and its subsidiaries and affiliates under all executory contracts and leases with Old Iridium relating to the Iridium system would, upon completion of the asset sale, be deemed terminated and, to the extent executory, be deemed rejected. Claims against Motorola by Old Iridium and others with respect to certain credit agreements and related matters were not discharged. New Iridium completed the acquisition of the operating assets of Old Iridium, including the satellite constellation, terrestrial network, and real and intellectual property of Old Iridium, on December 12, 2000. At the same time, Motorola entered into a contract with New Iridium to provide transition services pending the transfer of operations and maintenance in full to the Boeing Company.

The Chase Manhattan Bank, as agent for the lenders under Old Iridium's $800 million Senior Secured Credit Agreement, filed four lawsuits against Motorola. On March 4, 2003, the Company reached a settlement agreement with Chase, pursuant to which all four of the cases, including Motorola's counterclaim, were dismissed with prejudice. Under the settlement agreement, Motorola released to Chase its claim to $371 million that was previously paid into an escrow account in April 2002 and made an additional payment of approximately $12 million.

7.62

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
Tenet Healthcare Corporation

We have audited the accompanying consolidated balance sheets of Tenet Healthcare Corporation and subsidiaries as of May 31, 2001 and 2002, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for each of the years in the three-year period ended May 31, 2002. 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 auditing standards generally accepted in the United States of America. 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 Tenet Healthcare Corporation and subsidiaries as of May 31, 2001 and 2002, and the results of their operations and their cash flows for each of the years in the three-year period ended May 31, 2002, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 16 to the consolidated financial statements, effective June 1, 1999, the Company changed its method of accounting for start-up costs.

July 10, 2002, except as to the
first and last paragraphs of Note 5,
which are as of July 24, 2002.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 5 (In Part): Repurchases of Common Stock

During the year ended May 31, 2002, the Company's Board of Directors authorized the repurchase of up to 30 million shares of its common stock to offset the dilutive effect of employee stock option exercises. On July 24, 2002, the Board of Directors authorized the repurchase of up to an additional 20 million shares of the Company's common stock not only to offset the dilutive effect of anticipated employee stock option exercises but also to enable the Company to take advantage of opportunistic market conditions. During the year ended May 31, 2002, the Company purchased 18,180,750 shares for approximately $715 million at an average at cost of $39.35 per share, as shown in the following table:

Repurchases of Common Stock

Quarter Ended	Number of Shares	Cost	Average Cost
August 31, 2001	2,618,250	$ 94,512,283	$36.10
November 30, 2001	2,437,500	$ 93,322,287	$38.29
February 28, 2002	7,500,000	$292,122,301	$38.95
May 31, 2002	5,625,000	$235,461,974	$41.86
Total	18,180,750	$715,418,845	$39.35

All purchased shares are held as treasury stock. All of the repurchases were funded by proceeds from employee stock option exercises and cash flow from operations. The Company has not purchased, nor does it intend to purchase, any shares from its officers or employees.

Subsequent to May 31, 2002, the Company purchased 901,700 shares of common stock for approximately $40 million at an average cost of $44.48 and entered into additional forward purchase agreements, on the same terms as those discussed above, for the purchase of $75 million of common stock (1.6 million shares at an average cost of $46.29 per share).

MANAGEMENT AND SPECIAL PURPOSE COMMITTEE REPORTS

7.63 There were 305 survey companies that presented a Report of Management. These reports may include a description of a special purpose committee of the company's Board of Directors, such as the Audit Committee. Occasionally, survey companies presented a report of a special purpose committee, such as the Audit Committee or the Compensation Committee. Examples of such reports follow.

Reports of Management

7.64

BROWN SHOE COMPANY, INC. (JAN)

MANAGEMENT REPORT ON RESPONSIBILITY FOR FINANCIAL REPORTING

The management of Brown Shoe Company, Inc. has the responsibility for preparing the accompanying financial statements and for their integrity and objectivity. The statements were prepared in accordance with generally accepted accounting principles, and are not misstated due to material fraud or error. The financial statements include amounts that are based on management's best estimates and judgments. Management also prepared the other information in the annual report and is responsible for its accuracy and consistency with the financial statements.

The Company's financial statements have been audited by Ernst & Young LLP, independent auditors. Management has made available to Ernst & Young LLP all the Company's financial records and related data, as well as the minutes of shareholders' and directors' meetings. Furthermore, management believes that all representations made to Ernst & Young LLP during its audit were valid and appropriate.

The Audit Committee of Brown Shoe Company, Inc. Board of Directors is comprised of four independent directors. The Committee meets regularly with the Company's internal auditors, Ernst & Young LLP, and management. The purpose of these meetings is to review, among other things, the scope and results of the annual audit, the internal audit activities and the system of internal accounting control. To ensure complete independence, Ernst & Young LLP and the internal audit staff have direct access to the Audit Committee without the presence of management to discuss the results of their examinations.

Management of the Company has established and maintains a system of internal controls that provides reasonable assurance as to the integrity and reliability of the financial statements, the protection of assets from unauthorized use or disposition, and the prevention and detection of fraudulent financial reporting. The system of internal controls provides for 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. The Company maintains an internal auditing program that independently assesses the effectiveness of the internal controls and recommends possible improvements thereto. Management believes that the Company's system of internal controls is adequate to accomplish the objectives discussed herein.

Management also recognizes its responsibility for fostering a strong ethical climate so that the Company's affairs are conducted according to the highest standards of personal and corporate conduct. This responsibility is characterized and reflected in the Company's code of conduct, which is published throughout the Company. The code of conduct addresses, among other things, the necessity of ensuring open communication within the Company; potential conflicts of interest; compliance with all domestic and foreign laws, including those relating to financial disclosure; and the confidentiality of proprietary information. The Company maintains a program to systematically assess compliance with

these policies. The results of this compliance program are discussed with the Audit Committee.

Chief Executive Officer

Chief Financial Officer

7.65

IMC GLOBAL INC. (DEC)

REPORT OF MANAGEMENT

The management of IMC Global 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 accounting principles generally accepted in the United States 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 that financial records are reliable, that transactions are authorized and that assets are safeguarded. This system includes an appropriate division of responsibility, information system controls and policies and procedures that are communicated to affected employees. 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 monitored by an internal auditing program, comprised of internal and external business advisors who independently assess the effectiveness of the internal controls, report findings to management and follow up on the implementation of management action plans to address any identified control gaps. The Company's independent public accountants, Ernst & Young LLP (Ernst & Young), are engaged to audit and express an opinion on the Company's financial statements. Their audit was conducted in accordance with auditing standards generally accepted in the United States and included consideration of the Company's internal control system. Management has made available to Ernst & Young all of the Company's financial records and related data, as well as minutes of the meetings of the Board of Directors. Management believes that all representations made to Ernst & Young were valid and appropriate.

The Audit Committee of the Board of Directors, which is comprised entirely of independent directors, is responsible for monitoring the Company's financial reporting process. The Audit Committee meets regularly with management, the Director, Internal Audit & Compliance and Ernst & Young, jointly and separately, to review financial reporting matters, internal accounting controls and audit results to assure that all parties are properly fulfilling their responsibilities. Both Ernst & Young and the Director, Internal Audit & Compliance have unrestricted access to the Audit Committee.

Chairman and Chief Executive Officer

Executive Vice President and Chief Financial Officer

Audit Committee Reports

7.66

HARLEY-DAVIDSON, INC. (DEC)

REPORT OF THE AUDIT COMMITTEE

The Audit Committee of the Board of Directors reviews the Company's financial reporting process, the system of internal control, the audit process and the process for monitoring compliance with the laws and regulations. All of the Audit Committee members are independent as defined in the New York Stock Exchange's listing standards.

The Audit Committee of the Board has reviewed and discussed with management the audited financial statements of the Company for the 2002 fiscal year and has discussed with representatives of Ernst & Young, LLP, the Company's independent auditors for the 2002 fiscal year, the matters required to be discussed by Statement of Auditing Standards No. 61, as currently in effect. The Audit Committee has received the written disclosures and the letter from the independent auditors required by Independence Standards Board Standard No. 1, as currently in effect, and has discussed with representatives of Ernst & Young LLP the independence of Ernst & Young LLP. Based on the review and discussions referred to above, the Audit Committee has recommended to the Board of Directors that the audited financial statements for the 2002 fiscal year be included in the Company's Annual Report.

Audit and Committee of the Board of Directors

7.67

HERSHEY FOODS CORPORATION (DEC)

AUDIT COMMITTEE REPORT

The role of the Audit Committee of the Board of Directors is to assist the Board in its oversight of the Corporation's financial reporting process. The Board has determined that all members of the Audit Committee are "independent," as required by applicable listing standards of the New York Stock Exchange. The Audit Committee operates pursuant to a Charter that was last amended and restated by the Board on February 7, 2001. As set forth in the Charter, management of the Corporation is responsible for the preparation, presentation and integrity of the Corporation's financial statements, the Corporation's accounting and financial reporting principles, and internal controls designed to assure compliance with accounting standards and applicable laws and regulations. The independent auditors are responsible for auditing the Corporation's financial statements and expressing an opinion as to their conformity with accounting principles generally accepted in the United States.

In the performance of its oversight function, the Audit Committee has considered and discussed the audited financial statements with management and the independent auditors. The Audit Committee has also discussed with the independent auditors the matters required to be discussed by Statement on Auditing Standards No. 61, *Communication with Audit Committees,* as currently in effect. Finally, the Audit Committee has received the written disclosures and the letter from the independent auditors required by Independence Standards Board Standard No. 1, *Independence Discussions with Audit Committees,* as currently in effect, has discussed with the independent auditors the auditors' independence from the Corporation and its management, and has considered whether the provision of non-audit services to the Corporation by the independent auditors is compatible with maintaining the auditors' independence.

The members of the Audit Committee are not professionally engaged in the practice of auditing or accounting, are not employed by the Corporation for accounting, financial management or internal control purposes, and are not experts in the fields of accounting or auditing, including with respect to auditor independence. Members of the Audit Committee rely, without independent verification, on the information provided to them and on the representations made by management and the independent auditors. Accordingly, the Audit Committee's oversight does not provide an independent basis to determine that management has maintained appropriate accounting and financial reporting principles and policies or internal controls and procedures designed to assure compliance with accounting standards and applicable laws and regulations. Furthermore, the Audit Committee's considerations and discussions referred to above do not assure that the audit of the Corporation's financial statements has been carried out in accordance with auditing standards generally accepted in the United States, that the financial statements are presented in accordance with accounting principles generally accepted in the United States or that the Corporation's auditors are in fact "independent."

Based upon the reports and discussions described in this report, and subject to the limitations on the role and responsibilities of the Audit Committee referred to above and in the Charter, the Audit Committee recommended to the Board that the audited financial statements be included in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2002 to be filed with the Securities and Exchange Commission.

Submitted by the Audit Committee
of the Corporation's
Board of Directors

Compensation Committee Reports

7.68

MERCK & CO., INC. AND SUBSIDIARIES (DEC)

COMPENSATION AND BENEFITS COMMITTEE'S REPORT

The Compensation and Benefits Committee, comprised of independent directors, approves compensation objectives and policies for all employees and sets compensation for the Company's executive officers. The Committee seeks to ensure that rewards are closely linked to Company, division, team and individual performances. The Committee also seeks to ensure that compensation and benefits are set at levels that enable Merck to attract and retain high-quality employees. The Committee views stock ownership as a vehicle to align the interests of employees with those of the Company's stockholders. Consistent with the long-term focus inherent in the Company's R&D-based pharmaceutical business, it is the policy of the Committee to make a high proportion of executive officer compensation dependent on long-term performance and on enhancing stockholder value.

Chairperson

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-seventh (2003) edition. 24 companies in the 2003 edition have been eliminated and their numbers left unused. These companies were replaced by companies not previously included in any prior editions. Companies are listed in alphabetical order. An additional listing in company reference number order follows.

ALPHABETICAL LISTING

Company Name	*Company Reference Number*	*Month of Fiscal Year End**
3Com Corporation	951	5
3M Company	379	12
Abbott Laboratories	10	12
ABM Industries Incorporated	30	10
Acterna Corporation	1071	3
ADC Telecommunications, Inc.	921	10
Administaff, Inc.	988	12
Adolph Coors Company	147	12
Advanced Micro Devices, Inc.	652	12
ADVO, Inc.	861	9
Aetna Inc.	989	12
AGCO Corporation	862	12
Agway Inc.	952	6
Air Products and Chemicals, Inc.	16	9
Airgas, Inc.	1030	3
AK Steel Holding Corporation	56	12
Alberto-Culver Company	601	9
Albertson's, Inc.	17	1
Alcoa Inc.	24	12
Allegheny Technologies Incorporated	776	12
Allen Telecom Inc.	602	12
Allergan, Inc.	796	12
Alliant Techsystems Inc.	777	3
Allied Waste Industries, Inc.	922	12
Alltel Corporation	1031	12
Altria Group, Inc.	437	12
Amazon.com, Inc.	953	12
Amcast Industrial Corporation	25	8
Amerada Hess Corporation	26	12
American Biltrite Inc.	28	12
American Greetings Corporation	33	2
American Standard Companies Inc.	41	12
Ameron International Corporation	44	11
AMETEK, Inc.	6	12
Amgen Inc.	841	12
Amkor Technology, Inc.	954	12
Ampco-Pittsburgh Corporation	46	12
Amphenol Corporation	842	12
Anacomp, Inc.	696	9
Anadarko Petroleum Corporation	990	12
Analog Devices, Inc.	924	10
Analogic Corporation	48	7
Anheuser-Busch Companies, Inc.	51	12
A. O. Smith Corporation	494	12
AOL Time Warner Inc.	923	12
Apple Computer, Inc.	52	9
Applied Industrial Technologies, Inc.	955	6
Applied Materials, Inc.	863	10
Archer Daniels Midland Company	53	6
Arden Group, Inc.	54	12
Arkansas Best Corporation	1072	12
Armstrong Holdings, Inc.	1033	12
Arrow Electronics, Inc.	844	12
ArvinMeritor, Inc.	1073	9
Ashland Inc.	60	9
AT&T Corp.	43	12
Atmel Corporation	864	12
Ault Incorporated	738	5
Automatic Data Processing, Inc.	865	6
AutoZone, Inc.	991	8
Avaya Inc.	1034	9
Avery Dennison Corporation	604	12
Avnet, Inc.	65	6
Avon Products, Inc.	66	12
Badger Meter, Inc.	68	12
Baker Hughes Incorporated	70	12
Baldor Electric Company	778	12
Ball Corporation	71	12
Banta Corporation	806	12
Barnes & Noble, Inc.	992	1
Barnes Group Inc.	605	12
Bassett Furniture Industries, Incorporated	606	11
Bausch & Lomb Incorporated	74	12
Baxter International Inc.	75	12
B/E Aerospace, Inc.	866	2
Beckman Coulter, Inc.	846	12
Becton, Dickinson and Company	78	9
BellSouth Corporation	958	12
Bemis Company, Inc.	81	12
Best Buy Co., Inc.	993	2

*Months are numbered in calendar-year sequence, January through December (e.g., January = 1 and February = 2).

Company Name	Company Reference Number	Month of Fiscal Year End*
Bethlehem Steel Corporation	83	12
BJ Services Company	896	9
The Black & Decker Corporation	85	12
Blount International, Inc.	699	12
BMC Industries, Inc.	67	12
The Boeing Company	87	12
Boise Cascade Corporation	88	12
Boston Scientific Corporation	867	12
Bowater Incorporated	607	12
Bowne & Co., Inc.	91	12
Briggs & Stratton Corporation	93	6
Brinker International, Inc.	1074	6
Bristol-Myers Squibb Company	94	12
Broadwing Inc.	1035	12
Brown Shoe Company, Inc.	97	1
Brown-Forman Corporation	657	4
Brunswick Corporation	99	12
Burlington Coat Factory Warehouse Corporation	959	5
Burlington Industries, Inc.	818	9
Burlington Resources Inc.	700	12
Cablevision Systems Corporation	994	12
Cabot Corporation	108	9
Campbell Soup Company	110	7
Caremark Rx, Inc.	995	12
Carlisle Companies Incorporated	897	12
Carpenter Technology Corporation	610	6
Caterpillar Inc.	113	12
CDW Computer Centers, Inc.	996	12
Cendant Corporation	1036	12
Centex Corporation	836	3
CenturyTel, Inc.	1037	12
Ceridian Corporation	145	12
Champion Enterprises, Inc.	740	12
Charter Communications, Inc.	1038	12
Chesapeake Corporation	659	12
ChevronTexaco Corporation	121	12
Chiquita Brands International, Inc.	557	12
Ciena Corporation	1039	10
Cigna Corporation	997	12
Cintas Corporation	1040	5
Circuit City Stores, Inc.	868	2
Cisco Systems, Inc.	869	7
Citizens Communications Company	1041	12
CLARCOR Inc.	658	11
Clear Channel Communications, Inc.	998	12
Cleveland-Cliffs Inc	130	12
The Clorox Company	131	6
CNF Inc.	1075	12
Coca-Cola Bottling Co. Consolidated	1076	12
The Coca-Cola Company	133	12
Coca-Cola Enterprises Inc.	660	12
Coherent, Inc.	742	9
Colgate-Palmolive Company	135	12
Collins Industries, Inc.	137	10
Comcast Corporation	999	12
Comdisco Holding Company, Inc.	1000	9
Commercial Metals Company	140	8
Computer Associates International, Inc.	925	3
Computer Sciences Corporation	848	3
ConAgra Foods, Inc.	142	5
Concord EFS, Inc.	1042	12
ConocoPhillips	438	12
Cooper Cameron Corporation	900	12
Cooper Industries, LTD	146	12
Cooper Tire & Rubber Company	849	12
Corning Incorporated	149	12
Costco Wholesale Corporation	961	8
Courier Corporation	150	9
Cox Communications, Inc.	1001	12
Crane Co.	152	12
C. R. Bard, Inc.	845	12
Crompton Corporation	1077	12
Crown Holdings, Inc.	154	12
CSP Inc.	107	9
CTS Corporation	701	12
Curtiss-Wright Corporation	158	12
CVS Corporation	372	12
Dana Corporation	161	12
Danaher Corporation	664	12
Darden Restaurants, Inc.	1043	5
Datascope Corp.	927	6
Dean Foods Company	166	5
Deere & Company	167	10
Del Monte Foods Company	962	6
Dell Computer Corporation	963	1
Delphi Corporation	1003	12
Deluxe Corporation	168	12
The Dial Corporation	257	12
Dillard's, Inc.	850	1
DIMON Incorporated	782	6
The Dixie Group, Inc.	665	12
Dole Food Company, Inc.	112	12
Donaldson Company, Inc.	744	7
Dover Corporation	176	12
The Dow Chemical Company	177	12
Dow Jones & Company	178	12
The Dun & Bradstreet Corporation	182	12
Earthlink, Inc.	1078	12
The Eastern Company	190	12
Eastman Chemical Company	871	12
Eastman Kodak Company	191	12
Eaton Corporation	192	12
Ecolab Inc.	617	12
E. I. du Pont de Nemours and Company	184	12
Electronic Arts Inc.	1079	3
El Paso Corporation	1004	12
Elkcorp	194	6
Electronic Data Systems Corporation	964	12
Eli Lilly and Company	339	12
EMC Corporation	1005	12
EMCOR Group, Inc.	901	12
Emerson Electric Co.	195	9
Enesco Group, Inc.	510	12
Engelhard Corporation	198	12
Equifax Inc.	902	12
The Estee Lauder Companies Inc.	872	6
Ethyl Corporation	199	12

*Months are numbered in calendar-year sequence, January through December (e.g., January = 1 and February = 2).

Company Name	Company Reference Number	Month of Fiscal Year End*
Exide Technologies	873	3
Exxon Mobil Corporation	202	12
The Fairchild Corporation	656	6
Farmland Industries, Inc.	1007	8
Fedders Corporation	206	8
Federal Screw Works	747	6
Federal-Mogul Corporation	208	12
Federated Department Stores, Inc.	209	1
Ferro Corporation	800	12
First Data Corporation	851	12
Fiserv, Inc.	1044	12
Fleetwood Enterprises, Inc.	212	4
Flowers Foods, Inc.	1080	12
Flowserve Corporation	903	12
Fluor Corporation	216	12
FMC Corporation	203	12
Foot Locker, Inc.	596	1
Ford Motor Company	219	12
Fortune Brands, Inc.	29	12
Foster Wheeler Ltd.	221	12
Freeport-McMoRan Copper & Gold Inc.	965	12
Furniture Brands International, Inc.	296	12
Gannett Co., Inc.	228	12
The Gap, Inc.	1008	1
Gateway, Inc.	874	12
GenCorp Inc.	230	11
General Dynamics Corporation	232	12
General Electric Company	233	12
General Mills, Inc.	237	5
General Motors Corporation	238	12
Genuine Parts Company	242	12
Georgia Gulf Corporation	748	12
Georgia-Pacific Corporation	243	12
Giant Industries, Inc.	1081	12
The Gillette Company	246	12
GlobalSantaFe Corporation	929	12
Golden Enterprises, Inc.	247	5
Goodrich Corporation	1045	12
The Goodyear Tire & Rubber Company	249	12
The Great Atlantic & Pacific Tea Company, Inc.	254	2
Greif Bros. Corporation	256	10
Grey Global Group Inc.	1082	12
Griffon Corporation	1083	9
Guidant Corporation	904	12
Guilford Mills, Inc.	259	9
Halliburton Company	264	12
Harley-Davidson, Inc.	673	12
Harrah's Entertainment, Inc.	829	12
Harris Corporation	269	6
Harsco Corporation	270	12
Hartmarx Corporation	271	11
Hasbro, Inc.	623	12
H.B. Fuller Company	621	11
HCA Inc.	899	12
Health Net, Inc.	1010	12
Hecla Mining Company	273	12
Hercules Incorporated	276	12
Herman Miller, Inc.	377	5

Company Name	Company Reference Number	Month of Fiscal Year End*
Hershey Foods Corporation	277	12
Hewlett-Packard Company	278	10
Hillenbrand Industries, Inc.	624	9
Hilton Hotels Corporation	1011	12
H.J. Heinz Company	275	4
The Home Depot, Inc.	905	1
HON INDUSTRIES Inc.	263	12
Honeywell International Inc.	20	12
Hormel Foods Corporation	282	10
Hubbell Incorporated	930	12
Hughes Supply, Inc.	283	1
Humana Inc.	285	12
Hurco Companies, Inc.	287	10
IDT Corporation	1046	7
IKON Office Solutions, Inc.	18	9
Illinois Tool Works Inc.	625	12
IMC Global Inc.	752	12
Ingersoll-Rand Company Limited	292	12
Ingram Micro Inc.	906	12
Intel Corporation	295	12
Interface, Inc.	753	12
Intergraph Corporation	801	12
International Business Machines Corporation	298	12
International Flavors & Fragrances Inc.	627	12
International Multifoods Corporation	301	2
International Paper Company	302	12
The Interpublic Group of Companies, Inc.	837	12
Interstate Bakeries Corporation	303	5
Iomega Corporation	931	12
ITT Industries, Inc.	291	12
Jabil Circuit, Inc.	1012	8
Jacobs Engineering Group Inc.	754	9
J. C. Penney Company, Inc.	428	1
JDS Uniphase Corporation	1047	6
JLG Industries, Inc.	305	7
The J. M. Smucker Company	917	4
Johnson & Johnson	308	12
Johnson Controls, Inc.	309	9
Jones Apparel Group, Inc.	878	12
Jostens, Inc.	312	12
Joy Global Inc.	268	10
Juno Lighting, Inc.	712	11
Kaman Corporation	629	12
KB Home	967	11
Kellogg Company	317	12
Kellwood Company	838	1
Kelly Services, Inc.	318	12
Kerr-McGee Corporation	320	12
Kimball International, Inc.	853	6
Kimberly-Clark Corporation	324	12
KLA-Tencor Corporation	932	6
Kmart Corporation	314	1
Knape & Vogt Manufacturing Company	326	6
Knight-Ridder, Inc.	327	12
Kohl's Corporation	933	1
The Kroger Co.	329	1
La-Z-Boy Incorporated	879	4
LaBarge, Inc.	332	6

*Months are numbered in calendar-year sequence, January through December (e.g., January = 1 and February = 2).

Company Name	*Company Reference Number*	*Month of Fiscal Year End**
Lafarge North America Inc.	678	12
Lam Research Corporation	880	6
The Lamson & Sessions Co.	713	12
Lance, Inc.	854	12
L. B. Foster Company	669	12
LEAR Corporation	1013	12
Lee Enterprises, Incorporated	336	9
Leggett & Platt, Incorporated	337	12
Lennar Corporation	1014	11
Lexmark International, Inc.	908	12
Liz Claiborne, Inc.	611	12
Lockheed Martin Corporation	341	12
Louisiana-Pacific Corporation	824	12
Lowe's Companies, Inc.	344	1
The L.S. Starrett Company	512	6
LSI Logic Corporation	907	12
The Lubrizol Corporation	345	12
Lucent Technologies Inc.	968	9
Lufkin Industries, Inc.	714	12
Lynch Corporation	348	12
Lyondell Chemical Company	757	12
MagneTek, Inc.	758	6
Mandalay Resort Group	898	1
The Manitowoc Company, Inc.	1084	12
Manpower Inc.	855	12
Marriott International, Inc.	1015	12
Marsh Supermarkets, Inc.	1048	3
Masco Corporation	360	12
Mattel, Inc.	361	12
Maxim Integrated Products, Inc.	1049	6
Maxtor Corporation	1085	12
MAXXAM Inc.	760	12
The May Department Stores Company	362	1
Maytag Corporation	363	12
McCormick & Company, Incorporated	364	11
McDermott International, Inc.	365	12
McDonald's Corporation	366	12
The McGraw-Hill Companies, Inc.	368	12
McKesson Corporation	369	3
Media General, Inc.	631	12
Medtronic, Inc.	371	4
Merck & Co., Inc.	373	12
Meredith Corporation	374	6
Merisel, Inc.	1016	12
Merrimac Industries, Inc.	882	12
Met-Pro Corporation	375	1
Metro-Goldwyn-Mayer Inc.	934	12
Mettler-Toledo International Inc.	1086	12
Micron Technology, Inc.	787	8
Microsoft Corporation	825	6
Milacron Inc.	127	12
Mohawk Industries, Inc.	857	12
Molex Incorporated	716	6
Monsanto Company	383	12
Motorola, Inc.	387	12
MPS Group, Inc.	1050	12
Murphy Oil Corporation	390	12
NACCO Industries, Inc.	403	12
Nash Finch Company	1017	12
Nashua Corporation	761	12
National Presto Industries, Inc.	397	12
National Semiconductor Corporation	398	5
National Service Industries, Inc.	399	8
Navistar International Corporation	299	10
NCR Corporation	392	12
The New York Times Company	400	12
Newell Rubbermaid Inc.	680	12
Newmont Mining Corporation	936	12
Nextel Communications, Inc.	1051	12
NIKE, Inc.	401	5
Noble Energy, Inc.	910	12
Nordstrom, Inc.	911	1
Northrop Grumman Corporation	405	12
Novell, Inc.	839	10
Novellus Systems, Inc.	1052	12
Nucor Corporation	633	12
Occidental Petroleum Corporation	408	12
Office Depot, Inc.	970	12
OfficeMax, Inc.	971	1
Olin Corporation	411	12
Omnicom Group Inc.	682	12
Oracle Corporation	972	5
Owens-Illinois, Inc.	416	12
Oxford Industries, Inc.	417	5
PACCAR Inc	419	12
Pall Corporation	421	7
Park Place Entertainment Corporation	1018	12
Parker Hannifin Corporation	424	6
Paychex, Inc.	1053	5
Peerless Mfg. Co.	790	6
The Penn Traffic Company	427	1
Pentair, Inc.	684	12
PeopleSoft, Inc.	973	12
The Pepsi Bottling Group, Inc.	1019	12
PepsiAmericas, Inc.	288	12
PepsiCo, Inc.	432	12
PerkinElmer, Inc.	187	12
Perot Systems Corporation	1054	12
Pfizer Inc	435	12
Phelps Dodge Corporation	436	12
Phillips-Van Heusen Corporation	634	1
Photo Control Corporation	686	12
Pilgrim's Pride Corporation	913	9
Pillowtex Corporation	938	12
Pitney Bowes Inc.	441	12
Plains Resources Inc.	1020	12
Polaris Industries Inc.	883	12
Polo Ralph Lauren Corporation	974	3
PolyOne Corporation	966	12
Potlatch Corporation	446	12
PPG Industries, Inc.	418	12
Prab, Inc.	447	10
Praxair, Inc.	828	12
Precision Castparts Corp.	975	3
PRIMEDIA Inc.	912	12
The Procter & Gamble Company	451	6
Pulte Homes, Inc.	1021	12
QUALCOMM Incorporated	914	9

*Months are numbered in calendar-year sequence, January through December (e.g., January = 1 and February = 2).

Company Name	Company Reference Number	Month of Fiscal Year End*
Quanex Corporation	455	10
Quantum Corporation	884	3
Quintiles Transnational Corp.	1055	12
RadioShack Corporation	528	12
Raytheon Company	461	12
The Reader's Digest Association, Inc.	792	6
Reebok International Ltd.	885	12
Regal Entertainment Group	1087	12
Republic Services, Inc.	976	12
The Reynolds and Reynolds Company	939	9
Rite Aid Corporation	886	2
R.J. Reynolds Tobacco Holdings, Inc.	1023	12
Robbins & Myers, Inc.	764	8
Robert Half International Inc.	977	12
Rock-Tenn Company	915	9
Rockwell Automation, Inc.	469	9
Rockwell Collins, Inc	1056	9
Rohm and Haas Company	470	12
Rouge Industries, Inc.	916	12
The Rowe Companies	471	11
RPM, Inc.	1057	5
R.R. Donnelley & Sons Company	175	12
Ruddick Corporation	811	9
Russell Corporation	832	12
Ryder System, Inc.	1088	12
Ryerson Tull, Inc.	293	12
Safeway Inc.	478	12
Sanmina-SCI Corporation	1024	9
Sara Lee Corporation	479	6
Saucony, Inc.	675	12
SBC Communications Inc.	979	12
Schering-Plough Corporation	481	12
Schlumberger Limited	482	12
Science Applications International Corporation	980	1
Scientific Industries, Inc.	765	6
Scientific-Atlanta, Inc.	1058	6
Scope Industries	484	6
The Scotts Company	833	9
Seaboard Corporation	858	12
Sears, Roebuck and Co.	486	12
Sensient Technologies Corporation	814	12
Sequa Corporation	519	12
Service Corporation International	487	12
The ServiceMaster Company	940	12
The Sherwin-Williams Company	490	12
Silicon Graphics, Inc.	981	6
Skyworks Solutions, Inc.	23	3
Smith International, Inc.	941	12
Smithfield Foods, Inc.	690	4
Smurfit-Stone Container Corporation	628	12
Snap-on Incorporated	496	12
Solectron Corporation	888	8
Sonoco Products Company	691	12
Span-America Medical Systems, Inc.	834	9
Sparton Corporation	498	6
Spectrum Control, Inc.	499	11
Speizman Industries, Inc.	721	6
Spherion Corporation	1059	12
Sprint Corporation	1025	12
SPS Technologies, Inc.	477	12
SPX Corporation	642	12
Standard Commercial Corporation	812	3
Standard Motor Products, Inc.	507	12
The Standard Register Company	509	12
Standex International Corporation	767	6
The Stanley Works	511	12
Staples, Inc.	983	1
Starbucks Corporation	984	9
Starwood Hotels & Resorts Worldwide, Inc.	1060	12
Steel Technologies Inc.	723	9
Steelcase Inc.	942	2
Stewart & Stevenson Services, Inc.	768	1
Storage Technology Corporation	804	12
Stryker Corporation	1061	12
Sun Microsystems, Inc.	769	6
Sunoco, Inc.	520	12
SUPERVALU INC.	522	2
Swift Transportation Co., Inc.	1089	12
Sybase, Inc.	889	12
SYSCO Corporation	887	6
Target Corporation	165	1
Tasty Baking Company	529	12
Tech Data Corporation	1026	1
Tecumseh Products Company	530	12
Tektronix, Inc.	794	5
Tellabs, Inc.	944	12
Temple-Inland Inc.	532	12
Temtex Industries, Inc.	533	8
Tenet Healthcare Corporation	1027	5
Tenneco Automotive Inc.	534	12
Teradyne, Inc.	890	12
Terra Industries Inc.	676	12
Tesoro Petroleum Corporation	535	12
Texas Industries, Inc.	725	5
Texas Instruments Incorporated	537	12
Textron Inc.	538	12
Thermo Electron Corporation	813	12
Thomas & Betts Corporation	771	12
Thor Industries, Inc.	1090	7
The Timken Company	542	12
The TJX Companies, Inc.	770	1
The Toro Company	726	10
Tower Automotive, Inc.	945	12
Toys"R"Us, Inc.	772	1
TransTechnology Corporation	727	3
Tribune Company	547	12
TRICON Global Restaurants, Inc.	943	12
Trinity Industries, Inc.	646	3
Trump Hotels & Casino Resorts, Inc.	1062	12
Tupperware Corporation	891	12
Twin Disc, Incorporated	728	6
Tyler Technologies, Inc.	549	12
Tyson Foods, Inc.	550	9
Unifi, Inc.	553	6
Unisys Corporation	102	12
United Rentals, Inc.	1063	12

*Months are numbered in calendar-year sequence, January through December (e.g., January = 1 and February = 2).

Company Name	Company Reference Number	Month of Fiscal Year End*
United States Steel Corporation	561	12
United Stationers Inc.	1028	12
United Technologies Corporation	564	12
UnitedHealth Group Incorporated	859	12
Universal Corporation	566	6
Universal Forest Products, Inc.	949	12
Universal Health Services, Inc.	1064	12
Unocal Corporation	568	12
UNOVA, Inc.	947	12
U.S. Industries, Inc.	948	9
USA INTERACTIVE	985	12
USG Corporation	552	12
UST Inc.	563	12
Valero Energy Corporation	647	12
Varco International Inc.	1091	12
Varian Medical Systems, Inc.	571	9
Veritas Software Corporation	1065	12
Verizon Communications Inc.	1029	12
VF Corporation	570	12
Viacom Inc.	920	12
Viad Corp	893	12
Vishay Intertechnology, Inc.	731	12
Vulcan Materials Company	573	12
Wal-Mart Stores, Inc.	648	1
Walgreen Co.	575	8
The Walt Disney Company	174	9
The Washington Post Company	649	12
Waste Management, Inc.	580	12
Wausau•Mosinee Paper Corporation	581	12
Waxman Industries, Inc.	732	6
Weatherford International, Inc.	950	12
Weirton Steel Corporation	835	12
Werner Enterprises, Inc.	1066	12
Western Digital Corporation	733	6
Weyerhaeuser Company	586	12
Whirlpool Corporation	588	12
WHX Corporation	587	12
The Williams Companies, Inc.	1067	12
Wiltel Communications Group, Inc.	1092	12
Winn-Dixie Stores, Inc.	593	6
Winnebago Industries, Inc.	594	8
Wm. Wrigley Jr. Company	597	12
Wolverine World Wide, Inc.	734	12
Worthington Industries, Inc.	735	5
W. R. Grace & Co.	252	12
W.W. Grainger, Inc.	253	12
Wyeth	35	12
Wyndham International, Inc.	1068	12
Xerox Corporation	1093	12
Xilinx, Inc.	1069	3
XO Communications, Inc.	1070	12
York International Corporation	650	12
Yum! Brands, Inc.	1094	12

COMPANIES INCLUDED IN FIFTY-SIXTH EDITION NOT INCLUDED IN THIS EDITION OF THE SURVEY

Company Name	Company Reference Number
American Water Works Company, Inc.	1032
Bed Bath & Beyond Inc.	956
Compaq Computer Corporation	661
Crestline Capital Corporation	1002
Cummins Inc.	157
Encompass Services Corporation	1006
Fleming Companies, Inc.	213
Fruit of the Loom, Ltd.	670
Garan, Incorporated	671
Graybar Electric Company, Inc.	1009
Homasote Company	280
Hunt Corporation	286
K2 Inc.	737
Nortek, Inc.	402
Owens Corning	415
Pennzoil-Quaker State Company	430
Pharmacia Corporation	569
Qwest Communications International Inc.	1022
Tokheim Corporation	693
TRW Inc.	526
Union Carbide Corporation	555
WestPoint Stevens Inc.	840
Westvaco Corporation	584
WorldCom, Inc.	969

*Months are numbered in calendar-year sequence, January through December (e.g., January = 1 and February = 2).

NUMERICAL LISTING

Company Reference Number	*Company Name*	*Month of Fiscal Year End**
6	AMETEK, Inc.	12
10	Abbott Laboratories	12
16	Air Products and Chemicals, Inc.	9
17	Albertson's, Inc.	1
18	IKON Office Solutions, Inc.	9
20	Honeywell International Inc.	12
23	Skyworks Solutions, Inc.	3
24	Alcoa Inc.	12
25	Amcast Industrial Corporation	8
26	Amerada Hess Corporation	12
28	American Biltrite Inc.	12
29	Fortune Brands, Inc.	12
30	ABM Industries Incorporated	10
33	American Greetings Corporation	2
35	Wyeth	12
41	American Standard Companies Inc.	12
43	AT&T Corp.	12
44	Ameron International Corporation	11
46	Ampco-Pittsburgh Corporation	12
48	Analogic Corporation	7
51	Anheuser-Busch Companies, Inc.	12
52	Apple Computer, Inc.	9
53	Archer Daniels Midland Company	6
54	Arden Group, Inc.	12
56	AK Steel Holding Corporation	12
60	Ashland Inc.	9
65	Avnet, Inc.	6
66	Avon Products, Inc.	12
67	BMC Industries, Inc.	12
68	Badger Meter, Inc.	12
70	Baker Hughes Incorporated	12
71	Ball Corporation	12
74	Bausch & Lomb Incorporated	12
75	Baxter International Inc.	12
78	Becton, Dickinson and Company	9
81	Bemis Company, Inc.	12
83	Bethlehem Steel Corporation	12
85	The Black & Decker Corporation	12
87	The Boeing Company	12
88	Boise Cascade Corporation	12
91	Bowne & Co., Inc.	12
93	Briggs & Stratton Corporation	6
94	Bristol-Myers Squibb Company	12
97	Brown Shoe Company, Inc.	1
99	Brunswick Corporation	12
102	Unisys Corporation	12
107	CSP Inc.	9
108	Cabot Corporation	9
110	Campbell Soup Company	7
112	Dole Food Company, Inc.	12
113	Caterpillar Inc.	12
121	ChevronTexaco Corporation	12
127	Milacron Inc.	12
130	Cleveland-Cliffs Inc	12
131	The Clorox Company	6
133	The Coca-Cola Company	12
135	Colgate-Palmolive Company	12
137	Collins Industries, Inc.	10
140	Commercial Metals Company	8
142	ConAgra Foods, Inc.	5
145	Ceridian Corporation	12
146	Cooper Industries, LTD	12
147	Adolph Coors Company	12
149	Corning Incorporated	12
150	Courier Corporation	9
152	Crane Co.	12
154	Crown Holdings, Inc.	12
158	Curtiss-Wright Corporation	12
161	Dana Corporation	12
165	Target Corporation	1
166	Dean Foods Company	5
167	Deere & Company	10
168	Deluxe Corporation	12
174	The Walt Disney Company	9
175	R.R. Donnelley & Sons Company	12
176	Dover Corporation	12
177	The Dow Chemical Company	12
178	Dow Jones & Company	12
182	The Dun & Bradstreet Corporation	12
184	E. I. du Pont de Nemours and Company	12
187	PerkinElmer, Inc.	12
190	The Eastern Company	12
191	Eastman Kodak Company	12
192	Eaton Corporation	12
194	Elkcorp	6
195	Emerson Electric Co.	9
198	Engelhard Corporation	12
199	Ethyl Corporation	12
202	Exxon Mobil Corporation	12
203	FMC Corporation	12
206	Fedders Corporation	8
208	Federal-Mogul Corporation	12
209	Federated Department Stores, Inc.	1
212	Fleetwood Enterprises, Inc.	4
216	Fluor Corporation	12
219	Ford Motor Company	12
221	Foster Wheeler Ltd.	12
228	Gannett Co., Inc.	12
230	GenCorp Inc.	11
232	General Dynamics Corporation	12
233	General Electric Company	12
237	General Mills, Inc.	5
238	General Motors Corporation	12
242	Genuine Parts Company	12
243	Georgia-Pacific Corporation	12
246	The Gillette Company	12
247	Golden Enterprises, Inc.	5
249	The Goodyear Tire & Rubber Company	12
252	W. R. Grace & Co.	12
253	W.W. Grainger, Inc.	12

*Months are numbered in calendar-year sequence, January through December (e.g., January = 1 and February = 2).

Company Reference Number	*Company Name*	*Month of Fiscal Year End**
254	The Great Atlantic & Pacific Tea Company, Inc.	2
256	Greif Bros. Corporation	10
257	The Dial Corporation	12
259	Guilford Mills, Inc.	9
263	HON INDUSTRIES Inc.	12
264	Halliburton Company	12
268	Joy Global Inc.	10
269	Harris Corporation	6
270	Harsco Corporation	12
271	Hartmarx Corporation	11
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
282	Hormel Foods Corporation	10
283	Hughes Supply, Inc.	1
285	Humana Inc.	12
287	Hurco Companies, Inc.	10
288	PepsiAmericas, Inc.	12
291	ITT Industries, Inc.	12
292	Ingersoll-Rand Company Limited	12
293	Ryerson Tull, Inc.	12
295	Intel Corporation	12
296	Furniture Brands International, Inc.	12
298	International Business Machines Corporation	12
299	Navistar International Corporation	10
301	International Multifoods Corporation	2
302	International Paper Company	12
303	Interstate Bakeries Corporation	5
305	JLG Industries, Inc.	7
308	Johnson & Johnson	12
309	Johnson Controls, Inc.	9
312	Jostens, Inc.	12
314	Kmart Corporation	1
317	Kellogg Company	12
318	Kelly Services, Inc.	12
320	Kerr-McGee Corporation	12
324	Kimberly-Clark Corporation	12
326	Knape & Vogt Manufacturing Company	6
327	Knight-Ridder, Inc.	12
329	The Kroger Co.	1
332	LaBarge, Inc.	6
336	Lee Enterprises, Incorporated	9
337	Leggett & Platt, Incorporated	12
339	Eli Lilly and Company	12
341	Lockheed Martin Corporation	12
344	Lowe's Companies, Inc.	1
345	The Lubrizol Corporation	12
348	Lynch Corporation	12
360	Masco Corporation	12
361	Mattel, Inc.	12
362	The May Department Stores Company	1
363	Maytag Corporation	12
364	McCormick & Company, Incorporated	11
365	McDermott International, Inc.	12
366	McDonald's Corporation	12
368	The McGraw-Hill Companies, Inc.	12
369	McKesson Corporation	3
371	Medtronic, Inc.	4
372	CVS Corporation	12
373	Merck & Co., Inc.	12
374	Meredith Corporation	6
375	Met-Pro Corporation	1
377	Herman Miller, Inc.	5
379	3M Company	12
383	Monsanto Company	12
387	Motorola, Inc.	12
390	Murphy Oil Corporation	12
392	NCR Corporation	12
397	National Presto Industries, Inc.	12
398	National Semiconductor Corporation	5
399	National Service Industries, Inc.	8
400	The New York Times Company	12
401	NIKE, Inc.	5
403	NACCO Industries, Inc.	12
405	Northrop Grumman Corporation	12
408	Occidental Petroleum Corporation	12
411	Olin Corporation	12
416	Owens-Illinois, Inc.	12
417	Oxford Industries, Inc.	5
418	PPG Industries, Inc.	12
419	PACCAR Inc	12
421	Pall Corporation	7
424	Parker Hannifin Corporation	6
427	The Penn Traffic Company	1
428	J. C. Penney Company, Inc.	1
432	PepsiCo, Inc.	12
435	Pfizer Inc	12
436	Phelps Dodge Corporation	12
437	Altria Group, Inc.	12
438	ConocoPhillips	12
441	Pitney Bowes Inc.	12
446	Potlatch Corporation	12
447	Prab, Inc.	10
451	The Procter & Gamble Company	6
455	Quanex Corporation	10
461	Raytheon Company	12
469	Rockwell Automation, Inc.	9
470	Rohm and Haas Company	12
471	The Rowe Companies	11
477	SPS Technologies, Inc.	12
478	Safeway Inc.	12
479	Sara Lee Corporation	6
481	Schering-Plough Corporation	12
482	Schlumberger Limited	12
484	Scope Industries	6
486	Sears, Roebuck and Co.	12
487	Service Corporation International	12
490	The Sherwin-Williams Company	12
494	A. O. Smith Corporation	12
496	Snap-on Incorporated	12
498	Sparton Corporation	6
499	Spectrum Control, Inc.	11
507	Standard Motor Products, Inc.	12
509	The Standard Register Company	12

*Months are numbered in calendar-year sequence, January through December (e.g., January = 1 and February = 2).

Company Reference Number	Company Name	Month of Fiscal Year End*
510	Enesco Group, Inc.	12
511	The Stanley Works	12
512	The L.S. Starrett Company	6
519	Sequa Corporation	12
520	Sunoco, Inc.	12
522	SUPERVALU INC.	2
528	RadioShack Corporation	12
529	Tasty Baking Company	12
530	Tecumseh Products Company	12
532	Temple-Inland Inc.	12
533	Temtex Industries, Inc.	8
534	Tenneco Automotive Inc.	12
535	Tesoro Petroleum Corporation	12
537	Texas Instruments Incorporated	12
538	Textron Inc.	12
542	The Timken Company	12
547	Tribune Company	12
549	Tyler Technologies, Inc.	12
550	Tyson Foods, Inc.	9
552	USG Corporation	12
553	Unifi, Inc.	6
557	Chiquita Brands International, Inc.	12
561	United States Steel Corporation	12
563	UST Inc.	12
564	United Technologies Corporation	12
566	Universal Corporation	6
568	Unocal Corporation	12
570	VF Corporation	12
571	Varian Medical Systems, Inc.	9
573	Vulcan Materials Company	12
575	Walgreen Co.	8
580	Waste Management, Inc.	12
581	Wausau•Mosinee Paper Corporation	12
586	Weyerhaeuser Company	12
587	WHX Corporation	12
588	Whirlpool Corporation	12
593	Winn-Dixie Stores, Inc.	6
594	Winnebago Industries, Inc.	8
596	Foot Locker, Inc.	1
597	Wm. Wrigley Jr. Company	12

COMPANIES ADDED FOR 1987 EDITION

Company Reference Number	Company Name	Month of Fiscal Year End*
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.	9
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
634	Phillips-Van Heusen Corporation	1
642	SPX Corporation	12
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

Company Reference Number	Company Name	Month of Fiscal Year End*
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
664	Danaher Corporation	12
665	The Dixie Group, Inc.	12
669	L. B. Foster Company	12
673	Harley-Davidson, Inc.	12
675	Saucony, Inc.	12
676	Terra Industries Inc.	12
678	Lafarge North America Inc.	12
680	Newell Rubbermaid Inc.	12
682	Omnicom Group Inc.	12
684	Pentair, Inc.	12
686	Photo Control Corporation	12
690	Smithfield Foods, Inc.	4
691	Sonoco Products Company	12

COMPANIES ADDED FOR 1989 EDITION

Company Reference Number	Company Name	Month of Fiscal Year End*
696	Anacomp, Inc.	9
699	Blount International, Inc.	12
700	Burlington Resources Inc.	12
701	CTS Corporation	12
712	Juno Lighting, Inc.	11
713	The Lamson & Sessions Co.	12
714	Lufkin Industries, Inc.	12
716	Molex Incorporated	6
721	Speizman Industries, Inc.	6
723	Steel Technologies Inc.	9
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

*Months are numbered in calendar-year sequence, January through December (e.g., January = 1 and February = 2).

Company Reference Number	*Company Name*	*Month of Fiscal Year End**
COMPANIES ADDED FOR 1990 EDITION		
738	Ault Incorporated	5
740	Champion Enterprises, Inc.	12
742	Coherent, Inc.	9
744	Donaldson Company, Inc.	7
747	Federal Screw Works	6
748	Georgia Gulf Corporation	12
752	IMC Global Inc.	12
753	Interface, Inc.	12
754	Jacobs Engineering Group Inc.	9
757	Lyondell Chemical Company	12
758	MagneTek, Inc.	6
760	MAXXAM Inc.	12
761	Nashua Corporation	12
764	Robbins & Myers, Inc.	8
765	Scientific Industries, Inc.	6
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
COMPANIES ADDED FOR 1991 EDITION		
776	Allegheny Technologies Incorporated	12
777	Alliant Techsytems Inc.	3
778	Baldor Electric Company	12
782	DIMON Incorporated	6
787	Micron Technology, Inc.	8
790	Peerless Mfg. Co.	6
792	The Reader’s Digest Association, Inc.	6
794	Tektronix, Inc.	5
COMPANIES ADDED FOR 1992 EDITION		
796	Allergan, Inc.	12
800	Ferro Corporation	12
801	Intergraph Corporation	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	Sensient Technologies Corporation	12
COMPANIES ADDED FOR 1994 EDITION		
818	Burlington Industries, Inc.	9
824	Louisiana-Pacific Corporation	12
825	Microsoft Corporation	6
828	Praxair, Inc.	12
829	Harrah’s Entertainment, Inc.	12
832	Russell Corporation	12
833	The Scotts Company	9
834	Span-America Medical Systems, Inc.	9
835	Weirton Steel Corporation	12
COMPANIES ADDED FOR 1995 EDITION		
836	Centex Corporation	3
837	The Interpublic Group of Companies, Inc.	12
838	Kellwood Company	1
839	Novell, Inc.	10
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
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
857	Mohawk Industries, Inc.	12
858	Seaboard Corporation	12
859	UnitedHealth Group Incorporated	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
871	Eastman Chemical Company	12
872	The Estee Lauder Companies Inc.	6
873	Exide Technologies	3
874	Gateway, Inc.	12
878	Jones Apparel Group, Inc.	12
879	La-Z-Boy Incorporated	4
880	Lam Research Corporation	6
882	Merrimac Industries, Inc.	12
883	Polaris Industries Inc.	12
884	Quantum Corporation	3
885	Reebok International Ltd.	12
886	Rite Aid Corporation	2
887	SYSCO Corporation	6
888	Solectron Corporation	8

*Months are numbered in calendar-year sequence, January through December (e.g., January = 1 and February = 2).

Company Reference Number	Company Name	Month of Fiscal Year End*
889	Sybase, Inc.	12
890	Teradyne, Inc.	12
891	Tupperware Corporation	12
893	Viad Corp	12

COMPANIES ADDED FOR 1998 EDITION

Company Reference Number	Company Name	Month of Fiscal Year End*
896	BJ Services Company	9
897	Carlisle Companies Incorporated	12
898	Mandalay Resort Group	1
899	HCA Inc.	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, Inc.	12
910	Noble Energy, 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
920	Viacom Inc.	12

COMPANIES ADDED FOR 1999 EDITION

Company Reference Number	Company Name	Month of Fiscal Year End*
921	ADC Telecommunications, Inc.	10
922	Allied Waste Industries, Inc.	12
923	AOL Time Warner Inc.	12
924	Analog Devices, Inc.	10
925	Computer Associates International, Inc.	3
927	Datascope Corp.	6
929	Global SantaFe Corporation	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
936	Newmont Mining Corporation	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
947	UNOVA, Inc.	12
948	U.S. Industries, Inc.	9
949	Universal Forest Products, Inc.	12
950	Weatherford International LTD	12

COMPANIES ADDED FOR 2000 EDITION

Company Reference Number	Company Name	Month of Fiscal Year End*
951	3Com Corporation	5
952	Agway Inc.	6
953	Amazon.com, Inc.	12
954	Amkor Technology, Inc.	12
955	Applied Industrial Technologies, Inc.	6
958	BellSouth Corporation	12
959	Burlington Coat Factory Warehouse Corporation	5
961	Costco Wholesale Corporation	8
962	Del Monte Foods Company	6
963	Dell Computer Corporation	1
964	Electronic Data Systems Corporation	12
965	Freeport-McMoRan Copper & Gold Inc.	12
966	PolyOne Corporation	12
967	KB Home	11
968	Lucent Technologies Inc.	9
970	Office Depot, Inc.	12
971	OfficeMax, Inc.	1
972	Oracle Corporation	5
973	PeopleSoft, Inc.	12
974	Polo Ralph Lauren Corporation	3
975	Precision Castparts Corp.	3
976	Republic Services, Inc.	12
977	Robert Half International Inc.	12
979	SBC Communications Inc.	12
980	Science Applications International Corporation	1
981	Silicon Graphics, Inc.	6
983	Staples, Inc.	1
984	Starbucks Corporation	9
985	USA INTERACTIVE	12

COMPANIES ADDED FOR 2001 EDITION

Company Reference Number	Company Name	Month of Fiscal Year End*
988	Administaff, Inc.	12
989	Aetna Inc.	12
990	Anadarko Petroleum Corporation	12
991	AutoZone, Inc.	8
992	Barnes & Noble, Inc.	1
993	Best Buy Co., Inc.	2
994	Cablevision Systems Corporation	12
995	Caremark Rx, Inc.	12
996	CDW Computer Centers, Inc.	12
997	Cigna Corporation	12
998	Clear Channel Communications, Inc.	12
999	Comcast Corporation	12
1000	Comdisco Holding Company, Inc.	9
1001	Cox Communications, Inc.	12
1003	Delphi Corporation	12
1004	El Paso Corporation	12
1005	EMC Corporation	12
1007	Farmland Industries, Inc.	8
1008	The Gap, Inc.	1
1010	Health Net, Inc.	12

*Months are numbered in calendar-year sequence, January through December (e.g., January = 1 and February = 2).

Company Reference Number	Company Name	Month of Fiscal Year End*
1011	Hilton Hotels Corporation	12
1012	Jabil Circuit, Inc.	8
1013	LEAR Corporation	12
1014	Lennar Corporation	11
1015	Marriott International, Inc.	12
1016	Merisel, Inc.	12
1017	Nash Finch Company	12
1018	Park Place Entertainment Corporation	12
1019	The Pepsi Bottling Group, Inc.	12
1020	Plains Resources Inc.	12
1021	Pulte Homes, Inc.	12
1023	R.J. Reynolds Tobacco Holdings, Inc.	12
1024	Sanmina-SCI Corporation	9
1025	Sprint Corporation	12
1026	Tech Data Corporation	1
1027	Tenet Healthcare Corporation	5
1028	United Stationers Inc.	12
1029	Verizon Communications Inc.	12

COMPANIES ADDED FOR 2002 EDITION

Company Reference Number	Company Name	Month of Fiscal Year End*
1030	Airgas, Inc.	3
1031	AllTel Corporation	12
1033	Armstrong Holdings, Inc.	12
1034	Avaya Inc.	9
1035	Broadwing Inc.	12
1036	Cendant Corporation	12
1037	CenturyTel, Inc.	12
1038	Charter Communications, Inc.	12
1039	Ciena Corporation	10
1040	Cintas Corporation	5
1041	Citizens Communications Company	12
1042	Concord EFS, Inc.	12
1043	Darden Restaurants, Inc.	5
1044	Fiserv, Inc.	12
1045	Goodrich Corporation	12
1046	IDT Corporation	7
1047	JDS Uniphase Corporation	6
1048	Marsh Supermarkets, Inc.	3
1049	Maxim Integrated Products, Inc.	6
1050	MPS Group, Inc.	12
1051	Nextel Communications, Inc.	12
1052	Novellus Systems, Inc.	12
1053	Paychex, Inc.	5
1054	Perot Systems Corporation	12
1055	Quintiles Transnational Corp.	12
1056	Rockwell Collins, Inc.	9
1057	RPM, Inc.	5
1058	Scientific-Atlanta, Inc.	6
1059	Spherion Corporation	12
1060	Starwood Hotels & Resorts Worldwide, Inc.	12
1061	Stryker Corporation	12
1062	Trump Hotels & Casino Resorts, Inc.	12
1063	United Rentals, Inc.	12
1064	Universal Health Services, Inc.	12
1065	Veritas Software Corporation	12
1066	Werner Enterprises, Inc.	12
1067	The Williams Companies, Inc.	12
1068	Wyndham International, Inc.	12
1069	Xilinx, Inc.	3
1070	XO Communications, Inc.	12

COMPANIES ADDED FOR 2003 EDITION

Company Reference Number	Company Name	Month of Fiscal Year End*
1071	Acterna Corporation	3
1072	Arkansas Best Corporation	12
1073	ArvinMeritor, Inc.	9
1074	Brinker International, Inc.	6
1075	CNF Inc.	12
1076	Coca-Cola Bottling Co. Consolidated	12
1077	Crompton Corporation	12
1078	Earthlink, Inc.	12
1079	Electronic Arts Inc.	3
1080	Flowers Foods, Inc.	12
1081	Giant Industries, Inc.	12
1082	Grey Global Group Inc.	12
1083	Griffon Corporation	9
1084	The Manitowoc Company, Inc.	12
1085	Maxtor Corporation	12
1086	Mettler-Toledo International Inc.	12
1087	Regal Entertainment Group	12
1088	Ryder System, Inc.	12
1089	Swift Transportation Co., Inc.	12
1090	Thor Industries, Inc.	7
1091	Varco International Inc.	12
1092	Wiltel Communications Group, Inc.	12
1093	Xerox Corporation	12
1094	Yum! Brands, Inc.	12

COMPANIES INCLUDED IN FIFTY-SIXTH EDITION NOT INCLUDED IN THIS EDITION OF THE SURVEY

Company Reference Number	Company Name
157	Cummins Inc.
213	Fleming Companies, Inc.
280	Homasote Company
286	Hunt Corporation
402	Nortek, Inc.
415	Owens Corning
430	Pennzoil-Quaker State Company
526	TRW Inc.
555	Union Carbide Corporation
569	Pharmacia Corporation
584	Westvaco Corporation
661	Compaq Computer Corporation
670	Fruit of the Loom, Ltd.
671	Garan, Incorporated
693	Tokheim Corporation
737	K2 Inc.
840	WestPoint Stevens Inc.

*Months are numbered in calendar-year sequence, January through December (e.g., January = 1 and February = 2).

Company Reference Number	*Company Name*
956	Bed Bath & Beyond Inc.
969	WorldCom, Inc.
1002	Crestline Capital Corporation
1006	Encompass Services Corporation
1009	Graybar Electric Company, Inc.
1022	Qwest Communications International Inc.
1032	American Water Works Company, Inc.

Company Index

3Com Corporation, 7.58
3M Company, 2.146

A

Abbott Laboratories, 1.98, 1.139, 2.192, 4.13, 6.46
ABM Industries Incorporated, 1.171, 1.239
Acterna Corporation, 2.35
Administaff, Inc., 2.23
Adolph Coors Company, 1.189
ADVO, Inc., 1.225, 6.55
Agway Inc., 2.275, 2.295, 7.33
Air Products and Chemicals, Inc., 1.22, 1.215, 4.08, 6.42
Airgas, Inc., 2.36, 7.31
AK Steel Holding Corporation, 1.58, 1.216
Alberto-Culver Company, 2.215, 3.102
Albertson's, Inc., 1.135, 2.72, 3.163
Alcoa Inc., 2.12, 5.08
Allen Telecom Inc., 2.297, 6.37, 7.43
Allergan, Inc., 5.10
Alliant Techsystems Inc., 1.224, 2.77, 3.122
Allied Waste Industries, Inc., 2.276, 6.40
Alltel Corporation, 2.147
Altria Group, Inc., 2.168
Amazon.com, Inc., 3.48
Amcast Industrial Corporation, 1.136, 2.139
American Biltrite Inc., 1.29, 1.75, 7.54
American Greetings Corporation, 1.149
American Standard Companies Inc., 1.137, 2.53
Ameron International Corporation, 3.22, 6.61
AMETEK, Inc., 1.140, 6.44
Amgen Inc., 3.60
Ampco-Pittsburgh Corporation, 6.45
Analog Devices, Inc., 3.62
Analogic Corporation, 2.24, 2.70, 6.17
Anheuser-Busch Companies, Inc., 6.62
AOL Time Warner Inc., 1.43
Apple Computer, Inc., 2.13, 2.90, 2.309
Arden Group, Inc., 1.150, 1.199
Arkansas Best Corporation, 2.267
Armstrong Holdings, Inc., 6.22
Arrow Electronics, Inc., 3.179
Ashland Inc., 1.240
AT&T Corp., 1.190, 3.170, 6.38
Atmel Corporation, 1.219
Avery Dennison Corporation, 1.65
Avnet, Inc., 2.41, 3.114
Avon Products, Inc., 3.79

B

Baker Hughes Incorporated, 1.143, 3.142
Baldor Electric Company, 1.221
Ball Corporation, 1.12, 2.230
Banta Corporation, 1.159
Barnes & Noble, Inc., 2.45, 6.15
Barnes Group Inc., 1.23
Bausch & Lomb Incorporated, 1.141, 3.51
Baxter International Inc., 1.107, 1.172, 5.52
B/E Aerospace, Inc., 1.99, 1.242, 3.67
Becton, Dickinson and Company, 6.63, 7.35
BellSouth Corporation, 1.227, 7.18
Bethlehem Steel Corporation, 1.144, 7.24
The Black & Decker Corporation, 3.94, 6.26
BMC Industries, Inc., 2.76
The Boeing Company, 2.269, 3.39, 3.116, 3.123
Boise Cascade Corporation, 3.56
Boston Scientific Corporation, 1.108
Bowater Incorporated, 2.273, 3.138, 7.34
Bowne & Co., Inc., 2.140, 3.112
Briggs & Stratton Corporation, 1.14
Bristol-Myers Squibb Company, 1.145, 2.148
Broadwing Inc., 2.249
Brown Shoe Company, Inc., 7.64
Brown-Forman Corporation, 1.195
Brunswick Corporation, 1.16, 1.142, 2.313
Burlington Coat Factory Warehouse Corporation, 1.70
Burlington Industries, Inc., 7.25
Burlington Resources Inc., 2.89

C

Cabot Corporation, 1.164, 3.63, 3.109
Campbell Soup Company, 1.24, 2.231, 6.47
Caremark Rx, Inc., 2.203
Caterpillar Inc., 2.232
CDW Computer Centers, Inc., 3.41
Cendant Corporation, 1.30, 1.119, 3.54
CenturyTel, Inc., 3.30
Ceridian Corporation, 1.165
Champion Enterprises, Inc., 1.207, 4.09
ChevronTexaco Corporation, 1.17, 2.253, 3.99
Ciena Corporation, 3.42
Cigna Corporation, 1.211
Citizens Communications Company, 2.87, 2.116, 3.164, 4.25
Clear Channel Communications, Inc., 2.152
Cleveland-Cliffs Inc, 1.81
The Clorox Company, 1.59, 1.160, 3.95
CNF Inc., 2.188
Coca-Cola Bottling Co. Consolidated, 1.184, 2.250
The Coca-Cola Company, 1.78, 2.240
Coca-Cola Enterprises Inc., 1.232
Colgate-Palmolive Company, 2.326
Collins Industries, Inc., 2.327, 3.100
Commercial Metals Company, 3.143, 5.16, 7.44
Computer Associates International, Inc., 2.193
Computer Sciences Corporation, 1.13
ConAgra Foods, Inc., 1.80
ConocoPhillips, 2.254, 2.262, 5.12
Corning Incorporated, 2.25, 2.141, 2.236
Costco Wholesale Corporation, 5.41
Cox Communications, Inc., 2.37, 2.296
Crane Co., 6.24
Crompton Corporation, 1.120, 6.35
Crown Holdings, Inc., 6.52
CSP Inc., 1.39, 3.96
CTS Corporation, 2.165
Curtiss-Wright Corporation, 1.217, 2.28, 7.59
CVS Corporation, 2.255, 2.328

D

Dana Corporation, 2.113, 3.106
Danaher Corporation, 3.23
Darden Restaurants, Inc., 1.76, 6.39
Dean Foods Company, 1.125
Deere & Company, 6.27
Del Monte Foods Company, 2.162
Delphi Corporation, 1.31, 6.23
Deluxe Corporation, 2.98, 3.107, 4.15
The Dial Corporation, 1.151
Dillard's, Inc., 3.180, 5.09
DIMON Incorporated, 2.213
The Dixie Group, Inc., 2.279
Dover Corporation, 2.99, 2.142
The Dow Chemical Company, 1.222, 2.54, 2.100, 4.16
Dow Jones & Company, 2.114
The Dun & Bradstreet Corporation, 1.123, 1.173

E

Eastman Chemical Company, 2.73
Eastman Kodak Company, 2.115, 2.178
E. I. du Pont de Nemours and Company, 2.143
Electronic Arts, Inc., 3.37
Electronic Data Systems Corporation, 2.257
Eli Lilly and Company, 1.128, 1.166, 2.117, 4.29
Enesco Group, Inc., 2.71
Engelhard Corporation, 2.80
Ethyl Corporation, 5.31
Exide Technologies, 1.112, 6.28

F

The Fairchild Corporation, 3.55
Fedders Corporation, 1.152
Federal-Mogul Corporation, 1.223
Federated Department Stores, Inc., 3.80, 3.111
First Data Corporation, 2.318, 6.56
Fiserv, Inc., 1.129
Fluor Corporation, 1.192
FMC Corporation, 2.274, 3.25
Foot Locker, Inc., 1.15, 1.44
Ford Motor Company, 1.193
Fortune Brands, Inc., 5.50, 6.43
Foster Wheeler Ltd., 1.146, 3.150
Freeport-McMoRan Copper & Gold Inc., 3.124

G

Gannett Co., Inc., 1.10, 5.36
The Gap, Inc., 1.77
GenCorp Inc., 3.151
General Dynamics Corporation, 1.179, 3.152, 7.55
General Electric Company, 1.79, 1.235
General Motors Corporation, 1.230, 2.314
Georgia-Pacific Corporation, 6.48
Giant Industries, Inc., 1.113, 3.83
The Gillette Company, 1.11
GlobalSantaFe Corporation, 1.208
Golden Enterprises, Inc., 1.175, 2.129, 7.37
Goodrich Corporation, 3.171
The Goodyear Tire & Rubber Company, 1.153, 1.212
The Great Atlantic & Pacific Tea Company, Inc., 2.251, 3.175
Greif Bros. Corporation, 2.234
Griffon Corporation, 2.241
Guidant Corporation, 1.109
Guilford Mills, Inc., 2.44

H

Halliburton Company, 2.39, 7.52
Harley-Davidson, Inc., 7.66

Harris Corporation, 4.23
Harsco Corporation, 1.167
Hasbro, Inc., 3.59, 3.97
HCA Inc., 1.121
Health Net, Inc., 3.08
Hecla Mining Company, 4.31, 7.19
Hershey Foods Corporation, 3.75, 7.67
Hewlett-Packard Company, 2.217, 3.139
Hillenbrand Industries, Inc., 1.40, 3.103
Hilton Hotels Corporation, 2.14
H.J. Heinz Company, 1.226, 6.34
HON INDUSTRIES Inc., 3.78
Honeywell International Inc., 1.32, 1.126, 2.130, 3.50
Hughes Supply, Inc., 2.159
Humana Inc., 1.154, 1.196, 5.56
Hurco Companies, Inc., 1.231, 2.235

I

IKON Office Solutions, Inc., 1.114, 2.204, 6.25
Illinois Tool Works Inc., 2.258
IMC Global Inc., 3.166, 7.65
Ingram Micro Inc., 3.20
Intel Corporation, 2.84, 6.32
Interface, Inc., 2.85
Intergraph Corporation, 2.319
International Business Machines Corporation, 1.197, 3.15
International Flavors & Fragrances Inc., 6.30
International Multifoods Corporation, 1.130, 2.199, 3.64, 7.36
The Interpublic Group of Companies, Inc., 3.46
Interstate Bakeries Corporation, 2.332
ITT Industries, Inc., 1.115

J

Jabil Circuit, Inc., 3.44
Jacobs Engineering Group Inc., 3.144, 6.33
J. C. Penney Company, Inc., 3.167, 3.181, 6.57
JDS Uniphase Corporation, 2.07, 6.58
JLG Industries, Inc., 1.72, 2.52
The J. M. Smucker Company, 1.218, 3.76, 7.38
Johnson & Johnson, 2.270, 5.20
Johnson Controls, Inc., 2.252
Jones Apparel, Group, Inc., 1.177, 2.151
Jostens, Inc., 2.205, 5.22

K

KB Home, 2.330
Kellogg Company, 3.16
Kerr-McGee Corporation, 2.163, 3.43
Kimberly-Clark Corporation, 3.115
KLA-Tencor Corporation, 6.19
Knight-Ridder, Inc., 3.52
The Kroger Co., 3.81

L

LaBarge, Inc., 1.131
Lafarge North America Inc., 3.53
The Lamson & Sessions Co., 1.110
LEAR Corporation, 3.84, 6.53
Lee Enterprises, Incorporated, 2.206
Leggett & Platt, Incorporated, 5.48
Lennar Corporation, 7.60
Lockheed Martin Corporation, 2.271, 5.47
Louisiana-Pacific Corporation, 1.213
Lowe's Companies, Inc., 3.61
The Lubrizol Corporation, 3.19
Lufkin Industries, Inc., 2.210
Lynch Corporation, 1.161
Lyondell Chemical Company, 3.134

M

Mandalay Resort Group, 1.155, 7.20
The Manitowoc Company, Inc., 2.242
Marriott International, Inc., 1.111
Masco Corporation, 2.208, 4.30
Mattel, Inc., 2.220
McDermott International, Inc., 2.157
McDonald's Corporation, 2.164
The McGraw-Hill Companies, Inc., 2.158
Merck & Co., Inc., 2.214, 7.68
Meredith Corporation, 2.310
Merisel, Inc., 1.41, 2.298
Merrimac Industries, Inc., 2.331, 6.18
Met-Pro Corporation, 5.46
Metro-Goldwyn-Mayer Inc., 3.21
Mettler-Toledo International Inc., 3.120
Milacron Inc., 3.165
Mohawk Industries, Inc., 1.45
Motorola, Inc., 2.118, 7.61
Murphy Oil Corporation, 3.131, 5.37

N

NACCO Industries, Inc., 1.87, 3.177, 4.14
Nashua Corporation, 1.147
National Presto Industries, Inc., 2.26
National Semiconductor Corporation, 2.119
National Service Industries, Inc., 1.18, 2.278, 5.49
Navistar International Corporation, 1.68
NCR Corporation, 1.88
The New York Times Company, 1.46
Newell Rubbermaid Inc., 1.19, 1.185
Newmont Mining Corporation, 2.212, 3.24, 3.47
Nextel Communications, Inc., 3.38
NIKE, Inc., 2.81, 2.179

Northrop Grumman Corporation, 1.66, 1.220, 2.264
Nucor Corporation, 2.200, 6.31

O

Occidental Petroleum Corporation, 1.194, 3.58, 3.104
Olin Corporation, 2.216, 7.14
Omnicom Group Inc., 2.120
Oracle Corporation, 2.29
Owens-Illinois, Inc., 2.263
Oxford Industries, Inc., 2.51, 7.49

P

PACCAR Inc, 6.36, 7.12
Pall Corporation, 1.176
Park Place Entertainment Corporation, 1.169, 7.29
Paychex, Inc., 4.32
Peerless Mfg. Co., 3.153
PeopleSoft, Inc., 2.160
PepsiAmericas, Inc., 1.20
Perot Systems Corporation, 3.154
Pfizer Inc., 1.186, 3.57
Phelps Dodge Corporation, 1.69, 1.89, 3.87
Plains Resources Inc., 4.11
Polaris Industries Inc., 5.21
Polo Ralph Lauren Corporation, 1.200, 6.16
Potlatch Corporation, 2.88, 7.13
PPG Industries, Inc., 1.187, 4.27
Prab, Inc., 2.43, 2.74
Praxair, Inc., 2.280, 3.82
Precision Castparts Corp., 1.201
The Procter & Gamble Company, 5.11
Pulte Homes, Inc., 5.57

Q

QUALCOMM Incorporated, 2.281
Quantum Corporation, 3.26

R

RadioShack Corporation, 2.155
Raytheon Company, 1.103, 2.156
The Reader's Digest Association, Inc., 2.282, 5.17
Reebok International Ltd., 3.132, 5.25
Regal Entertainment Group, 2.243
Rite Aid Corporation, 1.122
R.J. Reynolds Tobacco Holdings, Inc., 4.26
Robert Half International Inc., 3.17
Rock-Tenn Company, 1.116
Rockwell Automation, Inc., 3.18, 3.98
Rockwell Collins, Inc., 1.243
Rouge Industries, Inc., 3.29, 7.26
The Rowe Companies, 3.28, 6.13
RPM, Inc. 6.64
R.R. Donnelley & Sons Company, 2.101
Ryder System, Inc., 1.33, 2.311
Ryerson Tull, Inc., 2.55

S

Safeway Inc., 1.170
Sanmina-SCI Corporation, 1.73, 7.30
Sara Lee Corporation, 1.60, 1.132, 2.265
Saucony, Inc., 2.86
SBC Communications Inc., 2.131
Schering-Plough Corporation, 1.178
Schlumberger Limited, 1.90, 3.108
Science Applications International Corporation, 2.189
The Scotts Company, 1.202, 3.49
Seaboard Corporation, 2.38
Sears, Roebuck and Co., 1.203, 3.145, 5.58
Sensient Technologies Corporation, 1.100
Sequa Corporation, 1.21, 2.40
The Sherwin-Williams Company, 2.144, 3.110
Silicon Graphics, Inc., 1.42
Skyworks Solutions, Inc., 1.209, 6.21, 7.51
Smithfield Foods, Inc., 1.101, 7.50
Sonoco Products Company, 3.126
Sparton Corporation, 7.40
Spectrum Control, Inc., 3.135
Sprint Corporation, 3.176
SPS Technologies, Inc., 2.272
SPX Corporation, 5.32, 5.44
Standard Commercial Corporation, 1.74, 7.32
Standard Motor Products, Inc., 1.198, 5.42
Steelcase Inc., 2.42, 5.23
Stewart & Stevenson Services, Inc., 2.91
Stryker Corporation, 2.149, 4.28
Sunoco, Inc., 1.67, 1.117, 7.39
SUPERVALU INC., 3.182
Swift Transportation Co., Inc., 2.244

T

Target Corporation, 2.102, 6.20
Tasty Baking Company, 2.237
Tech Data Corporation, 6.14
Tektronix, Inc., 1.168
Tellabs, Inc., 2.277
Temple-Inland Inc., 5.53
Tenet Healthcare Corporation, 1.162, 4.17, 7.62
Tenneco Automotive Inc., 1.188
Teradyne, Inc., 2.27, 3.40
Terra Industries Inc., 1.163
Tesoro Petroleum Corporation, 2.209, 5.39
Texas Industries, Inc., 2.268
Texas Instruments Incorporated, 1.34
Textron Inc., 2.145, 2.259, 3.155

Thomas & Betts Corporation, 3.183
Thor Industries, Inc., 2.150
The Timken Company, 2.75
The Toro Company, 2.320
Toys "R" Us, Inc., 1.210, 2.266
TransTechnology Corporation, 1.214
Tribune Company, 1.124, 2.169, 3.45
Twin Disc, Incorporated, 4.10
Tyler Technologies, Inc., 2.207
Tyson Foods, Inc., 2.211

U

Unifi, Inc., 2.233
Unisys Corporation, 1.148, 2.167, 3.101
United States Steel Corporation, 2.184, 2.256, 2.312, 3.77
Universal Corporation, 1.91
Universal Forest Products, Inc., 1.118, 5.59
Universal Health Services, Inc., 2.185
Unocal Corporation, 1.174, 2.329, 5.38
UNOVA, Inc., 1.234
UST Inc., 2.218

V

Valero Energy Corporation, 3.09, 3.105, 6.50
Varco International Inc., 3.121
Varian Medical Systems, Inc., 2.30
Viad Corp, 4.12, 5.51
Vishay Intertechnology, Inc., 3.140

W

Wal-Mart Stores, Inc., 6.49
The Walt Disney Company, 1.102, 1.228
The Washington Post Company, 5.43
Waste Management, Inc., 2.08
Wausau•Mosinee Paper Corporation, 3.133
Waxman Industries, Inc., 1.233
Weirton Steel Corporation, 3.88, 3.125
Werner Enterprises, Inc., 5.33
Weyerhaeuser Company, 1.92
Whirlpool Corporation, 1.93
WHX Corporation, 1.71, 5.40
The Williams Companies, Inc., 2.161, 3.127
Winn-Dixie Stores, Inc., 2.166
Wm. Wrigley Jr. Company, 5.24
Wolverine World Wide, Inc., 3.146
W. R. Grace & Co., 2.219
W.W. Grainger, Inc., 3.113, 4.24
Wyeth, 1.138

X

Xerox Corporation, 1.61
Xilinx, Inc., 3.27, 5.45
XO Communications, Inc., 1.127, 1.236, 3.136

Y

York International Corporation, 1.191

Pronouncement Index

All of the pronouncements cited in the narrative portions (not in the survey company illustrations) of this edition of *Accounting Trends & Techniques* have been listed below. Titles and paragraph locations have been included for ease of use and reference. Specific pronouncement location can also be found by consulting the Subject Index, which follows this section.

No.	Title	Paragraph
	Accounting Interpretations (AICPA)	
30	*Reporting the Results of Operations*	3.172
	Accounting Principles Board Opinions (AICPA)	
6	*Status of Accounting Research Bulletins*	2.315
9	*Reporting the Results of Operations: I—Net Income and the Treatment of Extraordinary Items and Prior Period Adjustments; II—Computation and Reporting of Earnings Per Share*	5.02
12	*Omnibus Opinion—1967: Classification and Disclosure of Allowances; Disclosure of Depreciable Assets and Depreciation; Deferred Compensation Contracts; Capital Changes; Convertible Debt and Debt Issued With Stock Warrants; Amortization of Debt Discount and Expense or Premium*	2.56, 2.92, 3.117, 5.26
15	*Earnings Per Share*	3.178
16	*Business Combinations*	1.94, 5.14
17	*Intangible Assets*	2.132, 2.133
18	*The Equity Method of Accounting for Investments in Common Stock*	2.103
19	*Reporting Changes in Financial Position*	6.01
20	*Accounting Changes*	1.62
22	*Disclosure of Accounting Policies*	1.55
25	*Accounting for Stock Issued to Employees*	3.89
30	*Reporting the Results of Operations—Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions*	3.156–3.158, 3.172

No.	Title	Paragraph
	Accounting Research Bulletins (AICPA)	
43, Chapter 3A	*Restatement and Revision of Accounting Research Bulletins: Working Capital: Current Assets and Current Liabilities*	2.121, 2.170, 2.223
43, Chapter 4	*Restatement and Revision of Accounting Research Bulletins: Inventory Pricing*	2.58
43, Chapter 9C	*Restatement and Revision of Accounting Research Bulletins: Depreciation: Emergency Facilities—Depreciation, Amortization, and Income Taxes*	3.117
43, Chapter 11	*Restatement and Revision of Accounting Research Bulletins: Government Contracts*	3.147
45	*Long-Term Construction-Type Contracts*	3.147
51	*Consolidated Financial Statements*	1.82, 1.83
	Accounting Terminology Bulletins (AICPA)	
1	*Review and Resume*	2.283
	Financial Accounting Standards Board Accounting Standards—Current Text	
I13	*Income Statement Presentation: Discontinued Operations*	3.161
I17	*Income Statement Presentation: Extraordinary Items*	3.172
	Financial Accounting Standards Board Concepts Statements	
6	*Elements of Financial Statements*	3.10, 3.31
7	*Using Cash Flow Information and Present Value in Accounting Measurements*	2.18–2.20, 2.106, 2.108, 2.123, 2.125, 2.173, 2.175, 2.195, 2.197, 2.225, 2.227
	Financial Accounting Standards Board Emerging Issues Task Force	
01-10	*Accounting for the Impact of the Terrorist Attacks of September 11, 2001*	3.65
	Financial Accounting Standards Board Interpretations	
35	*Criteria for Applying the Equity Method of Accounting for Investments in Common Stock*	2.103
	Financial Accounting Standards Board Statements	
4	*Reporting Gains and Losses From Extinguishment of Debt*	3.172
5	*Accounting for Contingencies*	1.104, 1.156, 2.222
6	*Classification of Short-Term Obligations Expected to Be Refinanced*	2.170
13	*Accounting for Leases*	2.245
14	*Financial Reporting for Segments of a Business Enterprise*	1.25
16	*Prior Period Adjustments*	5.13
47	*Disclosure of Long-Term Obligations*	2.222
57	*Related Party Disclosures*	1.229
78	*Classification of Obligations That Are Callable by the Creditor*	2.170, 2.223

No.	Title	Paragraph
87	*Employers' Accounting for Pensions*	2.134, 3.68
88	*Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits*	3.68
89	*Financial Reporting and Changing Prices*	1.237
94	*Consolidation of All Majority-Owned Subsidiaries*	1.83, 1.84, 2.04
95	*Statement of Cash Flows*	2.09, 5.02, 6.01, 6.05, 6.07, 6.29, 6.41, 6.51, 6.54, 6.59
104	*Statement of Cash Flows—Net Reporting of Certain Cash Receipts and Cash Payments and Classification of Cash Flows From Hedging Activities*	6.29, 6.41
105	*Disclosure of Information About Financial Instruments With Off-Balance-Sheet Risk and Financial Instruments With Concentrations of Credit Risk*	1.180
106	*Employers' Accounting for Postretirement Benefits Other Than Pensions*	3.68
107	*Disclosures About Fair Value of Financial Instruments*	1.180, 2.16, 2.31, 2.105, 2.122, 2.172, 2.181, 2.194, 2.224
109	*Accounting for Income Taxes*	3.128, 3.137, 3.141, 5.13
112	*Employers' Accounting for Postemployment Benefits*	3.85
115	*Accounting for Certain Investments in Debt and Equity Securities*	2.15–2.18, 2.104–2.106
119	*Disclosure About Derivative Financial Instruments and Fair Value of Financial Instruments*	1.180
121	*Accounting for Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of*	3.159
123	*Accounting for Stock-Based Compensation*	3.89, 3.90
125	*Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*	2.47, 2.126
128	*Earnings Per Share*	3.178
129	*Disclosure of Information About Capital Structure*	2.287, 2.292
130	*Reporting Comprehensive Income*	2.303, 3.04, 4.01, 4.02, 4.18, 4.19, 5.54, 7.11
131	*Disclosures About Segments of an Enterprise and Related Information*	1.25, 1.26, 1.84, 3.158
132	*Employers' Disclosures About Pensions and Other Postretirement Benefits*	3.68–3.70
133	*Accounting for Derivative Instruments and Hedging Activities*	1.180, 2.15, 2.16, 2.31, 2.47, 2.104, 2.105, 2.122, 2.126, 2.172, 2.181, 2.194, 2.224
138	*Accounting for Certain Derivative Instruments and Certain Hedging Activities*	1.180

No.	Title	Paragraph
140	*Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities*	2.47, 2.126
141	*Business Combinations*	1.94, 5.14
142	*Goodwill and Other Intangible Assets*	2.133, 3.158
144	*Accounting for the Impairment or Disposal of Long-Lived Assets*	3.157–3.160
145	*Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections*	3.172
148	*Accounting for Stock-Based Compensation—Transition and Disclosure*	3.90
149	*Amendment of Statement 133 on Derivative Instruments and Hedging Activities*	1.180

SEC Regulation S-K

No.	Title	Paragraph
	Standard Instructions for Filing Forms Under the Securities Act of 1933, Securities Exchange Act of 1934 and Energy Policy and Conservation Act of 1975	1.07, 1.52

SEC Regulation S-X

No.	Title	Paragraph
	Accounting Rules—Form and Content of Financial Statements	1.52

SEC Rule 14a-3

No.	Title	Paragraph
	Information to Be Furnished to Security Holders	1.07, 1.47

Statements of Position (AICPA)

No.	Title	Paragraph
81-1	*Accounting for Performance of Construction-Type and Certain Production-Type Contracts*	3.147
94-6	*Disclosure of Certain Significant Risks and Uncertainties*	1.133, 1.134
01-6	*Accounting by Certain Entities (Including Entities With Trade Receivables) That Lend to or Finance the Activities of Others*	2.32, 2.48

Statements on Auditing Standards (AICPA)

No.	Title	Paragraph
1, section 530	*Dating of the Independent Auditor's Report*	7.56
1, section 543	*Part of Audit Performed by Other Independent Auditors*	7.15, 7.16
1, section 560	*Subsequent Events*	1.204
7	*Communications Between Predecessor and Successor Auditors*	7.56
12	*Inquiry of a Client's Lawyer Concerning Litigation, Claims, and Assessments*	1.204
29	*Reporting on Information Accompanying the Basic Financial Statements in Auditor-Submitted Documents*	7.56
32	*Adequacy of Disclosure in Financial Statements*	1.52
58	*Reports on Audited Financial Statements*	7.01, 7.04, 7.06, 7.09, 7.10, 7.16, 7.21, 7.27, 7.41, 7.45, 7.46
59	*The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern*	7.21
64	*Omnibus Statement on Auditing Standards—1990*	7.15
79	*Amendment to Statement on Auditing Standards No. 58, Reports on Audited Financial Statements*	7.21, 7.27, 7.41, 7.45, 7.46

No.	Title	Paragraph
85	*Management Representations*	7.21
93	*Omnibus Statement on Auditing Standards—2000*	7.09
98	*Omnibus Statement on Auditing Standards—2002*	7.56

Statements on Auditing Standards Interpretations (AICPA)

No.	Title	Paragraph
1, section 9508	*Reports on Audited Financial Statements: Auditing Interpretations of Section 508—Reporting as Successor Auditor When Prior-Period Audited Financial Statements Were Audited by a Predecessor Auditor Who Has Ceased Operations*	7.47

Subject Index

A

ACCOUNTANTS' REPORT, *see* Independent Auditors' Report

ACCOUNTING CHANGES
- APB Opinion No. 20, 1.62
- Asset Retirement Obligation, 1.81
- Business Combinations, 1.70, 1.71
- Consideration Given by a Vendor to a Customer, 1.75
- Derivatives and Hedging Activities, 1.74
- Gains or Losses From Debt Extinguishment, 1.72, 1.73
- Goodwill and Other Intangibles, 1.65–1.67
- Impairment or Disposal of Long-Lived Assets, 1.68, 1.69
- Sales Incentives, 1.76
- Stock Compensation, 1.78, 1.79
- Table 1-8: Accounting Changes, 1.64

ACCOUNTING ESTIMATES, *see* Estimates

ACCOUNTING INTERPRETATIONS (AICPA) *see* "Pronouncement Index"

ACCOUNTING POLICIES
- APB Opinion No. 22, 1.55
- Disclosures of, 1.55–1.61
- Table 1-7: Disclosure of Accounting Policies, 1.57

ACCOUNTING PRINCIPLES BOARD OPINIONS (AICPA) *see* "Pronouncement Index"

ACCOUNTING RESEARCH BULLETINS (AICPA) *see* "Pronouncement Index"

ACCOUNTING TERMINOLOGY BULLETINS (AICPA) *see* "Pronouncement Index"

ACCOUNTS PAYABLE, *see* Liabilities

ACCOUNTS RECEIVABLE, *see* Receivables

ACCUMULATED OTHER COMPREHENSIVE INCOME, *see also* Comprehensive Income; Other Comprehensive Income
- Accumulated Balances, Equity Section of Balance Sheet, 2.313, 2.314
- Accumulated Balances, Notes to Financial Statements, 2.309, 2.310
- Accumulated Balances, Statement of Changes in Stockholders' Equity, 2.311, 2.312
- Balance Sheet Presentation, 2.303–2.314
- SFAS No. 130, 2.303
- Table 2-39: Accumulated Other Comprehensive Income—Balance Sheet Caption, 2.307
- Table 2-40: Accumulated Other Comprehensive Income—Presentation of Component Balances, 2.308

ADDITIONAL PAID-IN CAPITAL, *see also* Paid-In Capital; Stockholders' Equity
- APB Opinion No. 12, 5.26
- Balance Sheet Presentation, 2.299, 2.300
- Changes in Additional Paid-In Capital, 5.34–5.53
- Presentation of Changes in Additional Paid-In Capital, 5.26–5.28
- Table 2-37: Additional Paid-In Capital—Caption Title, 2.300
- Table 5-5: Presentation of Changes in Additional Paid-In Capital, 5.28
- Table 5-7: Changes in Additional Paid-In Capital, 5.35

ADDRESSEE
- Independent Auditors' Report, 7.06–7.08
- SAS No. 58, 7.06
- Table 7-2: Addressee of Auditors' Reports, 7.08

ADVANCES
- Other Current Assets, 2.90
- Other Current Liabilities, 2.213

ADVERTISING AND PROMOTIONAL COSTS
- Expense, 3.41
- Other Current Liabilities, 2.215

AFFILIATED COMPANIES, *see* Investments

AGREEMENTS, *see also* Commitments; Contracts
- Additional Payments Related to Acquisitions, 1.171, 1.172
- Covenants Not to Compete, 2.150

Employment Contracts, 1.175, 1.176
Licensing, 1.177, 2.151
Purchase, 1.164–1.168
Sales, 1.173, 1.174
Trade-In Options, 1.179

ALLOWANCE FOR DOUBTFUL ACCOUNTS, *see* Doubtful Accounts

ALTERNATIVE INVENTORY VALUATION METHODS, *see* Valuation Methods, Inventory

AMORTIZATION, *see* Intangible Assets

ANNUAL REPORT PRESENTATION
Changes in Additional Paid-In Capital, 5.26–5.28
Changes in Retained Earnings, 5.02, 5.03
Comprehensive Income, 4.01–4.14
Income Taxes, 3.128–3.136
Independent Auditors' Report, 7.01–7.03
Statement of Cash Flows, 6.03, 6.04
Table 2-40: Accumulated Other Comprehensive Income—Presentation of Component Balances, 2.308
Table 2-41: Treasury Stock—Balance Sheet Presentation, 2.317
Table 5-1: Presentation of Changes in Retained Earnings, 5.03
Table 5-5: Presentation of Changes in Additional Paid-In Capital, 5.28
Table 6-1: Presentation in Annual Report—Statement of Cash Flows, 6.04
Table 7-1: Presentation in Annual Report—Independent Auditors' Report, 7.03

APB OPINIONS, *see* Accounting Principles Board Opinions (AICPA)

ARB, *see* Accounting Research Bulletins (AICPA)

ASSET RETIREMENT OBLIGATION
Accounting Changes, 1.81

ASSETS
Adjustment, *see* Write-Downs/Write-Offs
Allowance for Doubtful Accounts, *see* Doubtful Accounts
Balance Sheet Presentation, 2.09–2.169
Broadcast Rights, 2.169
Cash and Cash Equivalents, *see* Cash and Cash Equivalents
Cash Flow From Operating Activities, 6.19, 6.24, 6.25
Cash Value of Life Insurance, *see* Insurance
Current Receivables, *see* Receivables
Debt Issue Costs, *see* Liabilities
Deferred Taxes, *see* Deferred Income Taxes
Depreciable, *see* Property, Plant, and Equipment
Derivatives, *see* Derivatives
Impairment, *see* Write-Downs/Write-Offs
Intangible, *see* Intangible Assets
Inventories, *see* Inventories
Investments, *see* Investments
Marketable Securities, *see* Investments
Noncurrent Receivables, *see* Receivables
Other Current Assets, 2.82–2.91
Other Noncurrent Assets, 2.153–2.169
Pledged, *see* Collateral
Prepaid Expenses, *see* Prepaid Expenses
Prepaid Pension Cost, *see* Pension and Retirement Plans
Property Held for Sale, *see* Property, Plant, and Equipment
Property, Plant, and Equipment, *see* Property, Plant, and Equipment
Receivables Other Than Trade Receivables, *see* Receivables
Receivables Sold or Collateralized, *see* Receivables
Sale of, Gain, 3.20, 3.21
Sale of, Loss, 3.50
Sale Other Than Property, 6.19
Segregated Funds, *see* Segregated Funds
Software Development Costs, *see* Software
Table 2-12: Other Current Asset Captions, 2.83
Table 2-19: Intangible Assets, 2.137
Table 2-21: Other Noncurrent Assets, 2.154
Unbilled Costs, *see* Unbilled Costs
Write-Down of, 3.46, 3.47

ATB, *see* Accounting Terminology Bulletins (AICPA)

AUDIT COMMITTEE
Report, 7.66, 7.67

AUDITORS' REPORT, *see* Independent Auditors' Report

B

BALANCE SHEET
Accumulated Other Comprehensive Income, *see* Accumulated Other Comprehensive Income
Additional Paid-In Capital, *see* Additional Paid-In Capital; Paid-In Capital; Stockholders' Equity
Allowance for Doubtful Accounts, *see* Doubtful Accounts
Capital Structures, *see* Capital Structure
Cash and Cash Equivalents, *see* Cash and Cash Equivalents
Common Stock, *see* Common Stock
Credit Agreements, *see* Credit Agreements
Current Amount of Long-Term Debt, *see* Liabilities
Current Liabilities, *see* Liabilities
Current Receivables, *see* Receivables
Derivatives, *see* Derivatives
Employee-Related Liabilities, *see* Employees
Format, 2.03–2.08
Income Tax Liability, *see* Income Tax
Intangible Assets, *see* Intangible Assets
Inventories, *see* Inventories
Investments, *see* Investments
Long-Term Debt, *see* Liabilities
Long-Term Leases, *see* Leases
Marketable Securities, *see* Investments
Noncurrent Receivables, *see* Receivables
Other Accounts Shown in Stockholders' Equity Section, *see* Stockholders' Equity
Other Current Assets, 2.82–2.91
Other Current Liabilities, 2.201–2.220
Other Noncurrent Assets, 2.153–2.169
Other Noncurrent Liabilities, 2.260–2.282

Preferred Stock, *see* Paid-In Capital; Stockholders' Equity
Prepaid Expenses, *see* Prepaid Expenses
Property, Plant, and Equipment, *see* Property, Plant, and Equipment
Receivables Other Than Trade Receivables, *see* Receivables
Receivables Sold or Collateralized, *see* Receivables
Reclassifications, 2.07, 2.08
Reserves—Use of the Term "Reserve", 2.283, 2.284
Retained Earnings, *see* Retained Earnings
Short-Term Debt, *see* Liabilities
Table 2-1: Balance Sheet Title, 2.02
Table 2-2: Balance Sheet Format, 2.06
Table 2-3: Cash and Cash Equivalents—Balance Sheet Captions, 2.11
Table 2-4: Marketable Securities—Bases, 2.22
Table 2-5: Current Receivables, 2.34
Table 2-6: Receivables Sold or Collateralized, 2.50
Table 2-7: Doubtful Account Captions, 2.57
Table 2-8: Inventory Captions, 2.67
Table 2-9: Inventory Cost Determination, 2.68
Table 2-10: Industry Classification of Companies Using LIFO, 2.69
Table 2-11: Prepaid Expenses, 2.79
Table 2-12: Other Current Asset Captions, 2.83
Table 2-13: Land Captions, 2.95
Table 2-14: Depreciable Asset Captions, 2.96
Table 2-15: Accumulated Depreciation, 2.97
Table 2-16: Investments—Carrying Bases, 2.111
Table 2-17: Investments—Description, 2.112
Table 2-18: Noncurrent Receivables, 2.128
Table 2-19: Intangible Assets, 2.137
Table 2-20: Amortization Period—2002, 2.138
Table 2-21: Other Noncurrent Assets, 2.154
Table 2-22: Short-Term Debt, 2.177
Table 2-23: Trade Accounts Payable, 2.183
Table 2-24: Employee-Related Liabilities, 2.187
Table 2-25: Current Income Tax Liability, 2.191
Table 2-26: Current Amount of Long-Term Debt, 2.198
Table 2-27: Other Current Liabilities, 2.202
Table 2-28: Long-Term Debt, 2.229
Table 2-29: Credit Agreements, 2.239
Table 2-30: Long-Term Leases, 2.248
Table 2-31: Other Noncurrent Liabilities, 2.261
Table 2-32: Use of Term "Reserve", 2.284
Table 2-33: Title of Stockholders' Equity Section, 2.286
Table 2-34: Capital Structures, 2.289
Table 2-35: Common Stock, 2.291
Table 2-36: Preferred Stock, 2.294
Table 2-37: Additional Paid-In Capital—Caption Title, 2.300
Table 2-38: Retained Earnings—Caption Title, 2.302
Table 2-39: Accumulated Other Comprehensive Income—Balance Sheet Caption, 2.307
Table 2-40: Accumulated Other Comprehensive Income—Presentation of Component Balances, 2.308
Table 2-41: Treasury Stock—Balance Sheet Presentation, 2.317
Table 2-42: Other Stockholders' Equity Accounts, 2.325
Title, 2.01, 2.02
Trade Accounts Payable, *see* Liabilities
Treasury Stock, 2.315–2.320

BANKRUPTCY
Subsequent Events, 1.223

BONDS, *see* Liabilities

BUSINESS COMBINATIONS, *see also* Purchase Method
Accounting Changes, 1.70, 1.71
Additional Paid-In Capital, Change In, 5.38
Additional Payments Related To, 1.171, 1.172, 2.279
APB Opinion No.16, 1.94, 5.14
Cash Flow From Investing Activities, 6.34
Consistency, 7.36
Formation of Jointly Owned Companies, 1.103
Losses, Merger Costs, 3.57
Other Noncurrent Liabilities, 2.279
Purchase Method, 1.98–1.102, 5.38, 6.34
SFAS No. 141, 1.94, 5.14
Subsequent Events, 1.215–1.218
Table 1-10: Business Combination Disclosures—2002, 1.97

C

CAPITAL EXPENDITURES
Cash Flows From Investing Activities, 6.30, 6.31
Commitments, 1.169, 1.170

CAPITAL STOCK, *see also* Additional Paid-In Capital; Paid-In Capital; Stockholders' Equity
Cash Flows from Financing Activities, 6.44, 6.45
Subsequent Events, 1.221

CAPITAL STRUCTURE
Balance Sheet Presentation, 2.287–2.289
SFAS No. 129, 2.287
Stockholders' Equity, 2.287–2.289
Table 2-34: Capital Structures, 2.289

CARRYBACKS/CARRYFORWARDS, *see* Income Taxes

CASH AND CASH EQUIVALENTS
Balance Sheet Presentation, 2.09–2.14
SFAS No. 95, 2.09, 6.59
Statement of Cash Flows, 6.59–6.64
Table 2-3: Cash and Cash Equivalents—Balance Sheet Captions, 2.11
Table 6-5: Cash and Cash Equivalents, 6.60

CASH FLOWS, *see* Statement of Cash Flows

CASH VALUE OF LIFE INSURANCE
Other Noncurrent Assets, 2.166

CHANGE IN ACCOUNTING, *see* Accounting Changes

CLASSIFICATION OF COMPANIES
Companies Selected for Survey, 1.01–1.06
Table 1-1: Industry Classifications, 1.04
Table 1-2: Revenue of Survey Companies, 1.06

COLLATERAL
Receivables Sold or Collateralized, 2.46–2.55
Long-Term Debt, 2.234, 2.235
Table 2-6: Receivables Sold or Collateralized, 2.50

COMMITMENTS, *see also* Contracts; Financial Instruments
Additional Payments Related to Acquisitions, 1.171, 1.172
Capital Expenditures, 1.169, 1.170
Consent Decree, 1.178
Debt Covenant Restrictions, 1.159–1.163
Employment Contracts, 1.175, 1.176
Licensing Agreements, 1.177
Purchase Agreements, 1.164–1.168
Sales Agreements, 1.173, 1.174
SFAS No. 5, 1.156
Table 1-12: Commitments, 1.158
Trade-In Options, 1.179

COMMON STOCK, *see* Paid-In Capital; Stockholders' Equity

COMPANIES SELECTED FOR SURVEY, *see* Classification of Companies; Industry Classification

COMPARATIVE FINANCIAL STATEMENTS
Disclosure, 1.47–1.49
Predecessor Auditors' Report Not Presented, 7.49, 7.50
Predecessor Auditors' Report Not Reissued, 7.52
Predecessor Auditors' Report Reissued, 7.51
Reports on, 7.46–7.52
SAS No. 1, section 9508, 7.47
SAS No. 58, 7.09, 7.10, 7.46
SAS No. 79, 7.46
SEC Rule 14a-3 Requirements, 1.07, 1.47

COMPENSATION, *see also* Employee
Compensation Committee Reports, 7.68

COMPREHENSIVE INCOME, *see also* Accumulated Other Comprehensive Income; Other Comprehensive Income
Accumulated Other Comprehensive Income, 2.303–2.314
Auditors' Standard Report, 7.11–7.14
Combined Statement of Net Income and Comprehensive Income, 4.13, 4.14, 7.13
Components of Other Comprehensive Income, Changes in Fair Value of Derivatives, 4.27, 4.28
Components of Other Comprehensive Income, Cumulative Translation Adjustments, 4.23, 4.24
Components of Other Comprehensive Income, Minimum Pension Liability Adjustments 4.25, 4.26
Components of Other Comprehensive Income, Reclassification Adjustments, 4.31, 4.32
Components of Other Comprehensive Income, Unrealized Losses/Gains on Certain Investments, 4.29, 4.30
Presentation in Annual Report, 4.01–4.14
Separate Statement, 4.11, 4.12, 7.12
SFAS No. 130, 2.303, 3.04, 4.01, 4.02, 4.18, 4.19
Statement of Changes in Stockholders' Equity, 4.08–4.10, 7.14
Table 4-1: Comprehensive Income—Reporting Statement, 4.04
Table 4-2: Comprehensive Income—Reporting Statement Title, 4.07
Table 4-3: Other Comprehensive Income—Components, 4.22
Tax Effect Disclosure, 4.15–4.17

CONSISTENCY
Business Combinations, 7.36
Derivatives, 7.31, 7.32
Goodwill Not Amortized, 7.29, 7.30
Impairment of Long-Lived Assets, 7.33, 7.34
Independent Auditors' Report, 7.27–7.40
Inventories, 7.38
Investments, 7.40
Revenue Recognition, 7.35
Sales Incentives, 7.37
SAS No. 58, 7.27
SAS No. 79, 7.27
Stock-Based Compensation, 7.39
Table 7-4: Lack of Consistency, 7.28

CONSOLIDATION
ARB No. 51, 1.82, 1.83
Policies, 1.82–1.93
SFAS No. 94, 1.83, 1.84
SFAS No. 131, 1.84
Table 1-9: Nonhomogeneous Operations Consolidated, 1.86

CONTINGENCIES, *see also* Gain Contingencies; Loss Contingencies
Disclosure, 1.104–1.132
Gain, *see* Gain Contingencies
Loss, *see* Loss Contingencies
SFAS No. 5, 1.104
Table 1-11: Contingencies, 1.106

CONTRACTS, *see also* Commitments
ARB No. 43, Chapter 11, 3.147
ARB No. 45, 3.147
Employment, 1.175, 1.176
Futures, *see* Financial Instruments
Income Statement Presentation, 3.147–3.155
Intangible Assets, 2.152
Licensing Agreements, 1.177
Loss Contingencies, 1.125
Other Noncurrent Asset, 2.167
Purchase Agreements, 1.164–1.168
Receivables, Current, 2.39, 2.40
Sales Agreement, 1.173, 1.174
SOP 81-1, 3.147
Table 3-15: Method of Accounting for Long-Term Contracts, 3.149
Trade-In Options, 1.179

COST METHOD
Balance Sheet, 2.120

COST OF GOODS SOLD
Expenses, 3.37, 3.38
Table 3-5: Expenses—Cost of Goods Sold Captions, 3.34

COSTING METHODS, *see* Valuation Methods; Inventories

CREDIT AGREEMENTS
Balance Sheet Presentation, 2.238–2.244
Table 2-29: Credit Agreements, 2.239

CREDIT RISK CONCENTRATIONS
Financial Instruments, 1.199–1.203

CUSTOMER LISTS
Intangible Asset, 2.147

D

DEBT, *see* Liabilities

DEBT COVENANT RESTRICTIONS
Commitments, 1.159–1.163
Violation of, 2.223, 2.237

DEFERRED COMPENSATION, *see* Employees

DEFERRED CREDITS
Other Current Liabilities, 2.206, 2.207
Other Noncurrent Liabilities, 2.280–2.282

DEFERRED INCOME TAXES
Current Asset, 2.84–2.86
Current Liability, 2.212
Noncurrent Asset, 2.155, 2.156
Noncurrent Liability, 2.262, 2.263

DEPLETION
Expense, 3.126, 3.127

DEPOSITS
Other Current Assets, 2.90
Other Current Liabilities, 2.213

DEPRECIABLE ASSETS, *see* Property, Plant, and Equipment

DEPRECIATION
Accelerated Methods, 3.122, 3.123
APB Opinion No. 12, 3.117
ARB No. 43, Chapter 9C, 3.117
Depletion, 3.126, 3.127
Income Statement Presentation, 3.117–3.127
Production Variable Method, 3.125
Straight-Line Method, 3.120, 3.121
Table 2-15: Accumulated Depreciation, 2.97
Table 3-13: Depreciation Methods, 3.119
Units-of-Production Method, 3.124

DERIVATIVES
Accounting Changes, 1.74
Changes in Fair Value of, 4.27, 4.28
Financial Instruments, 1.184–1.188
Gains, Change in Fair Value of, 3.25
Lack of Consistency, 7.31, 7.32
Losses, Change in Fair Value of, 3.55
Other Current Assets, 2.89
Other Current Liabilities, 2.217
Other Noncurrent Assets, 2.163, 2.164
Other Noncurrent Liabilities, 2.267

DISCLOSURE
Accounting Policies, 1.55–1.61
Comprehensive Income, Tax Effect, 4.15–4.17
Contingencies, 1.104–1.132
Fair Value of Financial Instruments, 1.195–1.198
Inflation, 1.237–1.240
Long-term Debt, 2.222
Segment Information, 1.25–1.34
Table 1-7: Disclosure of Accounting Policies, 1.57
Table 1-10: Business Combination Disclosures—2002, 1.97

DISCONTINUED OPERATIONS
Adjustment of Gain/Loss Reported in Prior Period, 3.166, 3.167
APB Opinion No. 30, 3.156–3.158
Business Segment Disposals, 3.163–3.165
Cash Flows From Investing Activities, 6.35
Cash Flows From Operating Activities, Restructuring Charge, 6.23
Exit Activity Costs, 1.77
Income Statement Presentation, 3.156–3.167
Losses, Restructuring, 3.44, 3.45
Other Current Liabilities, 2.203, 2.204
Other Noncurrent Liabilities, 2.275
Property Held for Sale, 2.87, 2.88, 2.165
SFAS No. 121, 3.159
SFAS No. 131, 3.158
SFAS No. 142, 3.158
SFAS No. 144, 3.157–3.160
Subsequent Events, 1.211–1.214

DIVIDENDS
Cash, 5.08, 5.09
Cash Flows From Financing Activities, 6.47
ESOP, 5.24
In Kind, 5.10, 5.11
Liability Accruals, 2.214
Reinvestment Plan, 5.46
Retained Earnings, 5.04–5.12, 5.24
Stock, 1.224
Stock Purchase Rights, 5.12
Subsequent Event, 1.224
Table 5-2: Dividends, 5.07

DOUBTFUL ACCOUNTS
Allowance, 2.56, 2.57
APB Opinion No. 12, 2.56
Expense, 3.42
Reconciliation of Net Income to Operating Cash Flows, 6.20
Table 2-7: Doubtful Account Captions, 2.57

E

EARNINGS PER SHARE
APB Opinion No. 15, 3.178
Income Statement Presentation, 3.178–3.183
SFAS No. 128, 3.178

EITF, *see* Emerging Issues Task Force Issues (FASB)

EMERGING ISSUES TASK FORCE ISSUES (FASB) *see* "Pronouncement Index"

EMPHASIS OF A MATTER
Independent Auditors' Report, 7.41–7.44
SAS No. 58, 7.41

EMPLOYEE STOCK OWNERSHIP PLANS
Guarantees of ESOP Debt, 2.328
Income Statement Presentation, 3.109, 3.110
Stockholders Equity, Other Components, 5.58
Tax Benefits From ESOP Dividends, 5.24

EMPLOYEES
APB Opinion No. 25, 3.89
Balance Sheet Presentation, 2.186–2.189, 2.269–2.272
Cash Flows From Operating Activities, 6.18
Common Stock Issued to Benefit Plans, 5.36, 5.37
Compensation Committee Report, 7.68
Compensatory Plans, 3.89–3.116
Costs Related to, 6.18
Deferred Compensation Plan, 3.111, 5.43
Employee Benefit Trust, 2.330
Employee Stock Ownership Plans, *see* Employee Stock Ownership Plans
Employment Contracts, 1.175, 1.176
Equity Trust Market Value Adjustment, 5.51
ESOP Dividend, 5.24
Guarantees of ESOP Debt, 2.328
Incentive Compensation Plans, 3.114
Income Statement Presentation, 3.89–3.116
Liability Accruals, 2.186–2.189, 2.269–2.272
Participation Shares, 3.115
Profit Sharing Plans, 3.112, 3.113
Reconciliation of Net Income to Operating Cash Flows, 6.18
Related Party Transaction with Benefit Trust, 1.234
Related Party Transaction with Officer/Director, 1.233
Restricted Stock Issued, 5.49
Savings/Investment Plans, 3.99–3.101
SFAS No. 123, 3.89, 3.90
SFAS No. 148, 3.90
Share Value Trust, 3.116
Stock-Based Compensation, 1.78, 1.79, 3.94–3.98, 3.102–3.105, 3.115, 3.116, 7.39
Stock Award Plans, 2.326, 2.327, 3.102–3.105
Stock Loan Program, 5.59
Stock Option Plans, 3.94–3.98
Stock Purchase Plans, 3.106–3.108
Subsequent Events, 1.222
Table 2-24: Employee-Related Liabilities, 2.187
Table 3-12: Employee Compensatory Plans, 3.93
Unearned Compensation Expense, 5.56, 5.57
Unearned Compensation Relating to Stock Award Plans, 2.326, 2.327

ENVIRONMENTAL MATTERS
Environmental Clean-Up, 3.58
Liability Accruals, 2.216, 2.273, 2.274
Loss Contingencies, 1.112–1.118
SEC Rule 14a-3 Requirements, 1.20, 1.21

EQUITY METHOD
Balance Sheet, 2.113–2.115

ESOP, *see* Employee Stock Ownership Plans

ESTIMATES
Significant, 1.143–1.148
Use of, 1.139–1.142

EURO CONVERSION
SEC Rule 14a-3 Requirements, 1.19

EVENTS OF SEPTEMBER 11, 2001, *see* September 11, 2001

EXPENSES, *see also* Losses
Advertising, 3.41
Cost of Goods Sold, 3.37, 3.38
Income Statement Presentation, 3.37–3.43
Provision for Doubtful Accounts, 3.42
Research and Development, 3.39, 3.40
SFAC No. 6, 3.31
Shipping, 3.43
Table 3-5: Expenses—Cost of Goods Sold Captions, 3.34
Table 3-6: Expenses—Other Than Cost of Goods Sold, 3.35

EXTRAORDINARY ITEMS
Accounting Changes, 1.72, 1.73
APB Opinion No. 30, 3.172
Debt Extinguishments, 3.175, 3.176
Income Statement Presentation, 3.172–3.177
Litigation, 3.177
SFAS No. 4, 3.172
SFAS No. 145, 3.172
Table 3-17: Extraordinary Items, 3.174

F

FAIR VALUE
Accounts Payable, 2.181
Current Amount of Long-term Debt, 2.194–2.197
Current Receivables, 2.31
Derivatives, Changes in Fair Value of, 3.25, 3.55, 4.27, 4.28
Equity Trust Market Value Adjustments, 5.51
Fair Value of Financial Instruments, 1.195–1.198
Investments, 2.104–2.108, 2.116–2.119
Long-term Debt, 2.224–2.227
Marketable Securities, 2.15–2.20
Noncurrent Receivables, 2.122–2.125
Short-term Debt, 2.172–2.175

FASB CONCEPTS STATEMENTS, *see* Statements of Financial Accounting Concepts (FASB)

FASB INTERPRETATIONS, *see* Financial Accounting Standards Board Interpretations (FASB)

FASB STATEMENTS, *see* Statements of Financial Accounting Standards (FASB)

FIFO, *see* Inventories

FINANCIAL ACCOUNTING STANDARDS BOARD ACCOUNTING STANDARDS—CURRENT TEXT *see* "Pronouncement Index"

FINANCIAL ACCOUNTING STANDARDS BOARD CONCEPTS STATEMENTS, *see* Statements of Financial Accounting Concepts (FASB)

FINANCIAL ACCOUNTING STANDARDS BOARD EMERGING ISSUES TASK FORCE ISSUES, *see* Emerging Issues Task Force Issues

FINANCIAL ACCOUNTING STANDARDS BOARD INTERPRETATIONS *see* "Pronouncement Index"

FINANCIAL ACCOUNTING STANDARDS BOARD STATEMENTS, *see* Statements of Financial Accounting Standards (FASB)

FINANCIAL INSTRUMENTS
- Accounting Changes, 1.74
- Concentration of Credit Risk, 1.199–1.203
- Derivatives, 1.184–1.188, 2.89, 2.163, 2.164, 2.217, 2.267, 3.25, 3.55
- Fair Value Disclosures, 1.195–1.198
- Financial Guarantees, 1.189–1.191
- Letters of Credit, 1.192
- Off-Balance-Sheet, 1.189–1.194
- Sale of Receivables With Recourse, 1.193, 1.194
- SFAS No. 105, 1.180
- SFAS No. 107, 1.180
- SFAS No. 119, 1.180
- SFAS No. 133, 1.180
- SFAS No. 138, 1.180
- SFAS No. 149, 1.180
- Table 1-13: Financial Instruments, 1.183

FINANCIAL STATEMENTS
- Comparative, 1.47–1.49, 7.46–7.52
- Notes to, 1.52–1.54
- Rounding of Amounts, 1.50, 1.51
- Table 1-5: Rounding of Amounts, 1.51
- Table 1-6: Notes to Financial Statements, 1.54

FINANCING ACTIVITIES, *see* Statement of Cash Flows

FIRST-IN, FIRST-OUT, *see* Inventories

FISCAL PERIODS
- Change in, 1.39–1.42
- Change in Fiscal Year of Subsidiary, 5.23
- Definition, 1.35, 1.43–1.46
- Table 1-4: Month of Fiscal Year End, 1.38

FIVE-YEAR SUMMARY OF OPERATIONS
- SEC Rule 14a-3 Requirements, 1.12, 1.13

FIXED ASSETS, *see* Property, Plant, and Equipment

FOREIGN CURRENCY CASH FLOWS, *see* Foreign Currency Translation

FOREIGN CURRENCY TRANSACTIONS
- Gains, 3.24
- Losses, 3.51

FOREIGN CURRENCY TRANSLATION
- Cumulative Translation Adjustments, 4.23, 4.24
- SFAS No. 95, 6.51
- Statement of Cash Flows, 6.51–6.53
- Subsequent Event, 1.227

FORWARD-LOOKING STATEMENTS
- SEC Rule 14a-3 Requirements, 1.16–1.18

FRANCHISES
- Intangible Assets, 2.151

FUTURES, *see* Financial Instruments

G

GAIN CONTINGENCIES
- Plaintiff Litigation, 1.128–1.130
- Receivables, 1.131, 1.132
- SFAS No. 5, 1.104
- Table 1-11: Contingencies, 1.106

GAINS, *see also* Revenue
- Change in Fair Value of Derivatives, 3.25
- Debt Extinqiushement, 1.72, 1.73
- Discontinued Operations, Adjustment From Prior Period, 3.166, 3.167
- Equity in Earnings of Investee, 3.22
- Foreign Currency Transactions, 3.24
- Income Statement Presentation, 3.19–3.30
- Insurance Recoveries, 3.29
- Interest, 3.19
- Liability Accruals Reduced, 3.23
- Litigation Settlement, 3.27
- Nonrecurring Gain, 3.30
- Rentals, 3.28
- Royalties, 3.26
- Sale of Assets, 3.20, 3.21
- Table 3-4: Gains, 3.14

GOODWILL
- Accounting Changes, 1.65–1.67
- Intangible Asset, 2.139–2.143
- Lack of Consistency, 7.29, 7.30
- Not Amortized, 7.29, 7.30
- SFAS No. 142, 2.133

GOVERNMENT
- Consent Decree, 1.178
- Investigations, Loss Contingencies, 1.120–1.122

GUARANTEES AND WARRANTIES
- ESOP Debt, 2.328
- Financial Guarantees, 1.189–1.191
- Other Current Liabilities, 2.210
- Other Noncurrent Liabilities, 2.277
- Product Warranties, 2.210

H

HEDGING, *see* Derivatives; Financial Instruments

I

IMPAIRMENT OF LONG-LIVED ASSETS, *see also* Write-Downs/Write-Offs
- Accounting Changes, 1.68, 1.69
- Intangibles, 2.133
- Lack of Consistency, 7.33, 7.34

INCENTIVE COMPENSATION, *see* Employees

INCOME, *see* Gains; Revenue

INCOME PER SHARE, *see* Earnings Per Share

INCOME STATEMENT
- Charges or Credits Shown After Income Tax Caption, 3.168–3.171
- Comprehensive Income Combined with, 4.13, 4.14
- Depreciation Expense, *see* Depreciation
- Discontinued Operations, *see* Discontinued Operations
- Earnings Per Share, *see* Earnings Per Share
- Employee Compensatory Plans, *see* Employees
- Expenses, *see* Expenses
- Extraordinary Items, *see* Extraordinary Items
- Format, 3.03–3.09
- Gains, *see* Gains
- Income Taxes, *see* Income Taxes
- Long-Term Contracts, *see* Contracts
- Losses, *see* Losses
- Operating Loss and Tax Credit Carryforwards, *see* Income Taxes
- Pensions and Other Postretirement Benefits, *see* Pensions and Postretirement Benefits
- Postemployment Benefits, *see* Postemployment Benefits
- Reclassification, 3.08, 3.09
- Revenues, *see* Revenues
- SFAC No. 6, 3.10
- SFAS No. 130, 3.04
- Table 3-1: Income Statement Title, 3.02
- Table 3-2: Income Statement Format, 3.07
- Table 3-3: Revenue Caption Title, 3.13
- Table 3-4: Gains, 3.14
- Table 3-5: Expenses—Cost of Goods Sold Captions, 3.34
- Table 3-6: Expenses—Other Than Cost of Goods Sold, 3.35
- Table 3-7: Losses, 3.36
- Table 3-8: Assumed Discount Rate, 3.71
- Table 3-9: Assumed Rate of Compensation Increase, 3.72
- Table 3-10: Expected Rate of Return, 3.73
- Table 3-11: Health Care Cost Trend Rate—2002, 3.74
- Table 3-12: Employee Compensatory Plans, 3.93
- Table 3-13: Depreciation Methods, 3.119
- Table 3-14: Income Tax Expense, 3.130
- Table 3-15: Method of Accounting for Long-Term Contracts, 3.149
- Table 3-16: Charges or Credits Shown After Income Tax Caption, 3.169
- Table 3-17: Extraordinary Items, 3.174
- Taxes on Undistributed Earnings, *see* Undistributed Earnings
- Title, 3.01, 3.02

INCOME TAXES
- Assessments, Loss Contingencies, 1.123, 1.124
- Balance Sheet Presentation, 2.190–2.193
- Benefit From ESOP Dividends, 5.24
- Comprehensive Income, Tax Effect Disclosure, 4.15–4.17
- Consolidated Tax Return, 1.235
- Credit Provision, 3.134, 3.135
- Deferred, *see* Deferred Income Taxes
- Expense Provision, 3.131–3.133
- Income Statement Presentation, 3.128–3.146
- Liability, 2.190–2.193
- No Provision, 3.136
- Operating Loss and Tax Credit Carryforwards, 3.137–3.140
- Other Than Federal, 2.208, 2.209
- Refund Claims, 2.35, 2.36
- Related Party Transaction, 1.235, 1.236
- SFAS No. 109, 3.128, 3.137, 3.141
- Statement of Cash Flows, 6.26–6.28
- Stock Option Tax Benefit, 5.25, 5.42
- Table 2-25: Current Income Tax Liability, 2.191
- Table 3-14: Income Tax Expense, 3.130
- Table 6-4: Interest and Income Tax Payments, 6.12
- Undistributed Earnings, *see* Undistributed Earnings

INDEBTEDNESS, *see* Liabilities

INDEPENDENT AUDITORS' REPORT
- Addressee, 7.06–7.08
- Audit Committee Reports, 7.66, 7.67
- Auditors' Standard Report, 7.09–7.14
- Business Combinations, 7.36
- Compensation Committee Reports, 7.68
- Dating of Report, 7.56–7.62
- Departures From Unqualified Opinions, 7.45
- Derivatives, 7.31, 7.32
- Emphasis of a Matter, 7.41–7.44
- Goodwill Not Amortized, 7.29, 7.30
- Impairment of Long-Lived Assets, 7.33, 7.34
- Inventories, 7.38
- Investments, 7.40
- Lack of Consistency, 7.27–7.40
- Management and Special Purpose Committee Reports, 7.63–7.68
- Opinion Expressed on Supplementary Financial Information, 7.53–7.55
- Predecessor Auditors' Report Not Presented, 7.49, 7.50
- Predecessor Auditors' Report Not Reissued, 7.52
- Predecessor Auditors' Report Reissued, 7.51
- Presentation in Annual Report, 7.01–7.03
- Reference to Report of Other Auditors, 7.15–7.20
- Reports of Management, 7.64, 7.65
- Reports on Comparative Financial Statements, 7.46–7.52
- Revenue Recognition, 7.35
- Sales Incentives, 7.37
- SAS No. 1, section 530, 7.56
- SAS No. 1, section 543, 7.15, 7.16
- SAS No. 1, section 9508, 7.47
- SAS No. 7, 7.56
- SAS No. 29, 7.56
- SAS No. 58, 7.01, 7.04, 7.06, 7.09, 7.10, 7.16, 7.21, 7.27, 7.41, 7.45, 7.46
- SAS No. 59, 7.21
- SAS No. 64, 7.15
- SAS No. 79, 7.21, 7.27, 7.41, 7.45, 7.46
- SAS No. 85, 7.21
- SAS No. 93, 7.09
- SAS No. 98, 7.56
- SFAS No. 130, 7.11
- Statement of Changes in Shareholders' Equity, 7.14
- Statement of Comprehensive Income, 7.12
- Statement of Operations and Comprehensive Income, 7.13

Stock-Based Compensation, 7.39
Table 7-1: Presentation in Annual Report, 7.03
Table 7-2: Addressee of Auditors' Reports, 7.08
Table 7-3: Uncertainties, 7.23
Table 7-4: Lack of Consistency, 7.28
Title, 7.04, 7.05
Uncertainties, 7.21–7.26

INDUSTRY CLASSIFICATION
Companies Selected for Survey, 1.01–1.06
Table 1-1: Industry Classifications, 1.04

INFLATION
Disclosures, 1.237–1.240
SFAS No. 89, 1.237

INSURANCE
Cash Flows From Investing Activities, 6.39
Cash Value of, 2.166
Claims Receivable, 2.44
Liability Accruals, 2.211, 2.276
Loss Contingencies for, 1.119
Recoveries, 3.29

INTANGIBLE ASSETS
Accounting Changes, 1.65, 1.67
Amortization, 3.48, 3.49, 6.21
APB Opinion No.17, 2.132, 2.133
Balance Sheet Presentation, 2.132–2.152
Contracts, 2.152
Covenants Not to Compete, 2.150
Customer Lists/Relationships, 2.147
Goodwill, 2.139–2.143
Licenses and Franchises, 2.151
Patents, 2.146
Reconciliation of Net Income to Operating Cash Flows, 6.21
Technology, 2.148, 2.149
Trademarks, 2.144, 2.145
SFAS No. 87, 2.134
SFAS No. 142, 2.133, 3.158
Table 2-19: Intangible Assets, 2.137
Table 2-20: Amortization Period—2002, 2.138

INTEREST
Capitalized, 6.40
Income, 3.19
Other Current Liabilities, 2.205
Statement of Cash Flows, 6.26–6.28, 6.40
Table 6-4: Interest and Income Tax Payments, 6.12

INVENTORIES
ARB No. 43, Chapter 4, 2.58
Average Cost, 2.76
Balance Sheet Presentation, 2.58–2.77
Consistency, Lack of, 7.38
First In First Out, 2.70, 2.71
Independent Auditors' Report, 7.38
Last In First Out, 2.72–2.75
Production Cost, 2.77
Table 2-8: Inventory Captions, 2.67
Table 2-9: Inventory Cost Determination, 2.68
Table 2-10: Industry Classification of Companies Using LIFO, 2.69

INVESTING ACTIVITIES, *see* Statement of Cash Flows

INVESTMENTS
APB Opinion No. 18, 2.103
Available-for-Sale Securities, 2.23–2.27
Balance Sheet Presentation, 2.15–2.30, 2.103–2.120
Cash Flows From Investing Activities, 6.32, 6.33, 6.38
Consistency, 7.40
Cost Method, 2.120
Equity Earnings/(Loss), 6.22
Equity in Earnings of Investee, 3.22
Equity in Losses of Investee, 3.52
Equity Method, 2.113–2.115
Fair Value, 2.15–2.20, 2.104–2.108, 2.116–2.119
FASB Interpretation No. 35, 2.103
Held-to-Maturity Securities, 2.29, 2.30
Receivables from Affiliates, 2.37, 2.38
Related Party Transaction with Investee, 1.231
Restricted Cash, 6.38
Segregated Funds, 2.161
SFAC No. 7, 2.18–2.20, 2.106, 2.108
SFAS No. 107, 2.16, 2.105
SFAS No. 115, 2.15–2.18, 2.104–2.106
SFAS No. 133, 2.15, 2.16, 2.104, 2.105
Table 2-4: Marketable Securities—Bases, 2.22
Table 2-16: Investments—Carrying Bases, 2.111
Table 2-17: Investments—Description, 2.112
Trading Securities, 2.28
Unrealized Losses/Gains, 4.29, 4.30

J

JOINT VENTURE
Formation, 1.103

L

Land, *see* Property, Plant, and Equipment

LAST-IN, FIRST-OUT, *see* Inventories

LAWSUITS, *see* Litigation

LEASES
Balance Sheet Presentation, 2.245–2.259
Capital, 2.249–2.252
Cash Flows From Financing Activities, 6.49
Lessee, 2.249–2.256
Lessor, 2.257–2.259
Operating, 2.253–2.256
SFAS No.13, 2.245
Table 2-30: Long-Term Leases, 2.248

LETTERS OF CREDIT
Financial Instruments, 1.192

LIABILITIES
Accounts Payable, 2.180–2.185
Accruals Reduced, 3.23
Acquisitions, 2.279
Advances/Deposits, 2.213

Advertising, 2.215
ARB No. 43, Chapter 3A, 2.170, 2.223
Balance Sheet Presentation, 2.170–2.282
Cash Flows From Financing Activities, 6.42, 6.43, 6.48
Cash Flows From Operating Activities, 6.24, 6.25
Changes in, 6.24, 6.25
Credit Agreements, 2.238–2.244
Current, 2.170–2.220
Current Amount of Long-Term Debt, 2.194–2.200
Debt, 2.171–2.179, 2.221–2.237
Debt Collateralized, 2.234, 2.235
Debt Conversion, 5.41
Debt Convertible, 2.236
Debt Covenant Violation, 2.223, 2.237
Debt Issue Costs, 2.162, 6.48
Debt Proceeds/Repayments, 6.42, 6.43
Debt Unsecured, 2.230–2.233
Deferred Credits/Revenue, *see* Deferred Credits
Deferred Taxes, *see* Deferred Income Taxes
Deposits, 2.213
Derivatives, *see* Derivatives
Discontinued Operations, 2.203, 2.204, 2.275
Dividend, 2.214
Employee-Related, 2.186–2.189, 2.269–2.272
Environmental Costs, 2.216, 2.273, 2.274
Extinguishments, 3.175, 3.176
Fair Value Disclosures, 2.172–2.175, 2.181, 2.194–2.197, 2.224–2.227
Income Tax, 2.190–2.193
Insurance, 2.211, 2.276
Interest, 2.205
Leases, *see* Leases
Litigation, 2.218, 2.278
Minority Interest, 2.264–2.266
Other Current, 2.201–2.220
Other Noncurrent, 2.260–2.282
Preferred Securities of Subsidiary Trust, 2.268
Product Warranties, 2.210
Rebates, 2.219
Reconciliation of Net Income to Operating Cash Flows, 6.24, 6.25
Royalties, 2.220
SFAC No. 7, 2.173, 2.175, 2.195, 2.197, 2.225, 2.227
SFAS No. 5, 2.222
SFAS No. 6, 2.170
SFAS No. 13, 2.245
SFAS No. 47, 2.222
SFAS No. 78, 2.170, 2.223
SFAS No. 107, 2.172, 2.181, 2.194, 2.224
SFAS No. 133, 2.172, 2.181, 2.194, 2.224
Subsequent Events, 1.207–1.210
Table 2-22: Short-Term Debt, 2.177
Table 2-23: Trade Accounts Payable, 2.183
Table 2-24: Employee-Related Liabilities, 2.187
Table 2-25: Current Income Tax Liability, 2.191
Table 2-26: Current Amount of Long-Term Debt, 2.198
Table 2-27: Other Current Liabilities, 2.202
Table 2-28: Long-Term Debt, 2.229
Table 2-29: Credit Agreements, 2.239
Table 2-30: Long-Term Leases, 2.248
Table 2-31: Other Noncurrent Liabilities, 2.261
Taxes Other Than Federal Income Taxes, 2.208, 2.209
Warranties, 2.210, 2.277

LICENSING AGREEMENTS
Commitments, 1.177
Intangible Assets, 2.151

LIFO, *see* Inventories

LINE OF CREDIT, *see* Credit Agreements

LITIGATION
Extraordinary Item, 3.177
Gain Contingencies, 1.128–1.130
Liability Accruals, 2.218, 2.278
Loss Contingencies, 1.107–1.111
Settlements, Gain, 3.27
Settlements, Losses, 3.54
Stockholder, 1.126
Subsequent Events, 1.219, 1.220

LOANS, *see* Liabilities

LOANS RECEIVABLE, *see* Receivables

LOSS CARRYFORWARDS, *see* Income Taxes

LOSS CONTINGENCIES
Contracts, 1.125
Environmental Matters, 1.112–1.118
Governmental Investigations, 1.120–1.122
Guarantees, *see* Guarantees and Warranties
Insurance Coverage/Self Insurance, 1.119
Litigation, 1.107–1.111
Possible Tax Assessments, 1.123, 1.124
Risks, *see* Risks and Uncertainties
Stockholder Litigation, 1.126
Table 1-11: Contingencies, 1.106
Unfunded Pension Obligation, 1.127

LOSSES, *see also* Expenses
Derivatives, Change in Fair Value of, 3.55
Environmental Clean-Up, 3.58
Equity in Losses of Investee, 3.52
Foreign Currency Transactions, 3.51
Income Statement Presentation, 3.44–3.64
Intangible Asset Amortization, 3.48, 3.49
Litigation Settlement, 3.54
Merger Costs, 3.57
Minority Interest, 3.53
Nonrecurring/Unusual Losses, 3.62–3.64
Purchased R & D, 3.60
Restructuring of Operations, 3.44, 3.45
Royalties, 3.59
Sale of Assets, 3.50
Sale of Receivables, 3.56
Start-Up Costs, 3.61
Table 3-7: Losses, 3.36
Write-Downs/Write-Offs, *see* Write-Downs/Write-Offs

M

MAJOR STOCKHOLDER
Related Party Transaction, 1.232

MANAGEMENT
Reports, 7.64, 7.65

MANAGEMENT'S DISCUSSION AND ANALYSIS
SEC Rule 14a-3 Requirements, 1.14, 1.15

MARKET RISK
SEC Rule 14a-3 Requirements, 1.22–1.24

MARKETABLE SECURITIES, *see* Investments

MERGERS, *see* Business Combinations; Purchase Method

MINORITY INTERESTS
Cash Flow From Financing Activities, 6.50
Losses, 3.53
Other Noncurrent Liabilities, 2.264–2.266

N

NATURAL BUSINESS YEAR, *see* Fiscal Periods

NATURE OF OPERATIONS
Risks and Uncertainities, 1.135–1.138

NONCANCELABLE LEASES, *see* Leases

NONCASH ACTIVITIES
SFAS No. 95, 6.54
Statement of Cash Flows, 6.54–6.58

NONCOMPETE AGREEMENTS
Intangible Assets, 2.150

NONHOMOGENEOUS OPERATIONS
Assets of, 2.168
Consolidation Policies, 1.83
Table 1-9: Nonhomogeneous Operations Consolidated, 1.86

NONRECURRING ITEMS
Gains, 3.30
Losses, 3.62–3.64

NOTES PAYABLE, *see* Liabilities

NOTES RECEIVABLE, *see* Receivables

NOTES TO FINANCIAL STATEMENTS
Accumulated Other Comprehensive Income, 2.309, 2.310
SAS No. 32, 1.52
SEC Regulation S-K, 1.52
SEC Regulation S-X, 1.52
Table 1-6: Notes to Financial Statements, 1.54

O

OBLIGATIONS, *see* Liabilities

OPERATING ACTIVITIES, *see* Statement of Cash Flows

OPINIONS, *see* Independent Auditors' Report

OPINIONS, APB, *see* Accounting Principles Board Opinions (AICPA)

OTHER COMPREHENSIVE INCOME, *see also* Accumulated Other Comprehensive Income; Comprehensive Income
Component of, Change in Fair Value of Derivatives, 4.27, 4.28
Component of, Cumulative Translation Adjustments, 4.23, 4.24
Component of, Minimum Pension Liability Adjustments, 4.25, 4.26
Component of, Reclassification Adjustments, 4.31, 4.32
Component of, Unrealized Losses/Gains in Certain Investments, 4.29, 4.30
SFAS No. 130, 3.04, 4.01, 4.02, 4.18, 4.19
Table 4-3: Other Comprehensive Income—Components, 4.22

OTHER CURRENT/NONCURRENT ASSETS, *see* Assets

OTHER CURRENT/NONCURRENT LIABILITIES, *see* Liabilities

OTHER STOCKHOLDERS' EQUITY, *see* Stockholders' Equity

P

PAID-IN CAPITAL, *see also* Additional Paid-In Capital; Stockholders' Equity
Additional Paid-In Capital, 2.299, 2.300
Additional Paid-In Capital, Changes In, 5.26–5.53
APB Opinion No. 12, 5.26
Balance Sheet Presentation, 2.287–2.300
Business Combination, 5.38
Capital Structures, 2.287–2.289
Common Stock, 2.290, 2.291
Common Stock Issued in Connection With Employee Benefit Plans, 5.36, 5.37
Debt Conversion, 5.41
Deferred Compensation Recognized, 5.43
Dividend Reinvestment Plan, 5.46
Equity Trust Market Value Adjustment, 5.51
Equity Units, 5.52
Preferred Stock, 2.292–2.298
Preferred Stock Conversion, 5.40, 5.50
Preferred Stock Extended at Fair Value at Issuance Date Plus Accretion, 2.298
Preferred Stock Extended at Liquidating Value, 2.297
Preferred Stock Extended at Par Value, 2.295, 2.296
Public Offering, 5.39
Purchase Method Acquisition, 5.38
Put Option Issued, 5.45
Restricted Stock Issued, 5.49
SFAS No. 129, 2.287, 2.292
Stock Issuance Costs, 5.53
Stock Option Tax Benefit, 5.42
Stock Proceeds/Payments, 6.44, 6.45
Stock Splits, 5.29–5.33
Subsequent Event, 1.221
Table 2-34: Capital Structures, 2.289

Table 2-35: Common Stock, 2.291
Table 2-36: Preferred Stock, 2.294
Table 2-37: Additional Paid-In Capital—Caption Title, 2.300
Table 5-5: Presentation of Changes in Additional Paid-In Capital, 5.28
Table 5-6: Stock Splits, 5.30
Table 5-7: Changes in Additional Paid-In Capital, 5.35
Treasury Stock Issued, 5.48
Treasury Stock Purchased, 5.47
Warrants Issued, 5.44

PATENTS
Intangible Asset, 2.146

PAYABLES, *see* Liabilities

PENSION AND RETIREMENT PLANS
Adoption of Plan, 3.83
Amendment of Plan, 3.82
Contingencies, 1.127
Curtailment Gains/Losses, 3.84
Defined Benefit Plans, 3.75–3.77
Defined Contribution Plans, 3.78
Income Statement Presentation, 3.68–3.84
Minimum Pension Liability Adjustments, 4.25, 4.26
Multiemployer Plans, 3.81
Prepaid Cost, 2.157, 2.158
Related Party Transaction with Employee Benefit Trust, 1.234
SFAS No. 87, 3.68
SFAS No. 88, 3.68
SFAS No. 106, 3.68
SFAS No. 132, 3.68–3.70
Supplemental Retirement Plans, 3.79, 3.80
Table 3-8: Assumed Discount Rate, 3.71
Table 3-9: Assumed Rate of Compensation Increase, 3.72
Table 3-10: Expected Rate of Return, 3.73
Table 3-11: Health Care Cost Trend Rate—2002, 3.74

PLEDGED ASSETS, *see* Collateral

POST-BALANCE-SHEET DISCLOSURES, *see* Subsequent Events

POSTEMPLOYMENT BENEFITS
Income Statement Presentation, 3.85–3.88
SFAS No. 112, 3.85

PREDECESSOR AUDITORS' REPORT
Not Presented, 7.49, 7.50
Not Reissued, 7.52
Reissued, 7.51

PREFERRED SECURITIES OF SUBSIDIARY TRUST
Noncurrent Liability, 2.268

PREFERRED STOCK, *see* Paid-In Capital; Stockholders' Equity

PREPAID EXPENSES
Balance Sheet Presentation, 2.78–2.81
Table 2-11: Prepaid Expenses, 2.79

PRESENTATION IN ANNUAL REPORT, *see* Annual Report Presentation

PRIOR PERIOD ADJUSTMENTS
Retained Earnings, Adjustments to Opening Balance, 5.13, 5.14, 5.16
SFAS No. 16, 5.13
SFAS No. 109, 5.13

PRO FORMA FINANCIAL DATA, *see* Unaudited Data

PRODUCT WARRANTIES, *see* Guarantees and Warranties

PROFIT SHARING
Income Statement Presentation, 3.112, 3.113

PROMOTIONAL COSTS, *see* Advertising and Promotional Costs

PROPERTY, PLANT, AND EQUIPMENT, *see also* Depreciation
Acquisitions/Disposals, 6.30, 6.31
APB Opinion No. 12, 2.92
Balance Sheet Presentation, 2.92–2.102
Cash Flows From Investing Activities, 6.30, 6.31
Cash Flows From Operating Activities, 6.17
Commitments, 1.169, 1.170
Depreciation, *see* Depreciation
Discontinued Operations, *see* Discontinued Operations
Held for Sale, 2.87, 2.88, 2.165
Reconciliation of Net Income to Operating Cash Flows, 6.17
Sales of, 6.17
Table 2-13: Land Captions, 2.95
Table 2-14: Depreciable Asset Captions, 2.96
Table 2-15: Accumulated Depreciation, 2.97

PUBLIC OFFERINGS
Additional Paid-In Capital, Changes in, 5.39

PURCHASE AGREEMENTS
Commitments, 1.164–1.168

PURCHASE METHOD
Acquisition, 5.38
Business Combinations, 1.94–1.96, 1.98–1.102, 5.38, 6.34
Cash Flows From Investing Activities, 6.34
Changes in Additional Paid-In Capital, 5.38

PUT OPTIONS/WARRANTS
Changes in Additional Paid-In Capital, 5.45
Issued, 5.45

Q

QUARTERLY FINANCIAL DATA
SEC Rule 14a-3 Requirements, 1.10, 1.11

R

REBATES
Liability Accruals, 2.219

RECEIVABLES, *see also* Sale of Receivables
Affiliates, 2.37, 2.38
ARB No. 43, Chapter 3A, 2.121
Balance Sheet Presentation, 2.31–2.57, 2.121–2.131
Cash Flows From Investing Activities, 6.36
Collateral, 2.55
Contracts, 2.39, 2.40
Credit Card, 2.45
Current, 2.31–2.57
Doubtful Accounts, *see* Doubtful Accounts
Fair Value Disclosures, 2.31, 2.122–2.125
Finance, 6.36
Financial Instruments, 1.193, 1.194
Gain Contingencies, 1.131, 1.132
Installment, 2.43
Insurance Claims, 2.44
Losses on, 3.56
Noncurrent, 2.121–2.131
Other Than Trade Receivables, 2.35–2.45
Reconciliation of Net Income to Operating Cash Flows, 6.20
Related Party Transaction, 1.230
Retained Interest in Sold, 2.41
Sale of, 3.56
Sale of Receivables With Recourse, 1.193, 1.194
Sale of Stock, 2.329
Sale to Subsidiary, 1.230
SFAC No. 7, 2.123, 2.125
SFAS No. 107, 2.31, 2.122
SFAS No. 125, 2.47, 2.126
SFAS No. 133, 2.31, 2.47, 2.122, 2.126
SFAS No. 140, 2.47, 2.126
Sold or Collateralized, 2.46–2.55
Sold With Limited Recourse, 2.52
Sold With Recourse, 2.51
Sold Without Recourse, 2.53, 2.54
SOP 01-6, 2.32, 2.48
Table 2-5: Current Receivables, 2.34
Table 2-6: Receivables Sold or Collateralized, 2.50
Table 2-18: Noncurrent Receivables, 2.128
Tax Refund Claims, 2.35, 2.36
Used as Collateral, 2.55

RECLASSIFICATIONS
Balance Sheet, 2.07, 2.08
Income Statement, 3.08, 3.09
Other Comprehensive Income, 4.31, 4.32

RELATED PARTY TRANSACTIONS
Consolidated Tax Return, 1.235
Reporting Entity and Employee Benefit Trust, 1.234
Reporting Entity and Investee, 1.231
Reporting Entity and Major Stockholder, 1.232
Reporting Entity and Officer/Director, 1.233
Sale Of Receivables to Subsidiary, 1.230
SFAS No. 57, 1.229
Tax Sharing Agreement, 1.236

RELOCATION, *see* Discontinued Operations

REMEDIATION, *see* Environmental Matters

RENT
Income, 3.28

REPORTING ENTITY, *see* Consolidation

RESEARCH AND DEVELOPMENT
Expense, 3.39, 3.40
Purchased, 3.60

RESERVE
Accounting Terminology Bulletin No. 1, 2.283
Table 2-32: Use of the Term “Reserve”, 2.284
Use of Term, 2.283, 3.284

RESTRICTED ASSETS
Cash, 6.38
Cash Flows From Investing Activities, 6.38

RESTRICTED STOCK AWARDS, *see* Employees

RESTRUCTURING, *see* Discontinued Operations

RETAINED EARNINGS
Adjustments to Opening Balance, 5.13–5.17
APB Opinion No. 9, 5.02
APB Opinion No. 16, 5.14
Balance Sheet Presentation, 2.301, 2.302
Change in Accounting Principle, 5.17
Change in Fiscal Year of Subsidiary, 5.23
Dividends, 5.04–5.12
Dividends, Cash, 5.08, 5.09
Dividends-in-Kind, 5.10, 5.11
Other Changes in, 5.18–5.25
Preferred Stock Accretion, 5.22
Presentation of Changes in, 5.02, 5.03
Prior Period Adjustment, 5.16
SFAS No. 16, 5.13
SFAS No. 95, 5.02
SFAS No. 109, 5.13
SFAS No. 130, 5.54
SFAS No. 141, 5.14
Statement of Changes in Stockholders' Equity, 5.02–5.25
Stock Purchase Rights, 5.12
Table 2-38: Retained Earnings—Caption Title, 2.302
Table 5-1: Presentation of Changes in Retained Earnings, 5.03
Table 5-2: Dividends, 5.07
Table 5-3: Adjustments to Opening Balance of Retained Earnings, 5.15
Table 5-4: Other Changes in Retained Earnings, 5.19
Tax Benefit From ESOP Dividends, 5.24
Treasury Stock Transactions, 5.20, 5.21

REVENUE, *see also* Gains
Consistency, Lack of, 7.35
Contracts, 1.173, 1.174, 1.177
Income Statement Presentation, 3.15–3.18
Independent Auditors' Report, 7.35
SFAC No. 6, 3.10
Table 1-2: Revenue of Survey Companies, 1.06
Table 3-3: Revenue Caption Title, 3.13

REVOLVING CREDIT AGREEMENTS, *see* Credit Agreements

RIGHTS, *see* Stock Purchase Rights

RISKS AND UNCERTAINTIES
Concentrations of Credit Risk, 1.199–1.203
Market Risks, 1.22–1.24
Nature of Operations, 1.135–1.138
Significant Estimates, 1.143–1.148

SOP 94-6, 1.133, 1.134
Use of Estimates, 1.139–1.142
Vulnerability Due to Certain Concentrations, 1.149–1.155

ROUNDING OF AMOUNTS
Financial Statements, 1.50, 1.51
Table 1-5: Rounding of Amounts, 1.51

ROYALTIES
Income, 3.26
Losses, 3.59
Other Current Liabilities, 2.220

S

SALE OF RECEIVABLES, *see also* Receivables
Limited Recourse, 2.52
Losses, 3.56
Off-Balance-Sheet Financing, 1.193, 1.194
Recourse, 2.51
Related Party Transaction, 1.230
Retained Interest In, 2.41
Table 2-6: Receivables Sold or Collateralized, 2.50
Without Recourse, 2.53, 2.54

SALES, *see* Revenue

SALES INCENTIVES
Accounting Changes, 1.75, 1.76, 1.80
Consistency, 7.37

SAS, *see* Statements on Auditing Standards (AICPA)

SAVINGS/INVESTMENT PLANS, *see* Employees

SEC, *see* Securities and Exchange Commission

SEC RULE 14a-3
Environmental Matters Excerpts, 1.20, 1.21
Euro Currency Conversion Excerpts, 1.19
Forward-Looking Information Excerpts, 1.16–1.18
Management's Discussion and Analysis of Financial Condition and Results of Operations, 1.14, 1.15
Market Risk Information Excerpts From Management's Discussion and Analysis, 1.22–1.24
Quarterly Financial Data, 1.10, 1.11
Required Information in Annual Reports, 1.07–1.24
Selected Information for Five Years, 1.12, 1.13

SECURITIES, *see also* Investments
Available-For-Sale, 2.23–2.27
Held-to-Maturity, 2.29, 2.30
Trading, 2.28

SECURITIES AND EXCHANGE COMMISSION
Regulation S-K, 1.07, 1.52
Regulation S-X, 1.52
Rule 14a-3, 1.07, 1.47

SEGMENT INFORMATION
Disclosures, 1.25–1.34
SFAS No. 14, 1.25
SFAS No.131, 1.25, 1.26
Table 1-3: Segment Information, 1.28

SEGREGATED FUNDS
Noncurrent Asset, 2.161

SELECTED FINANCIAL DATA
SEC Rule 14a-3 Requirements, 1.12, 1.13

SEPTEMBER 11, 2001
Disclosure, 1.241–1.243
EITF Issue No. 01-10, 3.65
Impact of Events on, 1.241–1.243, 3.65–3.67
Income Statement Presentation, 3.65–3.67

SFAC, *see* Statements of Financial Accounting Concepts (FASB)

SFAS, *see* Statements of Financial Accounting Standards (FASB)

SHIPPING AND HANDLING
Expense, 3.43

SHORT-TERM DEBT, *see* Liabilities

SHUT DOWN, *see* Discontinued Operations

SOFTWARE
Capitalized, 6.37
Cash Flows From Investing Activities, 6.37
Development Costs, 2.159, 2.160

SOP, *see* Statements of Position (AICPA)

SPIN-OFF
Subsequent Event, 1.226

START-UP COSTS
Losses, 3.61

STATEMENT OF CASH FLOWS
Accounts Receivable, Provision for Losses, 6.20
APB Opinion No. 19, 6.01
Asset and Liability Changes, 6.24, 6.25
Asset Sale Other Than Property, 6.19
Business Combinations, 6.34
Capital Stock Proceeds/Payments, 6.44, 6.45
Capitalized Interest, 6.40
Capitalized Software, 6.37
Cash and Cash Equivalents, 6.59–6.64
Cash Flows From Financing Activities, 6.41–6.50
Cash Flows From Investing Activities, 6.29–6.40
Cash Flows From Operating Activities, 6.05–6.28
Debt Issuance Costs, 6.48
Debt Proceeds/Repayments 6.42, 6.43
Direct Method, 6.05, 6.06, 6.13, 6.14
Dividends Paid, 6.47
Employee-Related Costs, 6.18
Equity Earnings/(Loss), 6.22
Exercise of Stock Options, 6.46
Finance Receivable, 6.36
Foreign Currency Cash Flows, 6.51–6.53
Indirect/Reconciliation Method, 6.05, 6.06, 6.15, 6.16
Intangible Asset Amortization, 6.21
Interest and Income Tax Payments, 6.26–6.28
Investments, 6.32, 6.33, 6.38
Lease Obligation Payments, 6.49
Life Insurance Policies, 6.39
Minority Interest Distributions, 6.50
Noncash Activities, 6.54–6.58
Presentation in Annual Report, 6.03, 6.04

Property Acquisitions/Disposals, 6.30, 6.31
Reconciliation of Net Income to Operating Cash Flows, 6.17–6.25
Restricted Cash, 6.38
Restructuring Charge, 6.23
Sale of Discontinued Operation, 6.35
Sale of Property, 6.17
SFAS No. 95, 6.01, 6.05, 6.07, 6.29, 6.41, 6.51, 6.54, 6.59
SFAS No. 104, 6.29, 6.41
Table 6-1: Presentation in Annual Report, 6.04
Table 6-2: Method of Reporting Cash Flows From Operating Activities, 6.10
Table 6-3: Cash Flows From Operating Activities—Reconciling Items, 6.11
Table 6-4: Interest and Income Tax Payments, 6.12
Table 6-5: Cash and Cash Equivalents, 6.60

STATEMENTS OF FINANCIAL ACCOUNTING CONCEPTS (FASB), *see* “Pronouncement Index”

STATEMENTS OF FINANCIAL ACCOUNTING STANDARDS (FASB), *see* “Pronouncement Index”

STATEMENT OF FINANCIAL POSITION, *see* Balance Sheet

STATEMENT OF INCOME, *see* Income Statement

STATEMENTS OF POSITION (AICPA), *see* “Pronouncement Index”

STATEMENTS ON AUDITING STANDARDS (AICPA), *see* “Pronouncement Index”

STOCK AWARD PLANS
Income Statement Presentation, 3.102–3.105
Unearned Compensation Relating to Stock Award Plans, 2.326, 2.327

STOCK COMPENSATION
Accounting Changes, 1.78, 1.79

STOCK DIVIDENDS, *see also* Dividends
Subsequent Events, 1.224

STOCK OPTION PLANS
Cash Flows From Financing Activities, 6.46
Income Statement Presentation, 3.94–3.98
Tax Benefit, 5.25, 5.42

STOCK PURCHASE PLANS
Income Statement Presentation, 3.106–3.108
Issuance Costs, 5.53

STOCK PURCHASE RIGHTS
Dividends, 5.12
Retained Earnings, Changes in, 5.12
Stockholder Rights, 2.332
Subsequent Events, 1.225

STOCK PURCHASE WARRANTS
Common Stock, 2.331
Equity Units, 5.52
Issued, 5.44

STOCK SPLITS
Paid-In Capital, Changes in Additional, 5.29–5.33
Subsequent Event, 1.224
Table 5-6: Stock Splits, 5.30

STOCK-BASED COMPENSATION, *see* Employees

STOCKHOLDERS EQUITY
Accumulated Other Comprehensive Income, *see* Accumulated Other Comprehensive Income
Additional Paid-In Capital, *see* Additional Paid-In Capital
Adjustments to Opening Balance of Retained Earnings, 5.13–5.17
APB Opinion No. 9, 5.02
APB Opinion No. 12, 5.26
APB Opinion No. 16, 5.14
Balance Sheet Presentation, 2.285–2.332
Capital Structures, 2.287–2.289
Changes in Additional Paid-In Capital, *see* Additional Paid-In Capital
Common Stock, *see* Paid-In Capital
Common Stock Warrants, 2.331
Employee Benefit Trust, 2.330
Employee Stock Ownership Plan, 5.58
Dividends, *see* Dividends, Retained Earnings
Guarantees of ESOP Debt, 2.328
Independent Auditors’ Report, 7.14
Other Accounts Shown in Stockholders’ Equity, 2.321–2.332, 5.54–5.59
Other Changes in Retained Earnings, 5.18–5.25
Other Components of Stockholders’ Equity, 5.54–5.59
Preferred Stock, *see* Paid-In Capital
Presentation of Changes in Additional Paid-In Capital, 5.26–5.28
Presentation of Changes in Retained Earnings, 5.02, 5.03
Receivable from Sale of Stock, 2.329
Retained Earnings, 5.02–5.25
SFAS No. 16, 5.13
SFAS No. 95, 5.02
SFAS No. 109, 5.13
SFAS No. 129, 2.287, 2.292
SFAS No. 130, 2.303, 5.54
SFAS No. 141, 5.14
Stock Loan Program, 5.59
Stock Splits, 5.29–5.33
Stockholder Rights, 2.332
Table 2-33: Title of Stockholders’ Equity Section, 2.286
Table 2-34: Capital Structures, 2.289
Table 2-35: Common Stock, 2.291
Table 2-36: Preferred Stock, 2.294
Table 2-37: Additional Paid-In Capital—Caption Title, 2.300
Table 2-38: Retained Earnings—Caption Title, 2.302
Table 2-39: Accumulated Other Comprehensive Income—Balance Sheet Caption, 2.307
Table 2-40: Accumulated Other Comprehensive Income—Presentation of Component Balances, 2.308
Table 2-41: Treasury Stock—Balance Sheet Presentation, 2.317
Table 2-42: Other Stockholders’ Equity Accounts, 2.325
Table 5-1: Presentation of Changes in Retained Earnings, 5.03
Table 5-2: Dividends, 5.07

Table 5-3: Adjustments to Opening Balance of Retained Earnings, 5.15
Table 5-4: Other Changes in Retained Earnings, 5.19
Table 5-5: Presentation of Changes in Additional Paid-In Capital 5.28
Table 5-6: Stock Splits, 5.30
Table 5-7: Changes in Additional Paid-In Capital, 5.35
Title of Section in Balance Sheet, 2.285, 2.286
Treasury Stock, *see* Treasury Stock
Unearned Compensation Expense, 5.56, 5.57
Unearned Compensation Relating to Stock Award Plans, 2.326, 2.327

SUBSEQUENT EVENTS
Bankruptcy, 1.223
Business Combinations, 1.215–1.218
Capital Stock Issued or Purchased, 1.221
Debt Incurred, Reduced, or Refinanced, 1.207–1.210
Discontinued Operations, 1.211–1.214
Employee Benefits, 1.222
Functional Currency Change, 1.227
Litigation, 1.219, 1.220
Reorganization, 1.223
SAS No. 1, section 560, 1.204
SAS No. 12, 1.204
Spin-Off, 1.226
Stock Purchase Rights, 1.225
Stock Split/Dividends, 1.224
Table 1-14: Subsequent Events, 1.206
Write-Down of Capitalized Production Costs, 1.228

SUPPLEMENTARY FINANCIAL INFORMATION
Opinion Expressed on, Independent Auditors' Report, 7.53–7.55

T

TABLES
1-1: Industry Classifications, 1.04
1-2: Revenue of Survey Companies, 1.06
1-3: Segment Information, 1.28
1-4: Month of Fiscal Year End, 1.38
1-5: Rounding of Amounts, 1.51
1-6: Notes to Financial Statements, 1.54
1-7: Disclosure of Accounting Policies, 1.57
1-8: Accounting Changes, 1.64
1-9: Nonhomogeneous Operations Consolidated, 1.86
1-10: Business Combination Disclosures—2002, 1.97
1-11: Contingencies, 1.106
1-12: Commitments, 1.158
1-13: Financial Instruments, 1.183
1-14: Subsequent Events, 1.206
2-1: Balance Sheet Title, 2.02
2-2: Balance Sheet Format, 2.06
2-3: Cash and Cash Equivalents—Balance Sheet Captions, 2.11
2-4: Marketable Securities—Bases, 2.22
2-5: Current Receivables, 2.34
2-6: Receivables Sold or Collateralized, 2.50
2-7: Doubtful Account Captions, 2.57
2-8: Inventory Captions, 2.67
2-9: Inventory Cost Determination, 2.68
2-10: Industry Classification of Companies Using LIFO, 2.69
2-11: Prepaid Expenses, 2.79
2-12: Other Current Asset Captions, 2.83
2-13: Land Captions, 2.95
2-14: Depreciable Asset Captions, 2.96
2-15: Accumulated Depreciation, 2.97
2-16: Investments—Carrying Bases, 2.111
2-17: Investments—Description, 2.112
2-18: Noncurrent Receivables, 2.128
2-19: Intangible Assets, 2.137
2-20: Amortization Period—2002, 2.138
2-21: Other Noncurrent Assets, 2.154
2-22: Short-Term Debt, 2.177
2-23: Trade Accounts Payable, 2.183
2-24: Employee-Related Liabilities, 2.187
2-25: Current Income Tax Liability, 2.191
2-26: Current Amount of Long-Term Debt, 2.198
2-27: Other Current Liabilities, 2.202
2-28: Long-Term Debt, 2.229
2-29: Credit Agreements, 2.239
2-30: Long-Term Leases, 2.248
2-31: Other Noncurrent Liabilities, 2.261
2-32: Use of Term "Reserve", 2.284
2-33: Title of Stockholders' Equity Section, 2.286
2-34: Capital Structures, 2.289
2-35: Common Stock, 2.291
2-36: Preferred Stock, 2.294
2-37: Additional Paid-In Capital—Caption Title, 2.300
2-38: Retained Earnings—Caption Title, 2.302
2-39: Accumulated Other Comprehensive Income—Balance Sheet Caption, 2.307
2-40: Accumulated Other Comprehensive Income—Presentation of Component Balances, 2.308
2-41: Treasury Stock—Balance Sheet Presentation, 2.317
2-42: Other Stockholders' Equity Accounts, 2.325
3-1: Income Statement Title, 3.02
3-2: Income Statement Format, 3.07
3-3: Revenue Caption Title, 3.13
3-4: Gains, 3.14
3-5: Expenses—Cost of Goods Sold Captions, 3.34
3-6: Expenses—Other Than Cost of Goods Sold, 3.35
3-7: Losses, 3.36
3-8: Assumed Discount Rate, 3.71
3-9: Assumed Rate of Compensation Increase, 3.72
3-10: Expected Rate of Return, 3.73
3-11: Health Care Cost Trend Rate—2002, 3.74
3-12: Employee Compensatory Plans, 3.93
3-13: Depreciation Methods, 3.119
3-14: Income Tax Expense, 3.130
3-15: Method of Accounting for Long-Term Contracts, 3.149
3-16: Charges or Credits Shown After Income Tax Caption, 3.169

3-17: Extraordinary Items, 3.174
4-1: Comprehensive Income—Reporting Statement, 4.04
4-2: Comprehensive Income—Reporting Statement Title, 4.07
4-3: Other Comprehensive Income—Components, 4.22
5-1: Presentation of Changes in Retained Earnings, 5.03
5-2: Dividends, 5.07
5-3: Adjustments to Opening Balance of Retained Earnings, 5.15
5-4: Other Changes in Retained Earnings, 5.19
5-5: Presentation of Changes in Additional Paid-In Capital, 5.28
5-6: Stock Splits, 5.30
5-7: Changes in Additional Paid-In Capital, 5.35
6-1: Presentation in Annual Report, 6.04
6-2: Method of Reporting Cash Flows From Operating Activities, 6.10
6-3: Cash Flows From Operating Activities—Reconciling Items, 6.11
6-4: Interest and Income Tax Payments, 6.12
6-5: Cash and Cash Equivalents, 6.60
7-1: Presentation in Annual Report, 7.03
7-2: Addressee of Auditors' Reports, 7.08
7-3: Uncertainties, 7.23
7-4: Lack of Consistency, 7.28

TECHNOLOGY
Intangible Asset, 2.148, 2.149

TERMINOLOGY
Fiscal Year, 1.43–1.46
Natural Business Year, 1.35
Reserves, 2.283, 2.284

TITLE
Balance Sheet, 2.01, 2.02
Comprehensive Income Statement, 4.05
Income Statement, 3.01, 3.02
Independent Auditors' Report, 7.04, 7.05
SAS No. 58, 7.04
Stockholders' Equity Section, 2.285, 2.286
Table 2-1: Balance Sheet Title, 2.02
Table 2-33: Title of Stockholders' Equity Section, 2.286
Table 2-34: Capital Structures, 2.289
Table 2-35: Common Stock, 2.291
Table 2-36: Preferred Stock, 2.294
Table 2-37: Additional Paid-In Capital—Caption Title, 2.300
Table 2-38: Retained Earnings—Caption Title, 2.302
Table 2-39: Accumulated Other Comprehensive Income—Balance Sheet Caption, 2.307
Table 2-40: Accumulated Other Comprehensive Income—Presentation of Component Balances, 2.308
Table 2-41: Treasury Stock—Balance Sheet Presentation, 2.317
Table 2-42: Other Stockholders' Equity Accounts, 2.325
Table 3-1: Income Statement Title, 3.02
Table 3-3: Revenue Caption Title, 3.13
Table 4-2: Comprehensive Income—Reporting Statement Title, 4.07

TRADE ACCOUNTS PAYABLE
Balance Sheet Presentation, 2.180–2.185
Table 2-23: Trade Accounts Payable, 2.183

TRADEMARKS
Intangible Asset, 2.144, 2.145

TREASURY STOCK
Additional Paid-In Capital, Changes in, 5.47, 5.48
APB Opinion No. 6, 2.315
Balance Sheet Presentation, 2.315–2.320
Cost Shown as Reduction of Stockholders' Equity, 2.318, 2.319
Issued, 5.48
Par Value Deducted From Issued Stock, 2.320
Purchased, 5.47
Retained Earnings, Changes in, 5.20, 5.21
Table 2-41: Treasury Stock—Balance Sheet Presentation, 2.317

TRUSTS
Employee Benefit, 1.234, 2.330
Equity Trust Market Value Adjustment, 5.51
Preferred Securities of Subsidiary Trust, 2.268
Share Value, 3.116

U

UNAUDITED DATA
Environmental Matter Excerpts, 1.20, 1.21
Euro Currency Conversion Excerpts, 1.19
Forward Looking Information Excerpts, 1.16–1.18
Management's Discussion and Analysis of Financial Condition and Results of Operations, 1.14, 1.15
Market Risk Information Excerpts, 1.22–1.24
Quarterly Financial Data, 1.10, 1.11
Selected Information for Five Years, 1.12, 1.13

UNBILLED COSTS
Current Asset, 2.91

UNCERTAINTIES, *see also* Risks and Uncertainities
Independent Auditors' Report, 7.21–7.26
Nature of Operations, 1.135–1.138
SAS No. 58, 7.21
SAS No. 59, 7.21
SAS No. 79, 7.21
SAS No. 85, 7.21
Significant Estimates, 1.143–1.148
SOP 94-6, 1.133, 1.134
Table 7-3: Uncertainties, 7.23
Use of Estimates, 1.139–1.142
Vulnerability Due to Certain Concentrations, 1.149–1.155

UNCONSOLIDATED SUBSIDIARIES, *see* Investments

UNDISTRIBUTED EARNINGS
Taxes Accrued, 3.142, 3.143
Taxes Not Accrued, 3.144–3.146

UNEARNED REVENUE, *see* Deferred Credits

UNREALIZED LOSSES/GAINS, *see* Comprehensive Income; Investments; Other Comprehensive Income

UNUSUAL/NONRECURRING ITEMS
Gains, 3.30
Losses, 3.62–3.64

V

VALUATION METHODS, INVENTORY, *see also* Inventories
Average Cost, 2.76
FIFO, 2.70, 2.71
LIFO, 2.72–2.75
Production Cost, 2.77

VULNERABILITY
Risks and Uncertainities, 1.149–1.155

W

WARRANTIES, *see* Guarantees and Warranties

WARRANTS, *see* Stock Purchase Warrants

WRITE-DOWNS/WRITE-OFFS
Accounting Changes, 1.68, 1.69
Consistency, Lack of, 7.33, 7.34
Losses, 3.46, 3.47
Subsequent Events, 1.228

Y

YEAR ENDINGS, *see* Fiscal Periods

AICPA RESOURCE: Accounting & Auditing Literature

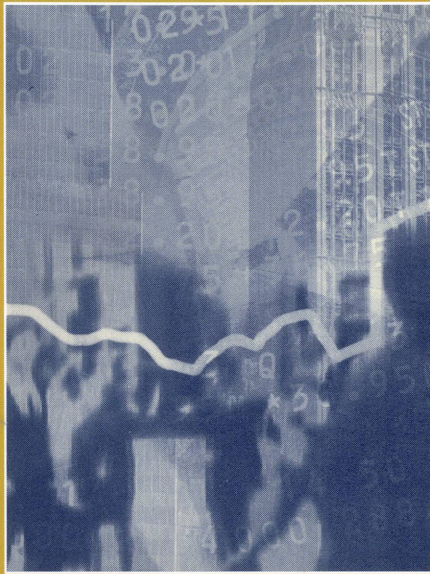
The AICPA has created a unique online research tool by combining the power and speed of the Web with comprehensive accounting and auditing standards. *AICPA RESOURCE* can include AICPA's and FASB's libraries:
• AICPA Professional Standards
• AICPA Technical Practice Aids
• AICPA's Accounting Trends & Techniques
• AICPA Audit and Accounting Guides
• AICPA Audit Risk Alerts
• FASB Original Pronouncements
• FASB Current Text
• EITF Abstracts
• FASB Implementation Guides
• FASB's Comprehensive Topical Index

Search for pertinent information from both databases by keyword and get the results ranked by relevancy. Print out important *AICPA RESOURCE* segments and integrate the literature into your engagements and financial statements. Available from anywhere you have Internet access, this comprehensive reference library is packed with the A & A guidance you need — and use — the most. Both libraries are updated with the latest standards and conforming changes.

AICPA+FASB reference libraries, one-year individual online subscription
No. ORF-XX
AICPA Member $890.00
Nonmember $1,112.50

AICPA reference library, one-year individual online subscription
No. ORS-XX
AICPA Member $395.00
Nonmember $493.75

For more information or to order, log onto www.cpa2biz.com/AICPAresource, or call 888-777-7077.



Accounting Trends & Techniques

FIFTY-SEVENTH EDITION 2003

009895