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American Institute of Certified Public Accountants

ACCOUNTING
Trends & Techniques
2000
FIFTY-FOURTH EDITION

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

Annual Survey of Accounting Practices
Followed in 600 Stockholders' Reports

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Accounting Trends & Techniques
2000 — FIFTY-FOURTH EDITION
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ACCOUNTING

Trends & Techniques 2000

FIFTY-FOURTH EDITION

Fifty-fourth 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 3, 2000.

Edited by

Andy Mrakovcic, CPA
Coordinator/Editor

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

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Dedication

*Since 1970, Richard (Rick) Rikert has been the Coordinator/Editor of the **Accounting Trends & Techniques** Annual Survey. After thirty years of performing exemplary service at the helm of this publication, Rick retired earlier this year.*

*The members of the Accounting & Auditing Publications group wish to dedicate this millennium edition of **Accounting Trends & Techniques** to Rick as part of a huge and heartfelt Thank You! We pay tribute to him for producing this publication, released annually since 1946, and we wish him many long and happy golden years in retirement.*

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Karen Coutinho
Supervisor,
Editorial Services

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

Darrell Nitti
Technical Advisor,
Professional Literature Management

Preface

Accounting Trends & Techniques—2000, Fifty-Fourth 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 26, 1999 and February 3, 2000.

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

Accounting techniques are illustrated by excerpts from the annual reports of the survey companies. References (in the form of a listing of company identification numbers—see the following paragraph) to additional illustrations of an accounting technique may be requested from the American Institute of Certified Public Accountants by contacting ***Andy Mrakovcic,*** Coordinator/Editor, at:

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

Each of the 600 survey companies included in this edition has been assigned an identification number which is used for reference in the discussion of pertinent information. 223 of the companies were listed in the fortieth (1986) edition (the year in which identification numbers of the companies were renumbered consecutively from 1 to 600) and each retained the number assigned in that edition. The other 377 companies in the 1986 edition have been eliminated. Most of the eliminated companies were eliminated because of a business combination with another company. The identification numbers of the eliminated companies have not been reused. Identification numbers 601 through 987 have been assigned to the replacement companies. The 600 companies in the current edition are listed in the *Appendix of 600 Companies* both alphabetically and by identification number.

Beginning with *Accounting Trends & Techniques—2000*, Fifty-Fourth Edition, 4 new tables compiling certain data in Section 4, *Comprehensive Income*, have been introduced. In addition, the Table of Contents has been expanded to include tables and subheadings, paragraph numbers have been assigned throughout the text to increase ease of reference, and lastly, a new *Pronouncement Index* has been created to list all pronouncements discussed in the narrative portions (not in the company illustration portions) of this edition.

We would appreciate your feedback! We hope the enhancements described above improve ease of reference and use. 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 ***Andy Mrakovcic*** at the above address or phone numbers. All comments will be considered and kept strictly confidential.

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

Order/technical information:

Accounting Trends & Techniques: (201) 938-3062
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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—82% on the New York and 3% on the American. The remaining 15% were traded on "over-the-counter" exchanges.

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

	1999	1998
Advertising, marketing	5	4
Aerospace	16	17
Apparel	18	19
Beverages	7	7
Building materials, glass	14	16
Chemicals	30	31
Computer and data services	11	13
Computer peripherals	6	N/C*
Computer software	7	N/C*
Computers, office equipment	12	18
Diversified outsourcing services	7	N/C*
Electronics, electrical equipment	46	46
Engineering, construction	9	8
Entertainment	6	5
Food	36	38
Food and drug stores	12	N/C*
Food services	3	N/C*
Forest and paper products	27	27
Furniture	9	10
General merchandisers	11	N/C*
Health care	3	N/C*
Hotels, casinos, resorts	3	3
Industrial and farm equipment	40	41
Medical products and equipment	15	11
Metal products	23	23
Metals	23	22
Mining, crude-oil production	11	11
Miscellaneous	6	N/C*
Motor vehicles and parts	16	22
Network communications	2	N/C*
Petroleum refining	18	19
Pharmaceuticals	12	12
Publishing, printing	22	22
Retailing—grocery stores	N/C*	11
Retailing—other stores	N/C*	22
Rubber and plastic products	9	12
Scientific, photographic, and control equipment	23	29
Semiconductors	9	9
Soaps, cosmetics	8	8
Specialty retailers	16	N/C*
Telecommunications	6	N/C*
Temporary help	3	N/C*
Textiles	9	10
Tobacco	5	5
Toys, sporting goods	3	N/C*
Transportation equipment	4	4
Waste management	4	4
Wholesalers	15	14
Not otherwise classified	N/C*	27
Total Companies	**600**	**600**

* Statistics were not compiled (N/C). This industry classification was not included in the annual Fortune 1000 listing in the year shown.

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

	1999	1998	1997	1996
Less than $100,000,000	23	23	28	28
Between $100,000,000 and $500,000,000	60	74	76	86
Between $500,000,000 and $1,000,000,000	48	44	55	60
Between $1,000,000,000 and $2,000,000,000	121	134	132	120
More than $2,000,000,000	348	325	309	306
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 of the Securities Exchange Act of 1934 states that annual reports furnished to stockholders in connection with the annual meetings of stockholders should include audited financial statements—balance sheets as of the 2 most recent fiscal years, and statements of income and of cash flows for each of the 3 most recent fiscal years. Rule 14a-3 also states that the following information, as specified in *Regulation S-K,* should be included in the annual report to stockholders:

1. Selected quarterly financial data.
2. Disagreements with accountants on accounting and financial disclosure.
3. Summary of selected financial data for last 5 years.
4. Description of business activities.
5. Segment information.
6. Listing of company directors and executive officers.
7. Market price of Company's common stock for each quarterly period within the two most recent fiscal years.
8. Management's discussion and analysis of financial condition and results of operations.
9. Quantitative and qualitative disclosures about market risk.

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, environmental matters, and the impact of the year 2000 problem. Certain survey companies discussed the impact of the year 2000 problem in the notes to financial statements.

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

Quarterly Financial Data

1.10

AMETEK, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

14. Quarterly Financial Data (Unaudited)

(In thousands, except per share amounts)	First Quarter	Second Quarter	Third Quarter*	Fourth Quarter**	Total Year
1999					
Net sales	$230,878	$231,640	$226,258	$236,021	$924,797
Operating income	$ 29,149	$ 29,584	$ 30,518	$ 29,546	$118,797
Income from continuing operations	$ 14,596	$ 15,564	$ 15,594	$ 15,014	$ 60,768
Net income	$ 14,596	$ 15,564	$ 15,594	$ 15,014	$ 60,768
Basic earnings per share:[a]					
Income from continuing operations	$ .45	$ .48	$ .48	$ .47	$ 1.88
Net income	$ .45	$ .48	$ .48	$ .47	$ 1.88
Diluted earnings per share:[a]					
Income from continuing operations	$ .45	$ .47	$ .47	$ .46	$ 1.85
Net income	$ .45	$ .47	$ .47	$ .46	$ 1.85
Dividends paid per share	$ .06	$ .06	$ .06	$ .06	$ .24
Common stock trading range:[b]					
High	$23\frac{7}{16}$	$25\frac{3}{4}$	$24\frac{5}{8}$	$20\frac{1}{2}$	$25\frac{3}{4}$
Low	$16\frac{1}{2}$	$17\frac{1}{2}$	$19\frac{1}{4}$	18	$16\frac{1}{2}$
1998					
Net sales	$241,958	$ 246,097	$232,593	$ 206,826	$ 927,474
Operating income	$ 28,593	$ 28,759	$ 26,976	$ 12,108	$ 96,436
Income from continuing operations	$ 14,884	$ 15,389	$ 14,050	$ 6,126	$ 50,449
Net income	$ 14,884	$ 15,389	$ 5,340	$ 6,126	$ 41,739
Basic earnings per share:[a]					
Income from continuing operations	$ .45	$ .47	$ .43	$ .19	$ 1.55
Net income	$ .45	$ .47	$ .16	$ .19	$ 1.28
Diluted earnings per share:[a]					
Income from continuing operations	$ .44	$ .45	$ .42	$ .19	$ 1.50
Net income	$ .44	$ .45	$ .16	$ .19	$ 1.24
Dividends paid per share	$ .06	$ .06	$ .06	$ .06	$ .24
Common stock trading range:[b]					
High	$29\frac{15}{16}$	$31\frac{3}{8}$	$31\frac{1}{16}$	$22\frac{5}{16}$	$31\frac{3}{8}$
Low	$25\frac{3}{8}$	$27\frac{5}{8}$	$15\frac{3}{4}$	$16\frac{7}{16}$	$15\frac{3}{4}$

* Third quarter 1998 net income includes an after-tax extraordinary charge of $8.7 million ($.26 per share) for the early extinguishment of debt.

** Fourth quarter 1998 income includes a non-recurring pretax charge for cost reduction initiatives totaling $8.0 million, ($4.8 million, after-tax for $.14 per diluted share).

[a] The sum of quarterly earnings per share may not equal total year earnings per share due to the effect of the Company's purchasing shares of its outstanding common stock.

[b] Trading ranges are based on the New York Stock Exchange composite tape.

1.11

TEMTEX INDUSTRIES, INC. AND SUBSIDIARIES (AUG)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note M—Quarterly Results (Unaudited)

Summary data relating to the results of operations for each quarter of the years ended August 31, 1999 and 1998 follows (in thousands except per share amounts):

	Three Months Ended			
	Nov. 30	Feb. 28	May 31	Aug. 31
Fiscal year 1999:				
Net sales	$7,675	$6,310	$ 5,442	$5,402
Gross profit	1,593	672	311	249
Loss from continuing operations	(405)	(840)	(1,168)	(1,724)
Net income (loss)	201	3,988	(1,168)	(1,752)
Basic and diluted loss from continuing operations per common share	$ (.12)	$ (.24)	$ (.34)	$ (.50)
Net income				
Basic	$ .06	$ 1.15	$ (.34)	$ (.50)
Diluted	.06	1.13	(.33)	(.50)
Fiscal year 1998:				
Net sales	$8,271	$6.132	$5,719	$6,040
Gross profit	2,373	1,377	962	798
Income (loss) from continuing operations	127	(339)	(641)	(782)
Net income	385	39	18	65
Basic and diluted income (loss) from continuing operations per common share	$ .04	$ (.10)	$ (.18)	$ (.23)
Net income				
Basic	$ .11	$ .01	$ .01	$ .02
Diluted	.11	.01	.01	.02

1.12

TIME WARNER INC. (DEC)

QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

Quarter	Revenues	Operating Income Of Business Segments	Equity In Pretax Income (Loss) Of Entertainment Group	Net Income (Loss)	Net Income (Loss) Applicable To Common Shares[e]	Basic Net Income (Loss) Per Common Share[e][f][g]	Diluted Net Income (Loss) Per Common Share[e][f][g]	Dividends Per Common Share[f][g]	Basic Average Common Shares[g]	Diluted Average Common Shares[g]	Common Stock[g] High	Common Stock[g] Low
(Millions, except per share amounts)												
1999[a]												
1st[b]	$ 6,091	$ 943	$ —	$ 138	$ 120	$ .10	$ .10	$.045	1,243.1	1,243.1	$72.44	$58.88
2nd[b]	6,531	1,701	—	593	575	.46	.43	.045	1,249.3	1,403.7	78.25	62.00
3rd[b]	6,723	1,287	—	369	360	.28	.27	.045	1,288.9	1,397.8	77.31	58.50
4th[b]	7,988	2,104	—	848	841	.65	.62	.045	1,286.5	1,391.8	72.31	59.63
Year[b]	27,333	6,035	—	1,948	1,896	1.50	1.42	.18	1,267.0	1,398.3	78.25	58.50
1998[a]												
1st	$ 3,137	$ 170	$107	$ (62)	$ (144)	$(.12)	$(.12)	$.045	1,156.6	1,156.6	$37.75	$29.06
2nd[c,d]	3,672	384	166	101	23	.02	.02	.045	1,192.6	1,192.6	44.44	36.06
3rd	3,578	315	164	39	(37)	(.03)	(.03)	.045	1,202.6	1,202.6	50.00	39.00
4th[c,d]	4,195	627	(81)	90	(214)	(.17)	(.17)	.045	1,227.2	1,227.2	63.13	37.56
Year[c,d]	14,582	1,496	356	168	(372)	(.31)	(.31)	.18	1,194.7	1,194.7	63.13	29.06

[a] The 1999 quarterly financial information reflects the consolidation of the Entertainment Group, which substantially consists of TWE, retroactive to the beginning of 1999. Time Warner's 1998 historical quarterly financial information has not been changed.

[b] Time Warner's income per common share in 1999 has been affected by certain significant nonrecurring items. These items consisted of (i) a net pretax gain of approximately $215 million in the first quarter relating to the early termination and settlement of a long-term, home video distribution agreement, (ii) a net pretax gain of approximately $97 million in the fourth quarter in connection with the sale of an interest in CanalSatellite, (iii) a noncash pretax charge of approximately $106 million in the fourth quarter relating to Warner Bros.'s retail stores, (iv) an approximate $115 million pretax gain in the second quarter in connection with the initial public offering of a 20% interest in Time Warner Telecom Inc., (v) gains relating to the sale and exchange of various cable television systems and investments of $771 million in the second quarter, $477 million in the third quarter and $999 million in the fourth quarter, thereby aggregating to $2.247 billion for the year and (vi) an extraordinary loss of $12 million in the third quarter relating to the retirement of debt. The aggregate net effect of these items in 1999 was to increase income per common share by $.10 in the first quarter, $.34 in the second quarter, $.20 in the third quarter and $.45 in the fourth quarter, thereby aggregating to $1.11 per common share for the year.

[c] Time Warner's income (loss) per common share in 1998 has been affected by certain significant nonrecurring items. These items consisted of gains and losses relating to the sale or exchange of various cable television systems and other investment-related activity and the effect of redeeming Time Warner's Series M Preferred Stock. The aggregate net effect of these items in 1998 was to increase (decrease) income per common share by $.03 in the second quarter of 1998, and $(.28) in the fourth quarter of 1998, thereby aggregating to $(.25) per common share for the year.

[d] Time Warner's equity in the pretax income (loss) of the Entertainment Group for 1998 includes net gains of approximately $90 million for the year relating to the sale or exchange of certain cable television systems and investments, of which approximately $70 million was recorded in the second quarter of 1998. In addition, Time Warner's equity in the pretax income (loss) of the Entertainment Group for the fourth quarter of 1998 includes a charge of approximately $210 million principally to reduce the carrying value of an interest in Primestar.

[e] After preferred dividend requirements. Preferred dividend requirements for the fourth quarter of 1998 include a one-time increase of $234 million ($.19 loss per common share) relating to the premium paid in connection with the redemption of Time Warner's Series M Preferred Stock.

[f] Per common share amounts for the quarters and full years have each been calculated separately. Accordingly, quarterly amounts may not add to the annual amounts because of differences in the average common shares outstanding during each period and, with regard to diluted per common share amounts only, because of the inclusion of the effect of potentially dilutive securities only in the periods in which such effect would have been dilutive.

[g] Previously reported amounts give effect to the two-for-one common stock split that occurred on December 15, 1998.

Selected Information for Five Years

1.13

ALBERTSON'S, INC. (JAN)

FIVE-YEAR SUMMARY OF SELECTED FINANCIAL DATA

(Dollars in millions, except per share data)	53 weeks February 3, 2000	52 weeks January 28, 1999	52 weeks January 29, 1998	52 weeks January 30, 1997	52 weeks February 1, 1996
Operating Results:					
Sales	$37,478	$35,872	$33,828	$32,455	$30,894
Earnings before extraordinary item	427	801	797	781	782
Extraordinary item	(23)				
Net earnings	404	801	797	781	782
Net earnings as a percent to sales	1.08%	2.23%	2.36%	2.41%	2.53%
Common Stock Data:					
Earnings per share before extraordinary item:					
Basic	$ 1.01	$ 1.91	$ 1.89	$ 1.79	$ 1.78
Diluted	1.00	1.90	1.88	1.79	1.78
Extraordinary item:					
Basic	(0.05)				
Diluted	(0.05)				
Earnings per share:					
Basic	0.96	1.91	1.89	1.79	1.78
Diluted	0.95	1.90	1.88	1.79	1.78
Cash dividends per share:					
Albertson's, Inc.	0.72	0.68	0.64	0.60	0.52
American Stores Company Equivalent	0.14	0.57	0.56	0.51	0.44
Financial Position:					
Total assets	$15,701	$15,131	$13,767	$12,608	$11,511
Long-term debt and capitalized lease obligations	4,992	5,108	4,333	3,665	2,837
Other Year End Statistics:					
Number of stores	2,492	2,564	2,435	2,355	2,261

All fiscal years consist of 52 weeks, except for 1999 which is a 53-week year, and fiscal 1995 which included 52 weeks of operations for Albertson's and 53 weeks of operations for ASC.

1999 operating results included pre-tax merger-related costs of $683 ($529 after tax or $1.25 per share), and a pre-tax charge of $37 ($22 after tax or $0.05 per share) for a litigation settlement. Merger-related costs included severance, the write-down of assets to net realizable value, transaction and financing costs, integration costs and stock option charges.

During 1999 American Stores Company paid only one quarterly dividend due to the consummation of the Merger.

1998 operating results included a pre-tax merger-related stock option charge of $195 ($132 after tax or $0.31 per share) related to the exercisability of 6 million equivalent limited stock appreciation rights due to the approval by ASC's stockholders of the Merger Agreement and a $24 pre-tax charge ($16 after tax or $0.04 per share) related to management's decision to close 16 underperforming stores.

1997 operating results included pre-tax charges of $34 related to the sale of stock by a major stockholder and pre-tax charges of $13 related to the sale of a division of ASC's communications subsidiary (total of $41 after tax or $0.10 per share).

1996 operating results included pre-tax charges of $100 ($60 after tax or $0.14 per share) primarily related to ASC's re-engineering activities.

1.14

BEMIS COMPANY, INC. AND SUBSIDIARIES (DEC)

FIVE-YEAR CONSOLIDATED REVIEW

(in millions, except percentages, shares, ratios, per share amounts, stockholders, and employees)	1999	1998*	1997*	1996*	1995*
Operating Data					
Net sales	$ 1,918.0	$ 1,848.0	$ 1,877.2	$ 1,655.4	$ 1,523.4
Cost of products sold and other expenses	1,710.9	1,661.1	1,693.4	1,476.0	1,378.6
Interest expense	21.2	21.9	18.9	13.4	11.5
Income before income taxes	185.9	165.0	164.9	166.0	133.3
Income taxes	71.1	63.9	63.5	63.0	49.8
Net income	114.8	101.1	101.4	103.0	83.5
Net income as a percent of net sales	6.0%	5.5%	5.4%	6.2%	5.5%
Common Share Data					
Diluted earnings per share	2.18	1.90	1.88	1.93	1.60
Dividends per common share	.92	.88	.80	.72	.64
Book value per common share	13.91	13.16	12.60	11.47	10.36
Stock price/earnings ratio range	14-18	18-25	19-25	14-19	15-19
Average common shares and common share equivalents outstanding during the year for computation of diluted earnings per share	52,657,068	53,323,704	53,879,948	53,252,250	52,311,421
Common shares outstanding at year-end	52,188,715	52,269,158	52,967,511	52,360,699	52,567,349
Capital Structure and Other Data					
Current ratio	2.3	2.2	2.2	2.4	2.3
Working capital	330.3	301.3	311.0	308.4	275.7
Total assets	1,532.1	1,482.0	1,408.4	1,224.7	1,083.3
Long-term debt	372.3	371.4	316.8	240.9	166.4
Long-term obligations under capital leases				0.2	
Stockholders' equity	725.9	687.9	667.2	600.6	544.4
Return on average common equity	16.2%	14.9%	16.0%	18.0%	16.8%
Return on average total capital	10.9%	10.3%	11.3%	13.0%	12.3%
Depreciation and amortization	97.7	88.9	78.9	66.2	58.0
Capital expenditures	137.4	139.8	167.5	112.0	93.6
Number of common stockholders	5,316	5,721	5,874	5,947	5,711
Number of employees	9,534	9,364	9,275	8,876	8,515
Wages and salaries	368.7	351.2	348.8	314.5	287.0
Research and development expense	11.7	12.2	12.0	13.7	13.6

* Restated to reflect the second quarter 1999 change in method of accounting for inventory to the first-in, first-out (FIFO) method from the last-in, first out (LIFO) method previously used for the majority of domestic inventory.

1.15

MET-PRO CORPORATION (JAN)

FIVE YEAR FINANCIAL SUMMARY

	Years ended January 31,				
	2000	1999	1998	1997	1996
Selected Operating Statement Data					
Net sales	$78,449,992	$67,390,488	$62,387,870	$60,853,278	$54,067,320
Income from operations	11,410,679	11,199,867	11,021,314	9,457,301	7,930,070
Net income	7,072,642	7,151,052	7,116,481	6,096,002	4,893,885
EBITDA[a]	13,826,535	13,287,878	12,851,944	11,164,848	9,543,461
Earnings per share, basic	1.08	1.04	1.01	.87	.70
Earnings per share, diluted	1.08	1.03	1.00	.86	.69
Selected Balance Sheet Data					
Current assets	$35,722,971	$38,683,453	$36,067,260	$32,088,546	$28,268,561
Current liabilities	13,681,578	14,387,868	11,267,545	11,374,115	10,250,506
Working capital	22,041,393	24,295,585	24,799,715	20,714,431	18,018,055
Current ratio	2.6	2.7	3.2	2.8	2.8
Total assets	68,641,983	72,888,641	57,984,240	56,079,391	47,626,587
Long-term obligations	9,933,014	11,941,954	2,242,047	3,683,419	1,692,962
Total stockholders' equity	44,206,333	45,925,107	43,840,829	40,352,926	35,012,578
Total capitalization	54,139,347	57,867,061	46,082,876	44,036,345	36,705,540
Return on average total assets, %	10.0	10.9	12.5	11.8	10.5
Return on average stockholders' equity, %	15.7	15.9	16.9	16.2	14.6
Other Financial Data					
Net cash flows from operating activities	$10,204,749	$ 7,990,115	$ 7,351,850	$ 7,203,258	$ 6,312,118
Capital expenditures	1,193,559	1,191,616	1,356,065	1,811,833	2,436,419
Stockholders' equity per share	6.92	6.76	6.27	5.73	5.03
Cash dividends paid per share[b]	.48	.30	.27	.22	.20
Average common shares, basic	6,542,210	6,907,654	7,053,071	6,989,717	6,999,408
Average common shares, diluted	6,576,820	6,955,892	7,144,931	7,096,214	7,051,527
Shares of common stock outstanding	6,391,242	6,794,898	6,993,473	7,043,436	6,956,535

[a] EBITDA represents income from operations before taxes, interest expense, interest income, and depreciation and amortization expenses.
[b] Fiscal year ended January 31, 2000 included an annual dividend of $.32 per share payable on April 23, 1999 and quarterly dividends of $.08 per share payable on September 10, 1999 and December 10, 1999.

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

1.16

STAPLES, INC. AND SUBSIDIARIES (JAN)

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

On November 9, 1999, the stockholders of Staples, Inc. ("Staples" or the "Company") approved a proposal, "the Tracking Stock Proposal," which amended the Company's certificate of incorporation to (i) authorize the issuance of a new series of common stock, to be designated as Staples.com common stock ("Staples.com Stock"), and intended to reflect the performance of Staples.com, the Company's e-commerce business, (ii) increase the aggregate number of shares of common stock that the Company may issue from 1,500,000,000 to 2,100,000,000, initially comprised of 1,500,000,000 shares of Staples Retail and Delivery common stock ("Staples RD Stock") and 600,000,000 shares of Staples.com Stock, and (iii) reclassify Staples' existing common stock as Staples RD Stock, intended to reflect the performance of Staples Retail and Delivery ("Staples RD"), which consists of all of the Company's non e-commerce businesses and a retained interest in Staples.com.

Staples RD had an 88% retained interest in Staples.com as of January 29, 2000. During the fiscal year ended January 29, 2000, Staples.com issued 6,396,154 shares of Staples.com Stock in private placements and 7,229,939 shares through the exercise of employee stock options. Staples.com may issue additional shares of Staples.com Stock in one or more additional public or private financings. The specific terms of the initial public offering and other financings, including the amount of Staples.com Stock to be issued and the timing thereof, will depend upon factors such as stock market conditions and the performance of Staples.com. The effect of those financings on the retained interest percentage and the outstanding interest percentage would depend upon the number of shares of Staples.com Stock sold and whether the Company elects to attribute the net proceeds of such financing to the equity of Staples.com or to Staples RD in respect of its retained interest. The book value associated with Staples RD's retained interest in Staples.com will be increased proportionately for net income (or decreased proportionately for net loss) of Staples.com.

The Staples RD and Staples.com combined financial statements comprise all of the accounts included in the consolidated financial statements of Staples. The separate business combined financial statements give effect to all allocation and related party transaction policies as adopted by the Board of Directors (the "Board").

The Company now provides to the holders of both Staples RD Stock and Staples.com Stock separate financial statements, financial reviews, descriptions of the business, and other relevant information for Staples RD and Staples.com, as well as consolidated financial information of the Company. Notwithstanding the allocation of assets and liabilities, including contingent liabilities between Staples RD and Staples.com for the purposes of preparing their respective combined financial statements, this allocation and the change in the capital structure of the Company as a result of the approval of the Tracking Stock Proposal did not result in the distribution or spin-off to stockholders of any of the Company's assets and liabilities and will not affect ownership of its assets or responsibility for its liabilities or those of its subsidiaries. The assets the Company attributes to one business are subject to the liabilities of the other business, even if such liabilities arise from lawsuits, contracts or indebtedness attributed to the other business. If the Company is unable to satisfy one business's liabilities out of the assets attributed to it, the Company may be required to satisfy those liabilities with the assets the Company has attributed to the other business. Further, holders of Staples RD Stock and Staples.com Stock will not have any legal rights related to specific assets of either business and in any liquidation will receive a fixed share of the net assets of the Company which may not reflect the actual trading prices, if any, of the respective businesses at such time.

The Company intends Staples RD Stock to track the performance of Staples RD and intends Staples.com Stock to track the performance of Staples.com. Despite this intention, the market value of Staples RD Stock may not track the performance of Staples RD and the market value of Staples.com Stock may not track the performance of Staples.com.

The Company intends, for so long as Staples.com Stock and Staples RD Stock remain outstanding, to include in Staples' filings under the Securities Exchange Act of 1934, combined financial statements of Staples.com and Staples RD as of the same dates and for the same periods as the consolidated financial statements of Staples included in the filings. These financial statements will be prepared in accordance with generally accepted accounting principles, and in the case of annual financial statements, will be audited.

Financial effects from one business that affect the Company's consolidated results of operations or financial condition could, if significant, affect the results of operations or financial condition of the other businesses and the market price of the stock relating to the other businesses. In addition, net losses of either business and dividends and distributions on, or repurchases of, either class of common stock or repurchases of common stock at a price per share greater than par value will reduce the funds we can pay on each class of common stock under Delaware Law. Accordingly, the Staples consolidated financial statements should be read in conjunction with the Annual Report and the combined financial information of Staples RD and Staples.com contained in this report.

Results of Operations

Comparison of Fiscal Years Ended January 29, 2000, January 30, 1999, and January 31, 1998

General. During the fiscal year ended January 30, 1999, Staples acquired, in a pooling of interests transaction, Quill Corporation and certain related entities (collectively referred to as "Quill") with 1997 net sales of approximately $551,000,000. The financial information set forth below includes adjustments to give effect to the acquisition of Quill for all periods presented. Prior to its acquisition by Staples, Quill elected to be treated as an S Corporation under the Internal Revenue Code, and accordingly, its earnings were not subject to taxation at the corporate level. Pro forma adjustments have been made to reflect a provision for income taxes on such previously untaxed earnings for each period presented at an assumed rate of 40%. The statement of income combines Staples' historical operating results for the fiscal year ended January 31, 1998 with corresponding Quill operating results for the year ended December 31, 1997.

Sales. Sales increased 25.5% to $8,936,809,000 in the fiscal year ended January 29, 2000 from $7,123,189,000 in the fiscal year ended January 30, 1999. Sales increased 24.3% to $7,123,189,000 in the fiscal year ended January 30, 1999 from $5,732,145,000 in the fiscal year ended January 31, 1998. The growth in each year was attributable to an increase in the number of open stores, and increased sales in existing stores and in the delivery and contract stationer segments of our business. Comparable store and delivery hub sales for the fiscal year ended January 29, 2000 increased 9% over the fiscal year ended January 30, 1999. Comparable store and delivery hub sales for the year ended January 30, 1999 increased 11% over the year ended January 31, 1998. Staples had 1,129 open stores as of January 29, 2000, 913 open stores as of January 30, 1999, and 742 open stores as of January 31, 1998. The January 29, 2000 total includes 175 stores opened, 42 stores acquired and one store closed during the twelve months ended January 29, 2000.

Gross Profit. Gross profit as a percentage of sales was 24.8% for the fiscal year ended January 29, 2000, 24.2% for the fiscal year ended January 30, 1999, and 23.6% for the fiscal year ended January 31, 1998. The gross profit rate was increased by continually improving margins in the retail and delivery business segments due to lower product costs from vendors and increased buying efficiencies as well as the leveraging of fixed distribution center and delivery costs over a larger sales base. Furthermore, the addition of Staples Communications, which has higher gross profit margins than Staples' traditional business units, contributed to the increase in gross profit over the prior year. These increases were partially offset by continued price reductions.

Operating and Selling Expenses. Operating and selling expenses, which consist of payroll, advertising and other operating expenses, were 14.5% of sales for the fiscal year ended January 29, 2000, 13.9% of sales for the fiscal year ended January 30, 1999, and 14.1% of sales for the fiscal year ended January 31, 1998. The increase as a percentage of sales for the year ended January 29, 2000 was primarily due to increased costs of investing in our selling operations, including mainly retail and call center personnel, increased marketing costs in our delivery operations and Staples.com and the addition of Staples Communications. Staples Communications has higher operating and selling expenses as a percentage of sales than Staples' traditional business units. These increases were partially offset by the continued leveraging of fixed store and delivery operating costs as sales have increased.

Pre-opening expenses. Pre-opening expenses relating to new store openings, consisting primarily of salaries, supplies, marketing and occupancy costs, are expensed by Staples as incurred and therefore fluctuate from period to period depending on the timing and number of new store openings. Pre-opening expenses averaged $94,000 per store for the stores opened during fiscal year ended January 29, 2000, $80,000 per store for stores opened during fiscal year ended January 30, 1999, and $73,000 per store for the stores opened during fiscal year ended January 31, 1998. The increase during the fiscal year ended January 29, 2000 was due primarily to increased openings outside of the United States which generally involve higher pre-opening expenses per store.

General and Administrative. General and administrative expenses as a percentage of sales were 4.0% for the fiscal year ended January 29, 2000, 4.2% for the fiscal year ended January 30, 1999, and 3.9% for the fiscal year ended January 31, 1998. The decrease as a percentage of sales for the year ended January 29, 2000 compared to the year ended January 30, 1999 was primarily due to decreased Year 2000 compliance and other information systems ("IS") costs, synergies realized from the Quill integration and Staples' ability to increase sales without proportionately increasing overhead expenses in its core retail and direct businesses. These decreases were partially offset by costs incurred for new businesses, including Staples Communications and Staples.com, which have higher general and administrative expenses as a percentage of sales than Staples' traditional business units.

Amortization of Goodwill. Amortization of goodwill totaled $12,014,000 in fiscal year January 29, 2000, $3,739,000 in fiscal year January 30, 1999 and $3,581,000 in fiscal year January 31, 1998. The increase in amortization is due to the goodwill from the acquisitions of Ivan Allen Corporation on November 1, 1998, Claricom Holdings, Inc., now referred to as Staples Communications, on February 26, 1999, and Sigma Burowelt in Germany, Office Centre in the Netherlands and Office Centre in Portugal on October 6, 1999.

Merger-Related and Integration Costs. In connection with the acquisition of Quill, Staples recorded a charge to operating expense of $41,000,000 during the year ended January 30, 1999. The charges reflect transaction costs and costs to integrate all aspects of the Quill business into Staples' delivery business, and include those costs typical in the merging of operations, such as rationalization of facilities, unwinding of various contractual commitments, asset writedowns and other integration costs.

The merger transaction costs of approximately $10,500,000 consist primarily of fees for investment bankers, attorneys, accountants and other related charges. Included in the integration costs are approximately $7,000,000 of incremental non-shareholder employee retention payments. Contract and lease termination costs of approximately $14,100,000 include the cost to exit duplicative contracts and distribution centers. Specifically, the Company is committed to exit distribution centers that are in locations that are served by both Staples and Quill facilities. The write-down of leasehold improvements of approximately $3,500,000 relates to the impairment of assets at the distribution centers that have been committed to closure. Other merger-related costs of approximately $5,900,000 primarily relate to changes in accounting principles. The restructuring and merger-related charges were determined based on formal plans approved by the Company's management using the best information available to it at the time. The amounts the Company may ultimately incur may change as the balance of the Company's initiative to integrate the business related to this merger is executed. Except for net payments under long-term lease obligations, remaining accruals at January 29, 2000 are expected to be fully utilized during fiscal year 2000.

During the year ended January 31, 1998, Staples charged to expense non-recurring costs of $29,665,000 in connection with the proposed merger with Office Depot, Inc.

Store Closure Charge. In December 1998, Staples committed to a plan to close and relocate stores which cannot be expanded and upgraded to the Company's current store model. In connection with this plan, Staples recorded a charge to operating expense of $49,706,000. This charge includes $29,620,000 for future rental payments under operating lease agreements that will be paid after the store is closed and will not be subsidized by subtenant income, $4,966,000 in fees, settlement costs and other expenses related to store closure and $15,120,000 in asset impairment charges. At January 29, 2000, the Company had executed lease agreements for a majority of the stores identified in 1998 and continues to actively negotiate lease agreements for the remaining relocation sites. Negotiations for relocation sites have taken longer to complete than originally anticipated. Any sites that the Company is unable to complete negotiations for by the end of the first quarter 2000 will not be closed and the related charges will be reversed. Through January 29, 2000, the Company has paid approximately $476,000 in costs related to the store closures and $34,110,000 remains accrued for future rental payments, fees, settlement costs, and other expenses related to the store closures.

Interest and Other Expense, Net. Net interest and other expense totaled $17,101,000 in the fiscal year ended January 29, 2000, $17,370,000 in the fiscal year ended January 30, 1999 and $21,955,000 in the fiscal year ended January 31, 1998. The interest expense relates primarily to existing borrowings. The decrease in interest expense during the years ended January 29, 2000 and January 30, 1999 is due primarily to the conversion of the Company's $300,000,000 of 41/2% Debentures into common stock in December 1998.

Equity in Loss of Affiliates. Staples' equity in loss of affiliates was $5,953,000 in the year ended January 31, 1998. Staples recorded no equity in loss of affiliates for the year ended January 29, 2000 and January 30, 1999, due to the acquisition of Staples UK on May 6, 1997 and Staples Germany on May 7, 1997. As a result of the acquisitions, Staples' ownership interest in Staples UK increased to 100% and its ownership of Staples Germany increased to approximately 92% which was increased to 100% in December 1998. The transactions were accounted for in accordance with the purchase method of accounting, and accordingly, the consolidated results of these entities are reflected in Staples' financial statements since the respective dates of acquisition. Prior to the acquisitions, Staples UK and Staples Germany were accounted for under the equity method which resulted in Staples' share of losses from operations being included in equity in loss of affiliates.

Income Taxes. The provision for income taxes as a percentage of pre-tax income was 39% for fiscal year ended January 29, 2000, 39.5% for fiscal year ended January 30, 1999 and 32.8% for fiscal year ended January 31, 1998. On a proforma basis, to reflect a provision for income taxes on previously untaxed earnings of Quill, Staples' effective tax rate would have been 40.1% for the fiscal year ended January 30, 1999 and 38.7% for the year ended January 31, 1998. The increase in the pro forma tax rate in fiscal year 1998 and 1999 was primarily due to non-deductible merger-related costs.

Liquidity and Capital Resources

Staples has traditionally used a combination of cash generated from operations and debt or equity offerings to fund its expansion and acquisition activities. During the years ended January 29, 2000, January 30, 1999 and January 31, 1998, Staples also utilized its revolving credit facility to support its various growth initiatives.

Staples opened 175 stores and closed one store in the fiscal year ended January 29, 2000, opened 174 stores and closed three stores in the fiscal year ended January 30, 1999, and opened 130 stores and closed one store in the fiscal year ended January 31, 1998. In addition, in the fiscal year ended January 29, 2000, 42 stores were added as a result of the acquisition of Sigma Burowelt in Germany, Office Centre in the Netherlands and Office Centre in Portugal. In the fiscal year ended January 31, 1998, 56 stores were added through the acquisition of Staples UK and Staples Germany. To the extent that the store base matures and becomes more profitable, cash generated from store operations is expected to provide a greater portion of funds required for new store inventories and other working capital requirements. Sales generated by the contract stationer business segment and certain direct mail customers are made under regular credit terms, which requires that Staples carry its own receivables from these sales. As the Company expands its contract and direct mail businesses worldwide, Staples anticipates that its accounts receivable portfolio will grow. Receivables from its vendors under rebate, cooperative advertising and marketing programs are a significant percentage of Staples' total receivables and tend to fluctuate somewhat seasonally. Staples also utilized capital equipment financings to fund current working capital requirements. During the year ended January 30, 1999, Staples paid approximately $14,000,000 of mortgages in full on five distribution centers acquired from Quill.

As of January 29, 2000, cash, cash equivalents, and short-term investments totaled $111,554,000 a decrease of $263,867,000 from the January 30, 1999 balance of $375,421,000. This decrease was primarily attributable to cash used in investing activities of $609,030,000, including cash used in the acquisition of businesses of $244,021,000 and the acquisition of property and equipment of $355,081,000, primarily for the 175 new stores opened. This decrease was partially offset by cash provided by operating activities of $299,525,000. Cash provided by operating activities was comprised primarily of net income, depreciation and amortization of $174,145,000 and an increase in accounts payable, accrued expenses and other current liabilities of $117,855,000, which was partially offset by an increase in merchandise inventories of $221,463,000 and an increase in accounts receivables of $112,980,000. Cash provided by financing activities of $60,469,000 includes $281,468,000 of net borrowings and $89,239,000 of proceeds from the sale of capital stock, the exercise of stock options and the employee stock purchase plan offset by net treasury stock purchases of $310,238,000.

Staples expects to open approximately 170 stores during fiscal 2000. Management estimates that the Company's cash requirements, including pre-opening expenses, leasehold improvements and fixtures, will be approximately $1,500,000 for each new store (excluding the cost of any acquisitions of lease rights). Accordingly, Staples expects to use approximately $255,000,000 for store openings during this period.

During the fiscal year ended January 29, 2000, Staples executed a stock repurchase program of Staples Stock intended to provide shares for employee stock programs. The Board authorized up to $700,000,000 to be used for these repurchases. During the year ended January 29, 2000, the Company repurchased 12,843,000 shares for approximately $300,105,000 under this program and 339,000 shares for approximately $10,143,000 from employees upon exercise of PARS. In addition, on July 2, 1999, Staples entered into an equity forward purchase agreement to hedge against stock price fluctuations for the repurchase of its common stock in connection with the annual stock option grant to employees and directors. Under the agreement, Staples may purchase 2,600,000 shares at an average price of $30.263 or may elect to settle the contract on a net share basis in lieu of physical settlement.

During the fiscal year ended January 29, 2000, Staples made investments of approximately $23,780,000 in Internet related companies. Investments that qualify as marketable securities are carried at fair value and all other investments are accounted for on a cost basis as each investment represents an interest of no greater than fifteen percent of the outstanding stock of that company. As of January 29, 2000, Staples has recognized an unrealized gain on these investments of $10,975,000.

In February 1999, Staples completed the acquisition of Claricom Holdings, Inc. and certain related entities, now referred to as Staples Communications, for a purchase price of approximately $137,600,000, net of cash acquired. In

October 1999, Staples completed the acquisition of three European office supply companies: Sigma Burowelt in Germany, Office Centre in the Netherlands and Office Centre in Portugal for a purchase price of approximately $106,400,000, net of cash acquired.

Staples also plans to continue to make investments in information systems, distribution centers and store remodels to improve operational efficiencies and customer service, and may expend additional funds to acquire businesses or lease rights from tenants occupying retail space that is suitable for a Staples store. Staples expects to meet these cash requirements through a combination of operating cash flow and borrowings from our existing revolving lines of credit.

On August 12, 1997, Staples issued $200,000,000 of 7.125% senior notes (the "Notes") with interest payable semi-annually on February 15 and August 15 of each year commencing on February 15, 1998. Net proceeds of approximately $198,000,000 from the sale of the Notes were used for repayment of indebtedness under Staples' revolving credit agreement and for general working capital purposes, including the financing of new store openings, distribution facilities and corporate offices.

Staples issued notes in the aggregate principal amount of 150,000,000 euros on November 15, 1999 (the "Euro Bonds"). Net proceeds of approximately $148,000,000 from the Euro Bonds were used to fund international expansion. The Euro Bonds bear interest at a rate of 5.875% per annum and are due on November 15, 2004. The Euro Bonds have been designated as a foreign currency hedge on our net investment in Euro denominated subsidiaries and gains or losses are recorded in the cumulative translation adjustment line in Stockholders' Equity.

Staples also maintains a revolving credit facility, effective through November 2002, with a syndicate of banks which provides up to $350,000,000 of available borrowings. Borrowings made pursuant to this facility will bear interest at either the lead bank's prime rate, the federal funds rate plus 0.50%, the LIBOR rate plus a percentage spread based upon certain defined ratios, a competitive bid rate or a swing line loan rate. This agreement, among other conditions, contains certain restrictive covenants, including net worth maintenance, minimum fixed charge interest coverage and limitations on indebtedness and sales of assets.

As of January 29, 2000, $150,000,000 was outstanding under the revolving credit agreement. Staples also has available $35,000,000 in uncommitted, short-term bank credit lines, of which no borrowings were outstanding as of January 29, 2000. Staples UK has a $48,600,000 line of credit which had an outstanding balance of $4,455,000 at January 29, 2000. Staples Germany has a $19,900,000 line of credit, Office Centre Netherlands has a $6,600,000 line of credit, Office Centre Portugal has a $500,000 line of credit and Business Depot has a $6,900,000 line of credit, all with no outstanding balances at January 29, 2000. Total cash, short-term investments and available revolving credit amounts totaled $424,740,000 as of January 29, 2000.

Staples expects that income from operations, together with its current short-term investments, funds available under its revolving credit facility and the funds received through the issuance of the Euro Bond, will be sufficient to fund Staples' planned store openings and other recurring operating cash needs for at least the next twelve to eighteen months. Staples continually evaluates financing possibilities, and it may seek to raise additional funds through any one or a combination of public or private debt or equity-related offerings, dependent upon market conditions, or through an additional commercial bank debt arrangement.

The Company filed a registration statement with the Securities and Exchange Commission on February 18, 2000 for an initial public offering of Staples.com Stock.

Inflation and Seasonality

While neither inflation nor deflation has had, and Staples does not expect it to have, a material impact upon operating results, there can be no assurance that our business will not be affected by inflation or deflation in the future. We believe that our business is somewhat seasonal, with sales and profitability slightly lower during the first and second quarters of our fiscal year.

Future Operating Results

This annual report on Form 10-K/A includes or incorporates forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. You can identify these forward-looking statements by the use of the words "believes", "anticipates", "plans", "expects", "may", "will", "would", "intends", "estimates" and other similar expressions, whether in the negative or affirmative. We cannot guarantee that we actually will achieve the plans, intentions or expectations disclosed in the forward looking statements made. We have included important factors in the cautionary statements below that we believe could cause actual results to differ materially from the forward-looking statements contained herein. The forward-looking statements do not reflect the potential impact of any future acquisitions, mergers or dispositions. We do not assume any obligation to update any forward-looking statement contained herein.

Our market is highly competitive and we may not continue to compete successfully. We compete in a highly competitive marketplace with a variety of retailers, dealers and distributors. In most of our geographic markets, we compete with other high-volume office supply chains, such as Office Depot, OfficeMax and Office World, that have store formats, pricing strategies and product selections that are similar to ours. We also compete with mass merchants, such as Wal-Mart, warehouse clubs, computer and electronic superstores, and other discount retailers. In addition, our retail stores and delivery and contract businesses compete with numerous mail order firms, contract stationer businesses and direct manufacturers. Many of our competitors, including Office Depot, OfficeMax and Wal-Mart, have in recent years significantly increased the number of stores they operate within our markets. Some of our current and potential competitors are larger than us and have substantially greater financial resources. It is possible that increased competition or improved performance by our competitors may reduce our market share, may force the Company to charge lower prices than it otherwise would, and may adversely affect our business and financial performance in other ways.

We may be unable to continue to successfully open new stores. An important part of our business plan is to aggressively increase the number of our stores. We opened 175 stores in the United States, Canada and Europe in fiscal 1999 and plan to open approximately 170 new stores in fiscal 2000. For our growth strategy to be successful, we must identify and lease favorable store sites, hire and train employees and adapt the Company's management and operational systems to meet the needs of our expanded operations. These tasks may be difficult to accomplish successfully. If we are unable to open new stores as quickly as we plan, the Company's future sales and profits could be materially and adversely affected. Even if we succeed in opening new stores, new stores may not achieve the same sales or profit levels as Staples' existing stores. Also, our expansion strategy includes opening new stores in markets where we have a presence so that we can take advantage of economies of scale in marketing, distribution and supervision costs. However, these new stores may result in the loss of sales in existing stores in nearby areas.

Our quarterly operating results are subject to significant fluctuation. Our operating results have fluctuated from quarter to quarter in the past, and we expect that they will continue to do so in the future. Our earnings may not continue to grow at rates similar to the growth rates achieved in recent years and may fall short of either a prior fiscal period or investors' expectations. Factors that could cause these quarterly fluctuations include the following:

- the number of new store openings, primarily because we expense pre-opening costs as incurred and newer stores are less profitable than mature stores;
- the extent to which sales in new stores result in the loss of sales in existing stores;
- the mix of products sold;
- pricing actions of competitors;
- the level of advertising and promotional expenses;
- seasonality, primarily because the sales and profitability of our stores are typically slightly lower in the first and second quarter of its fiscal year than in other quarters; and
- charges associated with acquisitions.

Most of our operating expenses, such as rent expense, advertising expense and employee salaries, do not vary directly with the amount of our sales and are difficult to adjust in the short term. As a result, if sales in a particular quarter are below our expectations for that quarter, we could not proportionately reduce operating expenses for that quarter, and therefore this sales shortfall would have a disproportionate effect on the Company's expected net income for the quarter.

Our stock price may fluctuate based on the expectations of professional security analysts. The market price of our two classes of common stock is based in large part on professional securities analysts' expectations that our business will continue to grow and that the Company will achieve certain levels of net income. If the financial performance of one or both of our businesses in a particular quarter does not meet the expectations of securities analysts, this may adversely affect the views of those securities analysts concerning the growth potential and future financial performance of that business or of Staples as a whole. If the securities analysts that regularly follow one or both classes of our common stock lower their rating or lower their projections for future growth and financial performance, the market price of one or both classes of our common stock is likely to drop significantly. In addition, in those circumstances the decrease in the stock price would probably be disproportionate to the shortfall in the Company's financial performance.

Our rapid growth may continue to strain operations, which could adversely affect the business and financial results. Our business, including sales, number of stores and number of employees, has grown dramatically over the past several years. In addition, we have acquired a number of significant companies in the last few years and may make additional acquisitions in the future. This growth has placed significant demands on our management and operational systems. If we are not successful in upgrading our operational and financial systems, expanding our management team and increasing and effectively managing our employee base, this growth is likely to result in operational inefficiencies and ineffective management of our businesses and employees, which will in turn adversely affect the Company's business and financial performance.

Our international operations may not become profitable. We currently operate in international markets through The Business Depot Ltd. in Canada, Staples UK in the United Kingdom, Staples Deutschland and Sigma Burowelt in Germany and Office Centre in the Netherlands and Portugal. Consolidated European operations are currently unprofitable, and we cannot guarantee that they will become profitable. We may seek to expand into other international markets in the future. Our foreign operations encounter risks similar to those faced by our US stores, as well as risks inherent in foreign operations, such as local customs and competitive conditions and foreign currency fluctuations.

We may be unable to obtain adequate future financing. It is possible that we will require additional sources of financing earlier than anticipated, as a result of unexpected cash needs or opportunities, an expanded growth strategy or disappointing operating results. Additional funds may not be available on satisfactory terms when needed, whether within the next twelve to eighteen months or thereafter.

Year 2000 Compliance

We completed a comprehensive assessment of our internal computer systems and applications to identify those that might be affected by computer programs using two digits rather than four to define the applicable year (the "Year 2000 issue"). We used internal personnel as well as external contractors and consultants to identify those systems and applications which might be affected by the Year 2000 issue. All systems, applications and infrastructure identified as needing remediation have been replaced or modified and successfully tested for compliance. In addition, we completed full "end to end" testing of leap year dating in January 2000.

We did not experience any disruption of our computer systems, non-IT related systems, product replenishment from our suppliers or any order entry issues with our contract and/or commercial customers as we entered the Year 2000.

The total cost of Year 2000 compliance was $27,000,000, which had been spent as of January 29, 2000. Most of the costs incurred related to remediation and testing of software using outside contracted services. The cost of compliance was included in the 1999 IT budgets. The inclusion of Year 2000 compliance has not caused any critical IT projects to be delayed or eliminated.

Euro Currency

On January 1, 1999, certain member countries of the European Union established fixed conversion rates between their existing currencies and the European Union's common currency, ("the euro"). The former currencies of the participating countries are scheduled to remain legal tender as denominations of the euro until January 1, 2002 when the euro will be adopted as the sole legal currency.

Staples has evaluated the potential impact of the euro on its business, including the ability of its information systems to handle euro-denominated transactions and the impact on exchange costs and currency exchange rate risks. The conversion to the euro is not expected to have a material impact on Staples' operations or financial position.

Item 7A. Quantitative and Qualitative Disclosures about Market Risks

Staples is exposed to market risk from changes in interest rates and foreign exchange rates and has a risk management control process to monitor such risks. The risk management process uses analytical techniques including market value, sensitivity analysis, and value at risk estimates. Staples does not believe that the potential exposure is significant in light of the size of our business.

On May 11, 1999 and August 3, 1999, Staples entered into interest rate swaps, each for an aggregate notional amount of $100,000,000, in order to minimize financing costs associated with our $200,000,000 of 7.125% senior notes due August 15, 2007. The swap agreements are both scheduled to terminate on August 15, 2007. Under the interest rate swap agreements, Staples is entitled to receive semi-annual interest payments at a fixed rate of approximately 7.125% and is obligated to pay interest based on 30 day Non-Financial US Commercial Rate plus 107 basis points and 31.875 basis points, respectively, currently approximately 6.76% and 6.01%. The interest rate swaps are being accounted for as a hedge and the differential to be paid or received on the interest rate swap agreements is accrued and recognized as an adjustment to interest expense over the life of the agreements. If Staples and the counterparty to the agreements terminate the swaps prior to their original maturity, any gain or loss upon termination will be amortized to interest expense over the remaining original life of the agreements. Staples uses interest rate and currency swap agreements for purposes other than trading and they are treated as off-balance sheet items. Staples uses interest rate swap agreements to modify fixed rate obligations to variable rate obligations, thereby adjusting the interest rates to current market rates and ensuring that debt instruments are always reflected at fair value.

On July 2, 1999, Staples entered into an equity forward purchase agreement to hedge against stock price fluctuations for the repurchase of Staples Stock in connection with the annual stock option grant to employees and directors. Under the agreement Staples may purchase 2,600,000 shares at an average price of $30.263 or elect to settle the contract on a net share basis in lieu of physical settlement.

On November 15, 1999, Staples entered into an interest rate swap for an aggregate notional amount of 150,000,000 euro in order to minimize financing costs on the notes issued the same date. The swap agreement is scheduled to terminate on November 15, 2004. Under the interest rate swap agreement, Staples is entitled to receive annual interest payments at a fixed rate of approximately 5.875% and is required to make quarterly interest payments at a floating rate of the one month EURIBOR plus 1.1175%, currently approximately 4.1475%. Staples has designated its 150,000,000 Euro Bonds and its interest rate swap agreement to be an integrated transaction. Accordingly, the interest rate swap agreement is being accounted for as a hedge and the differential to be paid or received on the interest rate swap agreement is accrued and recognized as an adjustment to interest expense over the life of the agreement.

Staples is exposed to foreign exchange risks through subsidiaries in Canada, the United Kingdom, Germany, the Netherlands and Portugal. Staples has not entered into any derivative financial instruments to hedge this exposure, and Staples believes that the potential exposure is not material to our overall financial position or our results of operations.

This risk management discussion and discussion of the effects of changes in interest rates and foreign exchange rates are forward-looking statements. Actual future results may differ materially from these projected results due to developments in the global financial markets. The analytical methods used by Staples to assess and mitigate risk discussed above should not be considered projections of future events or losses.

1.17

STEWART & STEVENSON SERVICES, INC. AND SUBSIDIARIES (JAN)

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

The following discussion and analysis, as well as the accompanying Consolidated Financial Statements and related footnotes, will aid in understanding the Company's results of operations as well as its financial position, cash flows, indebtedness and other key financial information. The following discussion may contain forward-looking statements. In connection therewith, please see the cautionary statements contained herein, which identify important factors that could cause actual results to differ materially from those in the forward-looking statements.

Business Segment Highlights
(In thousands)

The following tables present the contribution to sales and operating profit from each of the Company's business segments. Business segment data for prior years have been restated to reflect the Company's current business segments that comprise earnings (loss) from continuing operations before taxes.

	Sales		
	Fiscal 1999	Fiscal 1998	Fiscal 1997
Power Products	$536,236	$ 555,507	$ 558,393
Tactical Vehicle Systems	150,884	455,399	396,734
Petroleum Equipment	82,085	115,800	83,096
Airline Products	104,785	32,603	35,975
Other Business Activities	37,712	47,463	40,836
Total Segment Sales	$911,702	$1,206,772	$1,115,034

	Operating Profit (Loss)		
	Fiscal 1999	Fiscal 1998	Fiscal 1997
Power Products	$ 15,244	$ 23,638	$ 34,120
Tactical Vehicle Systems	30,217	(77,717)	(10,005)
Petroleum Equipment	2,099	10,245	5,695
Airline Products	(3,697)	(630)	(3,409)
Other Business Activities	(652)	(4,476)	(1,924)
Total Operating Profit (Loss)	43,211	(48,940)	24,477
Corporate expenses, net	(10,044)	(11,452)	(9,816)
Non-operating interest income	29	10,925	1,941
Interest expense	(9,991)	(12,244)	(15,440)
Litigation and special charges	—	—	(23,352)
Earnings (loss) from continuing operations before taxes	$23,205	$ (61,711)	$ (22,190)

	Operating Profit (Loss) as a Percentage of Sales		
	Fiscal 1999	Fiscal 1998	Fiscal 1997
Power Products	2.8%	4.3%	6.1%
Tactical Vehicle Systems	20.0	(17.1)	(2.5)
Petroleum Equipment	2.6	8.8	6.9
Airline Products	(3.5)	(1.9)	(9.5)
Other Business Activities	(1.7)	(9.4)	(4.7)
Consolidated	4.7	(4.1)	2.2

Special Items

Special items are unusual or infrequent events or transactions that may affect comparability of the results of continuing operations between years. The special items included in the Fiscal 1999, 1998, and 1997 results are shown below:

Special Items

(In thousands)	Fiscal 1999	Fiscal 1998	Fiscal 1997
Tactical Vehicle Systems			
Estimated costs associated with a government directive	$ —	$40,000	$ —
Charge related to a series of claims	—	36,849	$ —
Change in estimated profit at completion	—	9,700	6,703
Power Products			
Gain on sale of construction equipment franchise	—	—	(4,369)
Other Business Activities			
Gain on sale of investments	(5,443)	—	—
Interest income on proceeds from sale of gas turbine business	—	(8,654)	—
Special Charges	—	—	23,352
Pretax (benefit) charge	(5,443)	77,895	45,686
Tax (expense) benefit (35% tax rate assumed) [1]	(1,495)	27,263	15,990
Special items, net of tax	$(3,948)	$50,632	$29,696

[1] For Fiscal 1999, the actual tax for the gain on the sale of the investments was used.

Results of Operations

Fiscal 1999 vs. Fiscal 1998

Sales for Fiscal 1999 totaled $912 million, a decrease of 24% from Fiscal 1998 sales of $1,207 million. Net earnings from continuing operations for Fiscal 1999 totaled $17 million or $0.62 per share as compared to a net loss from continuing operations of $39 million or $1.34 per share for Fiscal 1998. Results for Fiscal 1999 included a $3 million after-tax gain on the sale of the Company's fifty percent interest in an unconsolidated affiliate and a $1 million after-tax gain on the sale of an investment. Excluding these special items, net earnings from continuing operations for Fiscal 1999 totaled $14 million or $0.50 per share. Results for Fiscal 1998 included $51 million after taxes in special charges pertaining to (1) a government directive to make certain changes to drive train components of the FMTV ($26 million), (2) claims for additional costs arising out of government caused delays and changes in the FMTV program ($24 million), (3) charges for cost overruns and superceded material in the FMTV program ($6 million) and (4) partially offsetting interest income on proceeds from sale of the gas turbine business ($5 million). Excluding these special items, net earnings from continuing operations for Fiscal 1998 totaled $12 million or $0.40 per share. The Company reported an operating profit of $43 million in Fiscal 1999 compared with an operating loss of $49 million in Fiscal 1998.

The Power Products segment recorded sales of $536 million in Fiscal 1999, 3% lower than Fiscal 1998 sales of $556 million. Operating profit for Fiscal 1999 was $15 million, compared with $24 million in Fiscal 1998. The segment absorbed $1 million of charges in Fiscal 1999 in connection with corporate initiatives to improve business performance and $2 million in inventory charges. Performance in the Power Products segment continues to vary by market. Equipment and parts sales were adversely impacted by softness in oil and gas markets.

The Tactical Vehicle Systems segment recorded sales of $151 million in Fiscal 1999 versus $455 million a year ago, primarily as a result of an anticipated production hiatus between contracts. Deliveries on the initial contract were completed in January 1999, and production start-up on the new contract began during the third quarter of Fiscal 1999. An operating profit of $30 million was recorded in Fiscal 1999 as compared to an operating loss of $78 million for the prior year that included $87 million in special charges. Improved operating margins resulted from an effective cost reduction program and a higher initial sales price per truck sold to compensate for costs incurred during the production shut-down.

Sales for the Petroleum Equipment segment totaled $82 million for Fiscal 1999, a decrease of 29% from $116 million recorded in the prior year. The segment reported an operating profit of $2 million for Fiscal 1999 as compared to an operating profit of $10 million in the prior year. The decrease in sales and operating profit resulted from a depleted order backlog in the depressed oil and gas markets.

The Airline Products segment achieved sales of $105 million in Fiscal 1999, an increase of 221% over Fiscal 1998 sales of $33 million, reflecting both the full-year impact of the acquisition of the airline products business from Tug Manufacturing Corporation and improved sales of previously existing products. An operating loss of $4 million was recorded for Fiscal 1999, as compared to an operating loss of $1 million in the prior year. The operating loss for Fiscal 1999 included charges of $5 million for new product development and inventory write-offs.

All other business activities not defined as a specific segment include gas compression equipment and related services and other miscellaneous sales. Sales for these activities totaled $38 million for Fiscal 1999, as compared to Fiscal 1998 sales of $47 million. Operating losses of $1 million and $4 million were recorded for Fiscal 1999 and 1998, respectively, largely due to the establishment of inventory reserves and under-recovered costs associated with restructuring of pooled manufacturing facilities.

Fiscal 1998 vs. Fiscal 1997

Sales for Fiscal 1998 totaled $1,207 million, an increase of 8% over Fiscal 1997 sales of $1,115 million. Net losses from continuing operations for Fiscal 1998 totaled $39 million or $1.34 per share as compared to net losses from continuing operations of $14 million or $0.44 per share for Fiscal 1997. Results for Fiscal 1998 included $51 million after taxes in special charges pertaining to (1) a government directive to make certain changes to drive train components of the FMTV ($26 million), (2) claims for additional costs arising out of government caused delays and changes in the FMTV program ($24 million), (3) charges for cost overruns and superceded material in the FMTV program ($6 million) and (4) partially offsetting interest income on proceeds from sale of the gas turbine business ($5 million). Fiscal year 1997 results from continuing operations included special charges totaling $30 million comprised of (1) higher costs to complete the initial FMTV contracts ($17 million), (2) settlement of a government claim ($9 million), (3) resolution of litigation arising from a 1987 contract to supply diesel generator sets ($7 million), and (4) gain on sale of the Company's John Deere franchise in Houston, Texas ($3 million). Excluding these special items, net earnings from continuing operations for Fiscal 1998 and 1997 totaled $12 million or $0.40 per share and $16 million or $0.48 per share, respectively. The Company reported a $49 million operating loss for Fiscal 1998 compared with a $24 million operating profit for Fiscal 1997.

The Power Products segment recorded sales of $556 million during Fiscal 1998, virtually flat when compared with Fiscal 1997 sales of $558 million. Sales were affected by several factors. In particular, sales were higher as a result of recent business acquisitions, but such increase was offset by (1) lower equipment, parts, and services sales in branches supplying the petroleum industry (due primarily to depressed oil and gas prices) and (2) the sale of the Company's construction equipment business in Fiscal 1997. Operating profits in the Power Products segment for Fiscal 1998 totaled $24 million compared with $34 million for the prior year. Operating profits decreased as a result of weakness in the petroleum industry, increased reserves for exposures in accounts receivable and inventory from the decline in the financial condition of the petroleum industry, and increased costs arising out of recent business acquisitions.

The Tactical Vehicle Systems segment recorded sales of $455 million in Fiscal 1998, an increase of $59 million (15%) over Fiscal 1997. An operating loss of $78 million was recorded for Fiscal 1998 and included: (1) a $40 million charge for estimated costs associated with a government directive to make certain changes in the drive train components of the FMTV; (2) a $37 million charge related to a series of claims for additional costs arising from government caused delays and changes; and (3) a $10 million charge to cost of sales relating to cost overruns and superseded materials on the original contract. The Tactical Vehicle Systems segment reported an operating loss of $10 million in Fiscal 1997.

The Petroleum Equipment segment achieved sales and operating profits of $116 million and $10 million, respectively, for Fiscal 1998, which compared favorably with Fiscal 1997 sales of $83 million and profits of $6 million. This segment reported sustained quarter-to-quarter improvement during Fiscal 1998, largely on the strength of new product introductions such as marine riser systems.

The Airline Products segment sales totaled $33 million for Fiscal 1998, a 9% decrease from sales of $36 million recorded for Fiscal 1997. Airline Products sales were impacted by the weak Asian market, with an offsetting increase from the acquisition of Tug Manufacturing Corporation in late December 1998. Operating losses for Fiscal 1998 and 1997 totaled $1 million and $3 million, respectively, and included product development costs in Fiscal 1998 and asset write-offs and product warranty charges in Fiscal 1997.

Sales for other business activities totaled $47 million for Fiscal 1998, compared to $41 million for Fiscal 1997. Lower gas compression revenues were more than offset by higher miscellaneous sales. Both years were impacted by under-recovered costs associated with the restructuring of pooled manufacturing facilities. In addition, Fiscal 1998 included startup costs in the gas compression leasing and services business.

Period Expenses

Net Period Expenses

(In thousands)	Fiscal 1999	Fiscal 1998	Fiscal 1997
Selling and administrative expenses	$109,038	$90,857	$ 75,619
Interest expense	9,991	12,244	15,440
Special charges	—	—	23,352
Gain on sale of construction equipment franchise	—	—	(4,369)
Other income, net	(7,396)	(12,706)	(4,867)
	$111,633	$90,395	$105,175
Net period expenses as a percentage of sales	12.2%	7.5%	9.4%

Period expenses for Fiscal 1999 totaled $112 million or 12.2% of sales compared with $90 million or 7.5% of sales in Fiscal 1998 and $105 million or 9.4% of sales in Fiscal 1997. Increases in selling and administrative expenses during the last two years were largely due to business acquisitions and process and technology improvement initiatives. Interest expense decreased $2 million in Fiscal 1999 due to improved cash flow performance. The $3 million decrease in interest expense in 1998 resulted from a reduction in borrowings accomplished with funds received from sale of the GTO.

Special charges in Fiscal 1997 totaled $23 million including $10 million in expenses arising from the Company's resolution of litigation relating to a 1987 contract to supply diesel generator sets, and $13 million associated with settling a claim by the Company for excessive costs incurred on a U.S. Government contract.

On October 6, 1997, the Company sold its construction equipment franchise for $30 million and recognized a gain on the sale of $4 million. The construction equipment franchise operated in the gulf coast territory of Texas and primarily distributed, and provided services for, products manufactured by John Deere Construction Equipment Company and other companies engaged in the business of manufacturing earth moving equipment, forestry equipment, skidsteer equipment and utility equipment.

Other income, net, for Fiscal 1999 included a $1.9 million recovery of value added taxes and harbor taxes, and a $1.8 million gain on the sale of an investment. Other income, net, for Fiscal 1998 included approximately $9 million in interest income earned on proceeds from sale of GTO.

Continuing/Discontinued Operations

Net Earnings (Loss)

(In thousands)	Fiscal 1999	Fiscal 1998	Fiscal 1997
Continuing operations	$17,451	$(39,005)	$(14,505)
Discontinued operations	—	—	5,424
Gain on disposal of discontinued operations	6,879	(33,979)	61,344
Net earnings (loss)	$24,330	$(72,984)	$52,263

The net earnings from continuing operations for Fiscal 1999 was $17 million versus a loss of $39 million in Fiscal 1998 and a loss of $15 million in Fiscal 1997. All three years had special items which significantly impacted performance. See "Special Items." Excluding special items, net of tax, of $4 million income in Fiscal 1999, $51 million expense in Fiscal 1998, and $30 million expense in Fiscal 1997, net earnings from continuing operations for Fiscal 1999, 1998, and 1997 would have been $14 million, $12 million, and $15 million, respectively.

The net loss from discontinued operations in Fiscal 1998 totaled $34.0 million and represented the equivalent of $1.17 per share. The Company recorded an after-tax charge, net of accruals, of $20 million relating to certain contractual purchase price adjustments associated with the sale of GTO to the General Electric Company ("GE") and $14 million for a probable liability associated with a debt guarantee related to the Company's investment in a power generation facility in Argentina. During the fourth quarter of Fiscal 1999, the Company disposed of the investment and related obligations, resulting in a $7 million gain net of tax. The guarantee arose as part of the Company's Gas Turbine Operations; accordingly, the gain has been reflected in results from discontinued operations.

During Fiscal 1997, the Company completed the sale of the net assets of GTO to GE for $600 million, with subsequent downward adjustments of $84 million in Fiscal 1998. The Company used these funds to retire $260 million of debt, repurchase $120 million of its outstanding stock, and acquire four businesses at a cost of approximately $34 million.

The total net earnings for Fiscal 1999 was $24 million or $0.87 per share versus a loss of $73 million or $2.51 per share in Fiscal 1998 and earnings of $52 million or $1.57 per share in 1997.

Financial Condition

Working Capital

(In thousands)	January 31, 2000	January 31, 1999
Current Assets		
Cash and cash equivalents	$ 11,715	$ 12,959
Accounts and notes receivable, net	242,625	164,547
Recoverable costs and accrued profits not yet billed	8,151	99,097
Income tax receivable	26,255	38,027
Deferred tax asset	9,076	10,569
Inventories	190,947	215,202
Total Current Assets	$488,769	$504,401
Current Liabilities		
Notes payable	$ 25,269	$ 17,468
Accounts payable	90,163	83,127
Accrued payrolls and incentives	18,701	17,123
Income tax payable	3,257	2,931
Current portion of long-term debt	8,955	69,488
Other accrued liabilities	65,903	95,349
Total Current Liabilities	$212,248	$285,486
Working Capital	$276,521	$254,915
Current Ratio	2.30:1	1.89:1

Current assets decreased from $540 million to $489 million, a reduction of $51 million or 9%. Accounts and notes receivable increased $78 million, and included $61 million in amounts billed to the U.S. government which were collected in February 2000 and $8 million in notes receivable associated with marine sales. Recoverable costs declined $91 million or 92%, primarily reflecting the liquidation of the original FMTV contract. Inventories decreased by $24 million or 11%, reflecting the benefit of an inventory reduction program, partially offset by inventory buildup associated with entering the gas compression business and the acquisition of a transition supply of discontinued 2-cycle diesel engines.

Current liabilities were reduced $73 million at the end of Fiscal 1999 compared to Fiscal 1998 by the payment of $61 million in notes payable, a $29 million reduction in other accrued liabilities associated with expenditures to perform under a government directive, and the elimination of the Ave Fenix guarantee obligation retained in connection with the sale of GTO, and partially offsetting increases in accounts and notes payable.

The Company's current ratio improved from 1.89 at the end of Fiscal 1998 to 2.30 at the end of Fiscal 1999.

Long Lived Assets

(In thousands)	January 31, 2000	January 31, 1999
Property, plant and equipment, net	$ 99,844	$101,029
Revenue earning assets, net	29,690	27,716
Deferred income tax asset	166	7,904
Investments and other assets	23,881	28,727
	$153,581	$165,376

Long lived assets decreased by $12 million in Fiscal 1999. Property, plant and equipment includes acquisition costs, net of depreciation, for property, plant and equipment. Revenue earning assets, net, represents the undepreciated value of equipment used in gas compression, material handling, power generation and the air compression rental businesses. At the end of Fiscal 1998, the Company recorded deferred tax assets representing the future tax benefits of certain accrued long-term reserves, which were recovered in Fiscal 1999. The decline in investments and other assets during Fiscal 1999 was principally the result of a reduction in the long-term portion of notes receivable and the sale of certain investments.

Capital Structure

(In thousands)	January 31, 2000 Amount	January 31, 2000 Percentage	January 31, 1999 Amount	January 31, 1999 Percentage
Long-Term Debt	$ 78,281	18.2%	$ 83,530	19.9%
Other Long-Term Liabilities	16,742	3.9	16,398	3.9
Shareholders' Equity	335,079	77.9	320,363	76.2
	$430,102	100.0%	$420,291	100.0%

The Company's capital structure consists primarily of shareholders' equity and long-term debt. The capital structure increased by $10 million during Fiscal 1999, primarily due to net earnings of $24 million (less dividends of $10 million), and a reduction of long-term debt. During Fiscal 1998, the Company repurchased 5,265,120 shares of its common stock which resulted in a reduction of shareholders' equity of $120 million. The Company's capital was further reduced in Fiscal 1998 by both the Company's net loss of $73 million and the reduction of current maturities of long-term debt totaling $69 million.

Liquidity and Capital Resources

The Company's sources of cash liquidity included cash and cash equivalents, cash from operations, amounts available under credit facilities, and other external sources of funds. The Company believes that these sources are sufficient to fund the current requirements of working capital, capital expenditures, dividends, and other financial commitments. The Company has in place an unsecured revolving debt facility that could provide up to approximately $150 million, net of a $25 million letter of credit facility, of which approximately $62 million was available at January 31, 2000, due to certain limitations as a result of modifications made effective January 31, 1999.

Based on current earnings projections, the Company expects full access to the $150 million facility during the last half of Fiscal 2000. For additional Information, see "Note 9: Debt Arrangements." This revolving facility matures during Fiscal 2001.

The Company has additional banking relationships which provide uncommitted borrowing arrangements. In the event that any acquisition of additional operations, growth in existing operations, settlements of other lawsuits or disputes, changes in inventory levels, accounts receivable, tax payments or other working capital items create a permanent need for working capital or capital expenditures in excess of the existing cash and cash equivalents and committed lines of credit, the Company may seek to borrow under other long-term financing sources or to curtail certain activities.

The following table summarizes the Company's cash flows from operating, investing and financing activities as reflected in the Consolidated Statement of Cash Flows.

Summarized Statement of Cash Flows

(In thousands)	Fiscal 1999	Fiscal 1998	Fiscal 1997
Net cash (used in) provided by:			
Operating activities	$ 88,274	$ 428,075	$(11,916)
Investing activities	(22,020)	(65,249)	(14,236)
Financing activities	(67,498)	(368,854)	36,033
	$ (1,244)	$ (6,028)	$ 9,881

Net Cash Provided By (Used In) Operating Activities

(In thousands)	Fiscal 1999	Fiscal 1998	Fiscal 1997
Net earnings (loss) from continuing operations	$ 17,451	$ (39,005)	$(14,505)
Accrued postretirement benefits	(271)	(237)	(1,835)
Depreciation and amortization	22,298	19,636	22,447
Deferred income taxes, net	(2,310)	(10,760)	(3,350)
(Gain) loss on sale of business assets	(5,804)	53	(4,369)
Change in operating assets and liabilities, net	60,197	(57,612)	70,639
Net cash provided by (used in) continuing operations	91,561	(87,925)	69,027
Net cash (used in) provided by discontinued operations	(3,287)	516,000	(80,943)
Net cash provided by (used in) operating activities	$(88,274)	$(428,075)	$(11,916)

Net cash provided by continuing operations in Fiscal 1999 totaled $92 million and included a $60 million change in net operating assets and liabilities resulting primarily from the liquidation of the original FMTV contract and lower inventories. During Fiscal 1998 the Company's continuing operations consumed $88 million of funds, primarily caused by net losses from continuing operations, and a change in net operating assets and liabilities largely resulting from certain tax events, including the payment of income taxes associated with the sale of GTO and the accrual of certain reserves which under tax regulations were not deductible during Fiscal 1998. The cash consumed by discontinued operations in Fiscal 1997 reflects the net results of the GTO activities, whereas in Fiscal 1998 cash provided by discontinued operations represents the net collection of the proceeds from the sale of the GTO business. Usage in Fiscal 1999 was related to disposition of an investment and related obligations pertaining to a power generation plant in Argentina.

Net Cash Used In Investing Activities

(In thousands)	Fiscal 1999	Fiscal 1998	Fiscal 1997
Expenditures for property, plant and equipment	$(38,573)	$(39,565)	$(31,778)
Proceeds from sale of business assets	8,303	4,597	22,773
Acquisition of businesses	(5,832)	(33,659)	(8,729)
Disposal of property, plant and equipment	14,082	3,378	3,498
Net cash used in investing activities	$(22,020)	$(65,249)	$(14,236)

During Fiscal 1999, 1998, and 1997, the Company invested significant amounts into property, plant and equipment to expand its existing businesses. Fiscal 1999 expenditures included approximately $20.4 million in revenue earning assets and $18.2 million in normal plant and equipment. In addition, the Company sold approximately $16 million of revenue earning assets in Fiscal 1999 to third parties. Fiscal 1998 included expenditures of $13.1 million related to the acquisition and buildup of the Company's gas compression rental fleet.

Proceeds from sale of business assets in Fiscal 1999 totaled $8 million and consisted of sale of investments in (1) GFI Control Systems, Inc., a gaseous fuel injection joint venture located in Ontario, Canada ($4 million); and (2) Syracuse Orange Partners, L.P., a cogeneration facility located in Syracuse, New York ($3 million); and (3) a facility in North Dakota ($1 million).

Acquisitions of businesses in Fiscal 1999 consisted of the purchase of Thermo King of Northern California for approximately $6 million.

Business acquisitions in Fiscal 1998 included the assets of Compression Specialties, Inc., a Wyoming based gas compression leasing and service company ($9 million), the stock of IPSC Co., Inc., the Deutz engine distributor for Louisiana, Mississippi, Arkansas, and Western Tennessee, ($4.2 million), the Deutz distributorship franchise for Texas, Oklahoma, and Kansas from Harley Equipment Company, H & H Rubber, Inc., a manufacturer of specialty rubber products, for ($4 million), and Tug Manufacturing Corporation, an airline ground support equipment manufacturer, for approximately $13 million in cash and $3 million in additional purchase price to be paid ratably over three years. During October 1998, the Company sold the net assets of Carson Cogeneration LLP (discussed below).

During Fiscal 1997, the Company transferred a gas turbine valued at approximately $5 million from its discontinued operations inventory to the property, plant and equipment of the Company's other operations, to support its interests and obligations associated with a retained investment in a power plant in Argentina. In April 1997, the Company acquired ownership of Sierra Detroit Diesel Allison, Inc., a Detroit Diesel and Allison Transmission distributor for Northern California. In September 1997, the Company also acquired Carson Cogeneration LLP, an independent power producer in California. In October 1997, the Company sold its Houston construction equipment distributorship.

Net Cash (Used In) Provided By Financing Activities

(In thousands)	Fiscal 1999	Fiscal 1998	Fiscal 1997
Additions to long-term borrowings	$ 16,234	$ 25,000	$ 76,153
Payments on long-term borrowings	(82,016)	(242,780)	(37,329)
Net short-term borrowings (payments)	7,801	(22,714)	7,000
Dividends paid	(9,517)	(9,758)	(11,286)
Repurchase of common stock	—	(120,000)	—
Proceeds from exercise of stock options	—	1,398	1,495
Net cash (used in) provided by financing activities	$(67,498)	$(368,854)	$ 36,033

Effective as of January 31, 1999, the Company obtained certain modifications to its unsecured revolving line of credit, which among other things, adjusted its interest rate options and modified certain covenants dealing with debt levels, interest coverage, investments, and levels of retained earnings. Under this amendment, the most commonly used interest rate option increased by approximately 150 basis points. In addition to the revolving credit facility, the Company has $75 million in senior notes outstanding. The senior notes are unsecured and were issued pursuant to an agreement containing a covenant which imposes a debt to total capitalization requirement.

Payment of cash dividends on common stock totaled $9.5 million and $9.8 million during Fiscal 1999 and 1998, respectively. There has been no change in the dividends per share during these years, and the decline in total dividends results from the Company's repurchase of 5,265,120 shares of its outstanding stock. Cash dividends represented 55%, 82% and 75% of net earnings from continuing operations before special items for Fiscal 1999, 1998 and 1997, respectively. The Company uses funds from operations, along with borrowings, to pay dividends.

Accounting Developments

In June 1997, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 130, *Reporting Comprehensive Income* and SFAS No. 131, *Disclosures About Segments of an Enterprise and Related Information.* In February 1998, SFAS No. 132, *Employers' Disclosures About Pensions and Other Post Employment Benefits* was issued. In June, 1998, FASB issued SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities,* which was subsequently amended by FAS No. 137. In December, 1999, the Securities and Exchange Commission staff released Staff Accounting Bulletin (SAB) No. 101, *Revenue Recognition in Financial Statements.*

SFAS No. 130 requires disclosure of comprehensive income, which consists of all changes in equity from non-shareholder sources. SFAS No. 131 requires that segment reporting for public reporting purposes be conformed to the segment reporting used by management for internal purposes. SFAS No. 132 standardizes the disclosure requirements of Statements No. 87 and No. 106. The adoption of these statements did not impact the Company's consolidated financial position, results of operations or cash flows, but is limited to the form and content of the Company's disclosures. Since most of the information required under these statements is currently disclosed, their adoption does not materially change the Company's current disclosures. SFAS No. 133 establishes new accounting and disclosure standards for derivative instruments. SAB No. 101 provides detailed guidance on the recognition of revenue. However, the Company believes the future adoption of these statements will not have a material impact on its results of operations or financial position.

Factors That May Affect Future Results

Forward-Looking Statements

This Management's Discussion and Analysis of Financial Condition and Results of Operations and other sections of this annual report contain forward-looking statements that are based on current expectations, estimates, and projections about the markets and industries in which the Company operates, management's beliefs, and assumptions made by management. These forward-looking statements are made pursuant to the Safe Harbor Provisions of the Private Securities Litigation Reform Act of 1995. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions ("future factors") which are difficult to predict. Therefore, actual outcomes and results may differ materially from what is expressed or forecasted in such forward-looking statements. The Company undertakes no obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

Future factors include risks associated with newly acquired businesses; increasing price and product/service competition by foreign and domestic competitors; rapid technological developments and changes; the ability to continue to introduce competitive new products and services on a timely, cost effective basis; the mix of products/services; the achievement of lower costs and expenses; reliance on large customers; technological, implementation and cost/financial risks in use of large, multi-year contracts; the cyclical nature of the markets served; the outcome of pending and future litigation and governmental proceedings and continued availability of financing, financial instruments and financial resources in the amount, at the times and on the terms required to support the Company's business; the assessment of unanticipated taxes by foreign or domestic governmental authorities; and the risk of cancellation or adjustments of specific orders and termination of significant government programs. These are representative of the future factors that could affect the outcome of forward-looking statements. In addition, such statements could be affected by general industry and market conditions and growth rates, general domestic and international conditions including interest rates, rates of inflation and currency exchange rate fluctuations and other future factors.

Business Outlook

During Fiscal 1999 and 1998, both the Power Products segment and the Petroleum Equipment segment were adversely affected by depressed prices for oil and gas. The Company reacted by adopting programs to reduce costs associated with these business segments. These programs included disposition of several unprofitable branches, implementation of turnaround plans for under-performing branches, and better integration of recently acquired operations into the business segments. In addition, the Company took action to reduce working capital requirements by increasing inventory turnover and accelerating collection of accounts receivable. Performance measurements systems have been restructured to focus on these areas. The Company expects that these efforts will result in improved operating margins and return on assets in both segments. The recent increase in oil and gas prices is expected to provide opportunities for improved sales in Fiscal 2000.

During Fiscal 1998, the U.S. Army directed the Company to make certain changes in the drive train components of all vehicles produced under the first FMTV contracts. The Company made a decision to refit all fielded vehicles and to fund the $40 million estimated cost to perform that work. The Company commenced the installation of the directed changes during Fiscal 1999 and, subject to availability of vehicles, expects to complete the changes during the second quarter of Fiscal 2000. The Company will submit Requests for Equitable Adjustments or claims under the FMTV contracts seeking compensation for the additional costs relating to this directive. In addition, the Company filed a certified claim with the U.S. Army for $48 million seeking recovery of additional costs incurred under the initial FMTV contracts as a result of other changes and delays caused or directed by the government. The U.S. Army denied the Company's claim, and the parties have agreed in principal to engage in non-binding arbitration. Management believes that the FMTV contracts provide a legal basis for the claims. However, due to the inherent uncertainties in the claims resolution process, the Company has expensed the cost relating to these matters. Since the costs associated with these claims have been expensed, any future recovery of these amounts will be treated as income in the period which these matters are resolved.

In the first half of Fiscal 1999, the Company was in a production hiatus between the original FMTV contracts and the new FMTV contracts. During this period, the Company made several changes to the management and production processes intended to improve the performance of the Tactical Vehicle Systems segment. These changes included the reduction of both direct and indirect personnel, improvements in materials management, and reductions in cash flow cycle times.

The Company was paid a higher sales price per truck on some trucks sold in Fiscal 1999 to compensate the Company for costs incurred during the production shutdown. Additionally, the Company commenced the installation of the directed changes to the drive train components during Fiscal 1999. The Company expects that the changes discussed above will have a positive impact on operating margins, cash flow, and return on assets in the Tactical Vehicles Systems segment.

The acquisition of Tug Manufacturing Corporation in late 1998, coupled with increased sales of previously existing products resulted in a tripling of sales volume in Fiscal 1999 compared with Fiscal 1998. In addition, Fiscal 1999 operations were impacted by $5 million in charges for new product development expenditures. These actions, coupled with organizational restructuring, new product introductions, and increasing service revenues should position the business for profitable growth in the future.

Government Contracting Factors

Major contracts for military systems are performed over extended periods of time and are subject to changes in scope of work and delivery schedules. Pricing negotiations on changes and settlement of claims, including claims for additional taxes, often extend over prolonged periods of time. The Company's ultimate profitability on such contracts will depend on the eventual outcome of an equitable settlement of contractual issues with the U.S. Government. Due to uncertainties inherent in the estimation and claim negotiation process, no assurances can be given that management's estimates will be accurate, and variances between such estimates and actual results could be material.

During Fiscal 1998, the Company was awarded a new multi-year contract that will extend production of the FMTV into 2002 (or 2003 if the government exercises its option to purchase additional vehicles). The funding of the new FMTV contract is subject to the inherent uncertainties of congressional appropriations. As is typical of multi-year defense contracts, the FMTV contract must be funded annually by the Department of the Army and may be terminated at any time for the convenience of the government. As of January 31, 2000, funding in the amount of $342 million for the new FMTV contract had been authorized and appropriated by the U.S. Congress. If the new FMTV contract is terminated other than for default, the FMTV contracts provide for termination charges that will reimburse the Company for allowable costs, but not necessarily all costs.

The Company's government contract operations are subject to U.S. Government investigations of business practices and cost classifications from which legal or administrative proceedings can result. Based on government procurement regulations, under certain circumstances a contractor can be fined, as well as suspended or debarred from government contracting. In this event, the Company would also be unable to sell equipment or services to customers that depend on loans or financial commitments from the Export Import Bank, Overseas Private Investment Corporation, and similar government agencies, or otherwise receive the benefits of federal assistance payments during a suspension or debarment.

The Company entered an Administrative Agreement with the United States Air Force that imposes certain requirements on the Company intended to assure the U.S. Air Force that the Company is a responsible government contractor. Under this agreement, the Company has established and maintains an effective program to ensure compliance with applicable laws and the Administrative Agreement. The program provides employees with education and guidance regarding compliance and ethical issues, operates a means to report questionable practices on a confidential basis, and files periodic reports with the U.S. Air Force regarding the Company's business practices. A default by the Company of the requirements under the Administrative Agreement could result in the suspension or debarment of the Company from receiving any new contracts or subcontracts with agencies of the U.S. Government or the benefit of federal assistance payments.

Any such suspension could also prevent the Company from receiving future modifications to the FMTV contract unless the Secretary of the Army finds a compelling need to enter into such modification. The Administrative Agreement expires pursuant to its term on March 19, 2001, but the Company intends to maintain compliance programs on a continuing basis.

Year 2000 Compliance

In the past, many computer software programs were written using two digits rather than four to define the applicable year. As a result, date-sensitive computer software may recognize a date using "00" as the year 1900 rather than the year 2000. If this situation occurs, the potential exists for computer system failures or miscalculations by computer programs, which could disrupt operations. This is generally referred to as the Year 2000 issue.

The Company did not experience any year 2000 problems that, in the Company's opinion, materially and adversely affected its consolidated financial condition. The Company established a team to address the potential impacts of the year 2000 on each of its critical business functions. The team assessed the Company's critical date-sensitive technology, including its information systems, computer equipment and other systems used in its various operations, and the Company completed the process of modifying or replacing those systems to be year 2000 compliant. The final modification costs were approximately $2 million. The majority of those costs were attributable to the purchase of new computer equipment. Systems modification costs were expensed as incurred and costs associated with new equipment were capitalized and will be amortized over the life of the product.

Item 7a. Quantitative and Qualitative Disclosures About Market Risk

Stewart & Stevenson's market risk results from volatility in interest rates and foreign currency exchange rates. This risk is monitored and managed.

Stewart & Stevenson's exposure to interest rate risk relates primarily to its debt portfolio. To limit interest rate risk on borrowings, the Company targets a portfolio within certain parameters for fixed and floating rate loans taking into consideration the interest rate environment and the Company's forecasted cash flow. This policy limits exposure to rising interest rates and allows the Company to benefit during periods of falling interest rates. The Company's interest rate exposure is generally limited to its short-term uncommitted bank credit facilities and its unsecured revolving credit notes. See "Liquidity and Capital Resources."

The table below provides information about the Company's market sensitive financial instruments and constitutes a forward-looking statement.

Principal Amount by Expected Maturity

	Fiscal Year Ending January 31,					
(In thousands)	2001	2002	2003	2004	2005	Thereafter
Fixed Rate Long-term Debt	$8,705	$20,215	$ 254	$30,235	$ —	$25,000
Average Interest Rate	9.06%	7.13%	16.90%	7.36%		7.38%
Floating Rate Long-term Debt	$ 250	$ 250	$ 727	$ 250	$250	$ 1,100

The Company's earnings and cash flows are subject to fluctuations due to changes in foreign currency exchange rates. Generally, the Company's contracts provide for payment in U.S. Dollars and the Company does not maintain significant foreign currency cash balances. Foreign subsidiaries have in-country working capital loans, which limit the exposure to foreign currency exchange rate fluctuations. Certain suppliers, suppliers for the FMTV contract, bill in foreign currency. The Company may enter into forward contracts to hedge these specific commitments and anticipated transactions but not for speculative or trading purposes. The following table lists the foreign currency forward contracts outstanding at the close of Fiscal 1999.

Contract Amount by Expected Maturity

	Fiscal Year Ending January 31	
(In thousands)	2000	2001
Foreign contracts to Purchase Foreign Currencies for U.S. Dollars		
German Mark	$ 1,397	$ 473
Average Contractual Exchange Rate	1.8817	1.8615
Austrian Schilling	$ 3,131	$ 1,349
Average Contractual Exchange Rate	13.321	13.089

1.18

WAL-MART STORES, INC. (JAN)

MANAGEMENT'S DISCUSSION AND ANALYSIS

Net Sales

Sales (in millions) by operating segment for the three fiscal years ended January 31, are as follows:

Fiscal Year	Wal-Mart Stores	SAM's Club	International	Other (McLane)	Total Company	Total Company Increase
2000	$108,721	$24,801	$22,728	$8,763	$165,013	20%
1999	95,395	22,881	12,247	7,111	137,634	17%
1998	83,820	20,668	7,517	5,953	117,958	12%

The Company's sales growth of 20% in fiscal 2000, when compared to fiscal 1999, is the result of the Company's expansion program, including international acquisition, and a domestic comparative store sales increase of 8%. The sales increase of 17% in fiscal 1999, when compared to fiscal 1998, was also attributable to our expansion program and a domestic comparative store sales increase of 9%.

Costs and Expenses

Cost of sales, as a percentage of sales, decreased, resulting in increases in gross margin of .4% and .2% in fiscal 2000 and fiscal 1999, respectively. These improvements in gross margin occurred even with continued price rollbacks, our continuing commitment to always providing low prices and higher international and food department sales which generally have lower gross margins than domestic general merchandise. The fiscal 2000 improvement in gross margin can be attributed to a favorable sales mix of higher margin categories, improvements in shrinkage and markdowns, a favorable LIFO inventory adjustment and the slower growth of SAM'S Club, which is our lowest gross margin retail operation. The gross margin improvement in fiscal 1999 was the result of lower inventory levels, which resulted in reduced markdowns and decreased shrinkage.

Operating, selling, general and administrative expenses increased .1% as a percentage of sales in fiscal 2000 when compared with fiscal 1999. This increase was partially due to increased payroll cost incurred during the year. Additionally, in the second quarter of fiscal 2000, a $624 million jury verdict was rendered against the Company in a lawsuit. The Company agreed to settle the lawsuit for an amount less than the jury verdict. The Company had previously established reserves related to this lawsuit, which were not material to its results of operations or financial position. The settlement exceeded the Company's estimated reserves for this lawsuit and resulted in a charge in the second quarter of fiscal 2000 of $.03 per share net of taxes.

Operating, selling, general and administrative expenses decreased .2% as a percentage of sales in fiscal 1999 when compared with fiscal 1998. The strong sales increase along with lower inventory levels combined to reduce expenses as a percentage of sales. The expense leverage was mitigated in the consolidated results due to the percentage of the total volume decreasing in the SAM'S Club segment, which has lower expenses as a percentage of sales, while the percentage of total volume increased in the International segment, which has higher expenses as a percentage of sales than the other operating segments. Every operating segment was flat or down in expenses as a percent of sales in fiscal 1999 when compared with fiscal 1998.

Wal-Mart Stores

Sales for the Company's Wal-Mart Stores segment increased by 14.0% in fiscal 2000 when compared to fiscal 1999, and 13.8% in fiscal 1999 when compared to fiscal 1998. The fiscal 2000 growth is the result of comparative store sales increases and the Company's expansion program. Segment expansion during fiscal 2000 included the opening of 29 Wal-Mart stores and 157 Supercenters (including the conversion of 96 existing Wal-Mart stores into Supercenters). Fiscal 1999 growth is also the result of comparative store sales increases and the Company's expansion program. Segment expansion during fiscal 1999 included the opening of 37 Wal-Mart stores and 123 Supercenters (including the conversion of 88 existing Wal-Mart stores into Supercenters). Operating income for the segment for fiscal 2000 increased by 19%, from $7.0 billion in fiscal 1999 to $8.4 billion in fiscal 2000. 1999 segment operating income increased by 21%, from $5.8 billion in 1998 to $7.0 billion in 1999. The improvement in operating income in 2000 has been driven by margin improvements resulting from improvements in markdowns and shrinkage. However, these margin improvements were somewhat offset by increased payroll costs. Fiscal 1999 margin improvements were the result of lower inventory levels, which generated lower markdowns and reduced shrinkage.

SAM'S Club

Sales for the Company's SAM'S Club segment increased by 8.4% in fiscal 2000 when compared to fiscal 1999, and by 10.7% in fiscal 1999 when compared to fiscal 1998. SAM'S Club sales continued to decrease as a percentage of total Company sales, decreasing from 17.5% in fiscal 1998 to 16.6% in fiscal 1999 and to 15.0% in fiscal 2000. This decrease as a percentage of total Company sales is primarily the result of the increased growth rate in the international segment. SAM'S Club segment expansion during fiscal 2000 and 1999 consisted of the opening of twelve and eight clubs, respectively, and the Company has plans for continued new club openings in fiscal 2001. Additionally, the Company intends to continue its program of remodeling its existing SAM'S Club. After consideration of the effects of the change in accounting method for membership revenue recognition, operating income for the segment in fiscal 2000 increased by 16.8%, from $650 million in fiscal 1999 to $759 million in fiscal 2000. The pretax impact of the change in accounting method would have been $57 million in fiscal 1999 and was $16 million in fiscal 2000. The impact of the accounting method change is greater on fiscal 1999 due to an increase in the cost of SAM'S Club membership that occurred during that year. If the effect of this accounting change is not considered, operating income would have been basically flat as a percent of segment sales when comparing fiscal 1999 to fiscal 2000. Fiscal 1999 saw a 7.6% increase in operating income after consideration of the accounting change, when operating income increased from $604 million in fiscal 1998 to $650 million in fiscal 1999. The pretax impact of the accounting change on fiscal 1998 would have been $12 million. Ignoring the effect of this change, operating income increased from 3.0% of segment sales in fiscal 1998 to 3.1% of segment sales in fiscal 1999.

International

International sales accounted for approximately 13.8% of total Company sales in fiscal 2000 compared with 8.9% in fiscal 1999. The largest portion of the increase in International sales is the result of the acquisition of the ASDA Group PLC (ASDA), which consisted of 229 stores and was completed during the third quarter of fiscal 2000. Additionally, fiscal 2000 was the first full year containing the operating results of the 74 units of the German Interspar hypermarket chain, which were acquired in the fourth quarter of fiscal 1999. Expansion in the international segment for fiscal 2000 consisted of the opening or acquisition of 288 units.

International sales accounted for approximately 8.9% of total Company sales in fiscal 1999 compared with 6.4% in fiscal 1998. The growth in International is partially due to acquisitions during 1999 and 1998. Expansion in the international segment for fiscal 1999 consisted of the opening or acquisition of 114 units. In the third quarter of fiscal 1998, the Company acquired a controlling interest of Cifra, S.A de C.V. (Cifra), which at acquisition date included 250 units in varying formats including Aurreras, Bodegas, Suburbias, Superamas, and Vips. In the fourth quarter of fiscal 1998, the Company acquired the 21 units of the Wertkauf hypermarket chain in Germany. In fiscal 1999, the Company acquired four units in South Korea which were previously operated by Korea Makro. See Note 6 of Notes to Consolidated Financial Statements for additional information on acquisitions.

The Company's foreign operations are comprised of wholly-owned operations in Argentina, Canada, Germany, Korea, Puerto Rico and the United Kingdom; joint ventures in China; and majority-owned subsidiaries in Brazil and Mexico. As a result, the Company's financial results could be affected by factors such as changes in foreign currency exchange rates or weak economic conditions in the foreign markets in which the Company does business. The Company minimizes exposure to the risk of devaluation of foreign currencies by operating in local currencies and through buying forward contracts, where feasible, for most known transactions.

Prior to fiscal 2000, Mexico's economy was considered highly-inflationary. Accordingly, the results of the operations of the Company's Mexican subsidiary were reported using United States dollars. Beginning in fiscal 2000, Mexico ceased to be considered a highly-inflationary economy and began reporting its operations in its local currency. The impact on the consolidated or international segment results of operations or financial position as a result of the change was not material. In fiscal 2000, the foreign currency translation adjustment decreased by $54 million to $455 million primarily due to the United States dollar weakening against the British pound and the Canadian dollar. This was partially offset by the United States dollar strengthening against the Brazilian real. In fiscal 1999, the foreign currency translation adjustment increased by $36 million to $509 million, primarily due to the exchange rates in Brazil and Canada.

After consideration of the effects of the change of accounting method for SAM'S membership revenues, the international segment's operating profit increased from $549 million in fiscal 1999 to $817 million in fiscal 2000. The largest portion of the increase in international operating profit is the result of the ASDA acquisition which was completed during the third quarter of fiscal 2000. Additionally, the Company's operations in Canada, Mexico and Puerto Rico had operating profit increases in fiscal 2000.

After consideration of the effects of the change of accounting method, the international segment's operating profit increased from $260 million in fiscal 1998 to $549 million in fiscal 1999. Because the Cifra and Wertkauf acquisitions occurred during the last half of fiscal 1998, the additional operating profit resulting from these acquisitions accounts for a part of the increase in the international segment's operating profit when comparing fiscal 1999 to fiscal 1998.

In February 2000, Cifra officially changed its name to Wal-Mart de Mexico, S.A. de C.V.

In March 2000, the Company announced the sale of all three of the Company's SAM'S Clubs in Argentina. The sale is being made so that the Company can concentrate on expanding its Supercenter business within Argentina.

Interest Costs

Debt interest costs increased .08% as a percentage of sales from .38% in fiscal 1999 to .46% in fiscal 2000. This increase is the result of increased fiscal 2000 borrowings incurred as the result of the ASDA acquisition. Interest cost related to capital leases decreased by .03% as a percentage of sales from .19% in fiscal 1999 to .16% in fiscal 2000.

Interest costs decreased .09% as a percentage of sales in fiscal 1999 when compared with fiscal 1998. The Company met cash requirements without short-term borrowings throughout most of fiscal 1999 due to enhanced operating cash flows. The interest on the Company's capital leases increased over fiscal 1998 due to continuing expansion. See Note 3 of the Notes to Consolidated Financial Statements for additional information on interest and debt.

Liquidity and Capital Resources Cash Flows Information

Cash flows from operating activities were $8,194 million in fiscal 2000, up from $7,580 million in fiscal 1999. In fiscal 2000, the Company invested $6,183 million in capital assets, paid dividends of $890 million, and had a net cash outlay of $10.4 billion primarily for acquisition of ASDA Group PLC, the third largest retailer in the United Kingdom. The ASDA cash outlay was financed with the issuance of long-term debt and commercial paper. See Note 6 of Notes to Consolidated Financial Statements for additional information on acquisitions.

Market Risk

Market risks relating to the Company's operations result primarily from changes in interest rates and changes in foreign exchange rates.

The Company enters into interest rate and cross currency swaps to minimize the risk and costs associated with financing activities and to hedge its net investment in certain foreign subsidiaries. The swap agreements are contracts to exchange fixed or variable rates for variable or fixed interest rate payments periodically over the life of the instruments. The following tables provide information about the Company's derivative financial instruments and other financial instruments that are sensitive to changes in interest rates. For debt obligations, the table presents principal cash flows and related weighted-average interest rates by expected maturity dates. For interest rate and cross currency swaps, the table presents notional amounts and interest rates by contractual maturity dates. The applicable floating rate index is included for variable rate instruments. All amounts are stated in United States dollar equivalents.

Interest Rate Sensitivity As of January 31, 2000
Principal (Notional) Amount by Expected Maturity
Average Interest (Swap) Rate

(Amounts in millions)	2001	2002	2003	2004	2005	Thereafter	Total	Fair value 1/31/00
Liabilities								
Long-term debt including current portion								
Fixed rate debt	$1,964	$2,070	$659	$742	$1,854	$8,347	$15,636	$14,992
Average interest rate—USD rate	6.9%	6.8%	6.8%	6.8%	6.8%	6.9%	6.9%	
Interest Rate Derivative Financial Instruments Related to Debt								
Interest rate swap								
Pay variable/receive fixed	500	—	—	—	—	—	500	(1)
Average rate paid—30-day U.S. commercial paper non-financial plus .245%								
Fixed rate received—USD rate	5.9	—	—	—	—	—	5.9%	
Interest rate swap								
Pay variable/receive fixed	500	—	—	—	—	—	500	—
Average rate paid—30-day U.S. commercial paper non-financial plus .134%								
Fixed rate received—USD rate	5.7	—	—	—	—	—	5.7%	
Interest rate swap								
Pay variable/receive fixed	41	45	49	54	58	266	513	(7)
Average rate paid—30-day U.S. commercial paper non-financial								
Fixed rate received—USD rate	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	
Interest rate swap								
Pay variable/receive fixed	—	—	—	—	—	230	230	(14)
Floating rate paid—6 month U.S. LIBOR								
Fixed rate received—USD rate	—	—	—	—	—	7.0%	7.0%	
Interest rate swap								
Pay fixed/receive variable	—	—	—	—	—	151	151	(11)
Fixed rate paid—USD rate	—	—	—	—	—	8.1%	8.1%	
Floating rate received—3-month U.S. LIBOR								
Interest Rate Derivative Financial Instruments Related to Currency Swaps								
Currency swap—German Deutschemarks								
Pay variable/receive variable	—	—	1,101	—	—	—	1,101	122
Floating rate paid—3-month German Deutschemark LIBOR minus .0676%								
Average rate received—30-day U.S. commercial paper non-financial								
Interest rate swap—German Deutschemarks								
Pay fixed/receive variable	—	—	1,101	—	—	—	1,101	6
Fixed rate paid—German Deutschemark rate	—	—	4.5%	—	—	—	4.5%	
Floating rate received—3-month German Deutschemark LIBOR minus .0676%								
Interest rate swap—U.S. Dollars								
Pay variable/receive fixed	—	—	1,101	—	—	—	1,101	(38)
Average rate paid—30-day U.S. commercial paper non-financial								
Fixed rate received—USD rate	—	—	5.8%	—	—	—	5.8%	
Currency swap—German Deutschemarks								
Pay variable/receive variable	—	—	—	809	—	—	809	129
Floating rate paid—3-month German Deutschemark LIBOR minus 0.55%								
Average rate received—30-day U.S. commercial paper non-financial								

(Amounts in millions)	2001	2002	2003	2004	2005	Thereafter	Total	Fair value 1/31/00
Interest rate swap—German Deutschemarks								
Pay fixed/receive variable	—	—	—	809	—	—	809	40
Fixed rate paid—German Deutschemark rate	—	—	—	3.4%	—	—	3.4%	
Floating rate received—3-month German Deutschemark LIBOR minus 0.55%								
Interest rate swap—U.S. Dollars								
Pay variable/receive fixed	—	—	—	809	—	—	809	(57)
Average rate paid—30-day U.S. commercial paper non-financial								
Fixed rate received—USD rate	—	—	—	5.2%	—	—	5.2%	
Currency swap—Great Britain Pounds								
Pay variable/receive variable	—	—	—	—	—	3,500	3,500	(29)
Floating rate paid—6-month Great Britain Pound LIBOR minus .1203%								
Floating rate received—3-month U.S. Dollar LIBOR minus .0842%								
Interest rate swap—Great Britain Pounds								
Pay fixed/receive variable	—	—	—	—	—	3,500	3,500	83
Fixed rate paid—Great Britain Pound rate	—	—	—	—	—	6.2%	6.2%	
Floating rate received—3-month Great Britain Pound LIBOR minus .1203%								
Interest rate swap—U.S. Dollars								
Pay variable/receive fixed	—	—	—	—	—	3,500	3,500	(71)
Floating rate paid—3-month U.S. Dollar LIBOR minus .0842%								
Fixed rate received—USD rate	—	—	—	—	—	6.9%	6.9%	

Interest Rate Sensitivity As of January 31, 1999
Principal (Notional) Amount by Expected Maturity
Average Interest (Swap) Rate

(Amounts in millions)	2000	2001	2002	2003	2004	Thereafter	Total	Fair value 1/31/99
Liabilities								
Long-term debt including current portion								
Fixed rate debt	$900	$830	$801	$558	$739	$3,980	$7,808	$8,323
Average interest rate—USD rate	7.1%	7.2%	7.1%	6.9%	7.0%	7.2%	7.2%	
Long-term obligation related to real estate investment trust								
Fixed rate obligation	39	43	46	50	55	327	560	$ 641
Fixed interest rate—USD rate	8.4%	8.4%	8.4%	8.4%	8.4%	8.4%	8.4%	
Interest Rate Derivative Financial Instruments Related to Debt								
Interest rate swap								
Pay variable/receive fixed	—	500	—	—	—	—	500	10
Average rate paid—30-day U.S. commercial paper non-financial plus .134%								
Fixed rate received—USD rate	—	5.7%	—	—	—	—	5.7%	
Interest rate swap								
Pay variable/receive fixed	—	500	—	—	—	—	500	5
Average rate paid—30-day U.S. commercial paper non-financial plus .245%								
Fixed rate received—USD rate	—	5.9%	—	—	—	—	5.9%	
Interest Rate Derivative Financial Instruments Related to Real Estate investment Trust Obligation								
Interest rate swap								
Pay variable/receive fixed	38	41	45	49	54	324	551	44
Average rate paid—30-day U.S. commercial paper non-financial								
Fixed rate received—USD rate	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	
Interest rate swap								
Pay variable/receive fixed	—	—	—	—	—	230	230	30
Floating rate paid—6-month U.S. LIBOR								
Fixed rate received—USD rate	—	—	—	—	—	7.0%	7.0%	
Interest Rate Derivative Financial Instruments Related to Currency Swaps								
Currency swap—German Deutschemarks								
Pay variable/receive variable	—	—	—	1,101	—	—	1,101	(43)
Floating rate paid—3-month German Deutschemark LIBOR minus .0676%								
Average rate received—30-day U.S. commercial paper non-financial								
Interest rate swap—German Deutschemarks								
Pay fixed/receive variable	—	—	—	1,101	—	—	1,101	(58)
Fixed rate paid—German Deutschemark rate	—	—	—	4.5%	—	—	4.5%	
Floating rate received—3-month German Deutschemark LIBOR minus 0.676%								
Interest rate swap—U.S. Dollars								
Pay variable/receive fixed	—	—	—	1,101	—	—	1,101	28
Average rate paid—30-day U.S. commercial paper non-financial								
Fixed rate received—USD rate	—	—	—	5.8%	—	—	5.8%	
Currency swap—German Deutschemarks								
Pay variable/receive variable	—	—	—	—	809	—	809	18
Floating rate paid—3-month German Deutschemark LIBOR minus .055%								
Average rate received—30-day U.S. commercial paper non-financial								

(Amounts in millions)	2001	2002	2003	2004	2005	Thereafter	Total	Fair value 1/31/00
Interest rate swap—German Deutschemarks								
Pay fixed/receive variable	—	—	—	—	809	—	809	3
Fixed rate paid—German Deutschemark rate	—	—	—	—	3.4%	—	3.4%	
Floating rate received—3-month German Deutschemark LIBOR minus 0.55%								
Interest rate swap—U.S. Dollars								
Pay variable/receive fixed	—	—	—	—	809	—	809	1
Average rate paid—30-day U.S. commercial paper non-financial								
Fixed rate received—USD rate	—	—	—	—	5.2%	—	5.2%	

In fiscal 2000, the Company converted the long-term obligation related to a real estate investment trust in which it acquired the equity interest to long-term debt and, accordingly, has included this debt in the long-term debt section above.

The Company routinely enters into forward currency exchange contracts in the regular course of business to manage its exposure against foreign currency fluctuations on cross-border purchases of inventory. These contracts are generally for durations of six months or less. In addition, the Company entered into a series of foreign currency swaps to hedge the net investment in Germany and the United Kingdom.

The following tables provide information about the Company's derivative financial instruments, including foreign currency forward exchange agreements and currency swap agreements by functional currency, and presents the information in United States dollar equivalents. For foreign currency forward exchange agreements, the table presents the notional amounts and weighted average exchange rates by contractual maturity dates.

Foreign Currency Exchange Rate Sensitivity As of January 31, 2000
Principal (Notional) Amount by Expected Maturity

(Amounts in millions)	2001	2002	2003	2004	2005	Thereafter	Total	Fair value 1/31/2000
Forward Contracts to Sell Canadian Dollars for Foreign Currencies								
United States Dollars								
Notional amount	$91	—	—	—	—	—	$91	(1)
Average contract rate	1.5	—	—	—	—	—	1.5	
Forward Contracts to Sell British Pounds for Foreign Currencies								
Hong Kong Dollars								
Notional amount	70	—	—	—	—	—	70	1
Average contract rate	12.8	—	—	—	—	—	12.8	
United States Dollars								
Notional amount	40	—	—	—	—	—	40	1
Average contract rate	1.6	—	—	—	—	—	1.6	
Other Currencies								
Notional amount	45	—	—	—	—	—	45	(2)
Average contract rate	Various	—	—	—	—	—	Various	
Currency Swap Agreements								
Payment of German Deutschemarks								
Notional amount	—	—	1,101	—	—	—	1,101	122
Average contract rate	—	—	1.8	—	—	—	1.8	
Payment of German Deutschemarks								
Notional amount	—	—	—	809	—	—	809	129
Average contract rate	—	—	—	1.7	—	—	1.7	
Payment of Great Britain Pounds								
Notional amount	—	—	—	—	—	3,500	3,500	(29)
Average contract rate	—	—	—	—	—	0.6	0.6	

Foreign Currency Exchange Rate Sensitivity As of January 31, 1999
Principal (Notional) Amount by Expected Maturity

(Amounts in millions)	2000	2001	2002	2003	2004	Thereafter	Total	Fair value 1/31/99
Forward Contracts to Sell Canadian Dollars for Foreign Currencies								
United States Dollars								
Notional amount	$ 45	—	—	—	—	—	$ 45	(1)
Average contract rate	1.5	—	—	—	—	—	1.5	
Forward Contracts to Sell German Deutschemarks for Foreign Currencies								
Hong Kong Dollars								
Notional amount	1	—	—	—	—	—	1	—
Average contract rate	0.2	—	—	—	—	—	0.2	
United States Dollars								
Notional amount	1	—	—	—	—	—	1	—
Average contract rate	1.8	—	—	—	—	—	1.8	
Currency Swap Agreements								
Payment of German Deutschemarks								
Notional amount	—	—	—	1,101	—	—	1,101	(43)
Average contract rate	—	—	—	1.8	—	—	1.8	
Payment of German Deutschemarks								
Notional amount	—	—	—	—	809	—	809	18
Average contract rate	—	—	—	—	1.7	—	1.7	

Company Stock Purchase and Common Stock Dividends

In fiscal 2000 and 1999, the Company repurchased over 2 million and 21 million shares of its common stock for $101 million and $1,202 million, respectively. In the Company's quarterly report on Form 10-Q for the third quarter of fiscal 2000, the Company announced its intent to postpone any further share repurchases until the ratio of debt to total book capitalization was approximately 40%. At January 31, 2000, the Company's total debt to capitalization ratio including commercial paper was 46%. Subsequent to year-end, the Company's stock price decreased and in February and March 2000, the Company repurchased 4.1 million shares of its common stock for $193 million.

The Company paid dividends totaling $.20 per share in fiscal 2000. In March 2000, the Company increased its dividend 20% to $.24 per share for fiscal 2001. This marks the 28th consecutive yearly increase in dividends.

Borrowing Information

The Company had committed lines of credit with 85 firms and banks, aggregating $4,872 million and informal lines of credit with various other banks, totaling an additional $1,500 million, which were used to support commercial paper. These lines of credit and their anticipated cyclical increases should be sufficient to finance the seasonal buildups in merchandise inventories and other cash requirements.

The Company anticipates generating sufficient operating cash flow to pay the increased dividend and to fund all capital expenditures. Accordingly, management does not plan to finance future capital expenditures with debt. However, the Company plans to refinance existing long-term debt as it matures and may desire to obtain additional long-term financing for other uses of cash or for strategic reasons. The Company anticipates no difficulty in obtaining long-term financing in view of an excellent credit rating and favorable experiences in the debt market in the recent past.

In addition to the available credit lines mentioned above, and after consideration of $1 billion in notes issued in February and March of 2000, the Company is permitted to sell up to $3.5 billion of public debt under shelf registration statements previously filed with the United States Securities and Exchange Commission.

Expansion

Domestically, the Company plans to open approximately 40 new Wal-Mart stores and approximately 165 new Supercenters in fiscal 2000. Relocations or expansions of existing discount stores will account for 107 of the Supercenters, while approximately 58 will be new locations. Due to the continued positive customer feedback on the Neighborhood Market concept, which is being tested in seven locations, the Company plans to add five to ten new locations. Also planned for fiscal 2001 are 19 new SAM'S Clubs, including eight relocations. In addition, the Company will remodel approximately 140 of the existing SAM'S Clubs and expand two units. In order to serve these and future developments, the Company will begin shipping from 11 new distribution centers (including one replacement unit) in the next fiscal year. Internationally, plans are to develop or relocate 90 to 100 retail units. These units are planned in Argentina, Brazil, Canada, China, Germany, Korea, Mexico, Puerto Rico and the United Kingdom. Total planned growth represents approximately 34.9 million square feet of net additional retail space.

Total planned capital expenditures for fiscal 2001 approximate $8 billion. We plan to finance our expansion primarily with operating cash flows.

In the fourth quarter of fiscal 2000, the Company joined with Accel Partners, a venture capital firm, to form Wal-Mart.com, Inc. Wal-Mart.com, Inc. will base its operations in Palo Alto, California and was formed to further develop and operate the Internet retail site, Wal-Mart.com, and to further the Company's efforts to attract customers to the Internet with the Wal-Mart name.

Year 2000 Issue Update

The Company did not experience any significant malfunctions or errors in its operating or business systems when the date changed from 1999 to 2000. Based on operations since January 1, 2000, the Company does not expect any significant impact to its ongoing business as a result of the 'Year 2000 issue.' However, it is possible that the full impact of the date change, which was of concern due to computer programs that use two digits instead of four digits to define years, has not been fully recognized. For example, it is possible that Year 2000 or similar issues such as leap year-related problems may occur with billing, payroll, or financial closings at month, quarter, or year end. The Company believes that any such problems are unlikely and that should they occur, they will be minor and correctable. In addition, the Company could still be negatively affected if its suppliers are adversely affected by the Year 2000 or similar issues. The Company currently is not aware of any significant Year 2000 or similar problems that have arisen for its suppliers.

The Company expended $28.2 million on Year 2000 readiness efforts through January 31, 2000. Of this, $18.7 million is related to reprogramming, replacement, extensive testing and validation of software, which was expensed as incurred, while $9.5 million was related to acquisition of hardware, which is being capitalized. $2.2 million of the cost was assumed as a result of the acquisition of ASDA Group PLC.

Forward-Looking Statements

The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements made by or on behalf of the Company. Certain statements contained in Management's Discussion and Analysis, in other parts of this report and in other Company filings are forward-looking statements. These statements discuss, among other things, expected growth, future revenues, future cash flows and future performance. The forward-looking statements are subject to risks and uncertainties including but not limited to the cost of goods, competitive pressures, inflation, consumer debt levels, currency exchange fluctuations, trade restrictions, changes in tariff and freight rates, Year 2000 issues, interest rate fluctuations and other capital market conditions, and other risks indicated in the Company's filings with the United States Securities and Exchange Commission. Actual results may materially differ from anticipated results described in these statements.

Forward Looking Information Excerpts

1.19

APPLIED INDUSTRIAL TECHNOLOGIES, INC. AND SUBSIDIARIES (JUN)

Cautionary Statement Under Private Securities Litigation Reform Act

This Annual Report to shareholders, including management's discussion and analysis, contains statements that are forward-looking, as that term is defined by the Private Securities Litigation Reform Act of 1995 or by the Securities and Exchange Commission in its rules, regulations and releases. The Company intends that all forward-looking statements be subject to the safe harbors created thereby. All forward-looking statements are based on current expectations regarding important risk factors. Accordingly, actual results may differ materially from those expressed in the forward-looking statements, and the making of such statements should not be regarded as a representation by the Company or any other person that the results expressed in the statements will be achieved.

Important risk factors include, but are not limited to, the following: changes in the economy or in specific customer industry sectors; changes in customer procurement policies and practices; changes in product manufacturer sales policies and practices; the availability of product and labor; changes in operating expenses; the effect of price increases or decreases; the variability and timing of business opportunities including acquisitions, alliances, customer agreements and supplier authorizations; the Company's ability to realize the anticipated benefits of the acquisitions and other business strategies, including electronic commerce initiatives; the incurrence of additional debt and contingent liabilities in connection with acquisitions; changes in accounting policies and practices; the effect of organizational changes within the Company; the emergence of new competitors, including firms with greater financial resources than the Company; adverse effects of the Year 2000 issue on the businesses of the Company and its suppliers and customers; adverse results in significant litigation matters; adverse state and federal regulation and legislation; and the occurrence of extraordinary events (including prolonged labor disputes, natural events and acts of God, fires, floods and accidents).

1.20

CAMPBELL SOUP COMPANY (JUL)

Forward-Looking Statements

This 1999 Annual Report contains certain statements which reflect the company's current expectations regarding future results of operations, economic performance, financial condition and achievements of the company. The company has tried, wherever possible, to identify these forward-looking statements by using words such as "anticipate," "believe," "estimate," "expect" and similar expressions. These statements reflect the company's current plans and expectations and are based on information currently available to it. They rely on a number of assumptions and estimates which could be inaccurate and which are subject to risks and uncertainties.

The company wishes to caution the reader that the following important factors and those important factors described elsewhere in the commentary, or in other Securities and Exchange Commission filings of the company, could affect the company's actual results and could cause such results to vary materially from those expressed in any forward-looking statements made by, or on behalf of, the company:

- the impact of strong competitive response to the company's efforts to leverage its brand power with product innovation, promotional programs and new advertising;
- the inherent risks in the marketplace associated with new product introductions, including uncertainties about trade and consumer acceptance;
- the company's ability to achieve sales and earnings forecasts, which are based on assumptions about sales volume and product mix;
- the continuation of the company's successful record of integrating acquisitions into its existing operations and the availability of new acquisition and alliance opportunities that build shareowner wealth;
- the company's ability to achieve its cost savings objectives, including the projected outcome of supply chain management programs;
- the difficulty of predicting the pattern of inventory movements by the company's trade customers;
- the impact of unforeseen economic and political changes in international markets where the company competes such as currency exchange rates, inflation rates, recession, foreign ownership restrictions and other external factors over which the company has no control; and
- the ability of the company and its key service providers, vendors, suppliers, customers and governmental entities to replace, modify or upgrade computer systems in ways that adequately address the Y2K issue. Specific factors that might cause actual results to vary materially from the results anticipated include the ability to identify and correct all relevant computer codes and embedded chips, unanticipated difficulties or delays in the implementation of the company's remediation plans and the ability of third parties to adequately address their own Y2K issues.

This discussion of uncertainties is by no means exhaustive but is designed to highlight important factors that may impact the company's outlook.

1.21

ROBBINS & MYERS, INC. AND SUBSIDIARIES (AUG)

Forward-Looking Statements

This Annual Report in sections "Letter to Shareholders", "Internal Growth", "External Growth", and "Management's Discussion and Analysis of Financial Condition and Results of Operations", contain "Forward-looking Statements". All statements which address operating performance, events or developments that we expect or anticipate will occur in the future including statements related to growth, operating margin performance, earnings per share or statements expressing general opinions about future operating results, are forward-looking statements.

These forward-looking statements and performance trends are subject to certain risks and uncertainties that could cause actual results to differ materially from these statements and trends. Such factors include, but are not limited to, a significant decline in capital expenditure levels in the Company's served markets, a major decline in oil and gas prices, foreign exchange rate fluctuations, uncertainties surrounding the Year 2000 issues and the new Euro currency, continued availability of acceptable acquisition candidates and general economic conditions that can affect the demand in the process industries. Any forward-looking statements are made based on known events and circumstances at the time. The Company undertakes no obligation to update or publicly revise these forward-looking statements to reflect events or circumstances that arise after the date of this report.

1.22

VLASIC FOODS INTERNATIONAL INC. (JUL)

Forward-Looking Information

This Annual Report and our filings with the Securities and Exchange Commission contain certain forward-looking statements within the meaning of the Securities Act of 1933 and the Securities Exchange Act of 1934. We caution readers that any such forward-looking statements made by us or on our behalf are based on our current expectations and beliefs but are not guarantees of future performance. Actual results could differ materially from those expressed or implied in the forward-looking statements. Important facts that could cause such differences include, but are not limited to:

— our ability to continue to comply with covenants and the terms of the senior credit facility and the senior subordinated notes;
— our ability to maintain capital expenditures within the forecast limits, which are based on assumptions about infrastructure requirements;
— issues associated with our business and information systems and embedded technology, including Year 2000 and other system problems which could disrupt our operations—we would also be impacted by software and system problems of our vendors and customers;
— Campbell Soup Company's future requirements for mushrooms and food service products;
— the impact of strong competitive response to our efforts to leverage our brand power with product innovation and new advertising;
— the inherent risks in the marketplace associated with our products, including uncertainties about trade and consumer acceptance;
— the inherent risks associated with an agricultural business;
— changes in prices of raw materials and other inputs;
— the impact of unforeseen economic and political changes in international markets where we compete;
— the market risks associated with financial instruments which may be subject to unforeseen economic changes, such as currency exchange rates, interest rates, inflation rates and recessionary trends;
— our ability to achieve the gains anticipated from our cost productivity programs; and
— our ability to achieve the forecasted savings related to restructuring programs.

Euro Currency Conversion Excerpts

1.23

BROWN & SHARPE MANUFACTURING COMPANY (DEC)

European Monetary Union

Effective January 1, 1999, eleven of fifteen member countries of the European Union ("EU") established fixed conversion rates between their existing sovereign currencies and a common currency, the "Euro." During a transition period from January 1, 1999 to June 30, 2002, non-cash transactions may be denominated in either Euros or the existing currencies of the EU participants from January 1, 1999 to January 1, 2002. After January 1, 2002, all non-cash transactions must be denominated in Euro. Euro currency will not be issued until January 1, 2002, and on June 30, 2002, all national currencies of the EU participating countries will become obsolete.

The Company has significant operations in several of the EU countries that will convert, or that may convert, to the Euro. The introduction of the Euro may present substantial risks to the Company for its operations located in the EU participating countries. These risks include competitive implications of conversion resulting from harmonization of pricing policies and practices in our European operations; possible increased costs associated with the conversion; and the ability to modify existing information systems on a timely basis, if at all, as well as the ability to absorb the costs associated with the systems' modifications, if required.

The Company has established various policies to be implemented during the transition period. The Company has taken a position on pricing policy. Essentially, Euro pricing will be provided if requested by customers; otherwise, pricing will continue in legacy currencies. This pricing policy will apply to both Euro and non-Euro countries. For accounting purposes, the Company will treat the Euro as any other currency while maintaining its accounts records in legacy currency. All affected locations have been contacted about their ability to manage the required triangulation when converting from one legacy currency to another. Although the present accounting systems do not handle triangulation, the calculation is being done using commercial software. All of the Company's banks are providing dual statements and can accept and make payments in both legacy currency and Euro.

Some of the Company's current business operating software is not Euro compliant. Two of the operations will acquire a software patch which will make the software Euro compliant. Another operation is purchasing operating software which is Euro compliant. The Company believes it will be completely Euro compliant by the mandatory conversion date.

1.24

HARMON INDUSTRIES, INC. (DEC)

The Euro

There was no impact on Harmon as a result of the January 1999 implementation of the new common European currency, the euro. Our current European presence is largely confined to the United Kingdom and Italy. Virtually all sales by our UK subsidiary are to UK customers and are denominated in pounds sterling. Sales by our Italian subsidiary, Siliani Harmon, are mainly to Italian railroads and are denominated in lira. Sales by our U.S. operations to European customers to date have typically been denominated in U.S. dollars.

1.25

POLAROID CORPORATION AND SUBSIDIARY COMPANIES (DEC)

Euro Conversion

On January 1, 1999, eleven of the fifteen member countries of the European Union established fixed conversion rates between their existing sovereign currencies (the "legacy currencies") and one common currency (the "euro"). The participating countries adopted the euro as their common currency on January 1, 1999. The euro is now traded on currency exchanges and may be used in business transactions. On January 1, 2002, new euro-denominated bills and coins will be issued by the participating countries. The legacy currencies will then be withdrawn and will cease to be legal tender effective June 30, 2002. During the period from January 1, 1999 to June 30, 2002, parties may use either the euro or a participating country's legacy currency as legal tender.

In 1998, the Company formed an Economic and Monetary Union Steering Committee and Project Team (the "EMU Committee"). The EMU Committee has analyzed the impact of the euro conversion on the Company in a number of areas, including the Company's information systems, product pricing, finance and banking resources, foreign exchange management, contracts and accounting and tax departments. While the Company is in the process of making certain adjustments to its business and its operations to accommodate the euro conversion, the EMU Committee believes, based on information available at this time and on several assumptions, that the euro conversion process will not have a material adverse impact on the Company's financial position or the results of its operations.

Environmental Matters Excerpts

1.26

IMC GLOBAL INC. (DEC)

Environmental, Health and Safety Matters

The Company's Program

The Company has adopted the following Environmental, Health and Safety (EHS) Policy (Policy):

As a key to the Company's success, the Company is committed to the pursuit of excellence in health and safety, and environmental stewardship. Every employee will strive to continuously improve the Company's performance and to minimize adverse environmental, health and safety impacts. The Company will proactively comply with all environmental, health and safety laws and regulations.

This Policy is the cornerstone of the Company's comprehensive EHS plan (EHS Plan) to achieve sustainable, predictable, measurable and verifiable EHS performance. Integral elements of the EHS Plan include: (i) improving the Company's EHS procedures and protocols; (ii) upgrading its related facilities and staff; (iii) performing baseline and verification audits; (iv) formulating improvement plans; and (v) assuring management accountability. The Company has phased in implementation of this EHS Plan and each facility is in a different stage of plan integration. The Company conducts audits to confirm that each facility has implemented the EHS Plan and has achieved regulatory compliance, continuous EHS improvement and integration of EHS management systems into day-to-day business functions.

The Company produces and distributes crop and animal nutrients, salt and deicing products, boron-based chemicals and sodium-bicarbonate. These activities subject the Company to an ever-evolving myriad of international, federal, state, provincial and local EHS laws which regulate, or propose to regulate: (i) product content; (ii) use of products by both the Company and its customers; (iii) conduct of mining and production operations, including safety procedures used by employees; (iv) management and handling of raw materials; (v) air and water quality impacts by the Company's facilities; (vi) disposal of hazardous and solid wastes; and (vii) post-mining land reclamation.

For new regulatory programs, it is difficult to ascertain future compliance obligations or estimate future costs until implementing regulations have been finalized and definitive regulatory interpretations have been adopted. The Company intends to respond to these regulatory requirements at the appropriate time by implementing necessary physical or procedural modifications.

The Company has expended, and anticipates that it will continue to expend, substantial resources, both financial and managerial, to comply with EHS standards. In 2000, environmental capital expenditures will total approximately $56.5 million, primarily related to: (i) modification or construction of wastewater treatment areas in Florida; (ii) modification and construction projects associated with phosphogypsum stacks at the concentrates plants in Florida and Louisiana; and (iii) remediation of contamination at current or former operations. Additional expenditures for land reclamation activities will total approximately $15.5 million. In 2001, the Company expects environmental capital expenditures will be approximately $86.9 million and expenditures for land reclamation activities to be approximately $13.5 million. No assurance can be given that greater-than-anticipated EHS capital expenditures will not be required in 2000 or in the future. Based on current information, it is the opinion of management that the Company's contingent liability arising from EHS matters, taking into account established reserves, will not have a material adverse effect on the Company's financial position or results of operations.

Product Requirements and Impacts

The Company's primary businesses include the production and sale of crop and animal nutrients, salt and deicing products, boron-based chemicals and sodium-bicarbonate. International, federal, state and provincial standards: (i) require registration of many Company products before those products can be sold; (ii) impose labeling requirements on those products; and (iii) require producers to manufacture the products to formulations set forth on the labels. Various environmental, natural resource and public health agencies at all regulatory levels have begun evaluating alleged health and environmental impacts that might arise from the handling and use of products such as those manufactured by the Company. Most of these evaluations are in the initial stages. During 1999, the United States Environmental Protection Agency (EPA), the state of California, and The Fertilizer Institute each completed independent assessments of potential risks posed by crop nutrient materials. These assessments concluded that, based on the available data, crop nutrient materials generally do not pose harm to human health or the environment. Despite these conclusions, some agencies have implemented or are still considering standards that may modify customers' use of the Company's products because of the alleged impacts. It is unclear whether any further evaluations that may be conducted will result in additional regulatory requirements for the producing industries, including the Company or its customers. At this preliminary stage, the Company cannot estimate the potential impact of these standards on the market for the Company's products or on the expenditures that may be necessary to meet new requirements.

Operating Requirements and Impacts

Permitting. The Company holds numerous environmental, mining and other permits or approvals authorizing operation at each of its facilities. A decision by a government agency to deny or delay issuing an application for a new or renewed permit or approval, or to revoke or substantially modify an existing permit or approval, could have a material adverse effect on the Company's ability to continue operations at the affected facility. Expansion of Company operations also is predicated upon securing the necessary environmental or other permits or approvals. Recently, a number of organizations and community groups in a variety of locations have relied upon guidance and materials issued by the EPA to challenge federally authorized permits that these groups believe might have a disproportionate impact on minority or low-income communities. A challenge of this type at one of the Company's facilities, even though unfounded, could impact the ability of that facility to obtain timely permits.

In addition, over the next two to six years, Phosphates will be continuing its efforts to obtain permits in support of its anticipated Florida mining operations at the Ona and Pine Level properties. These properties contain in excess of 100 million tons of phosphate rock reserves. For years, the Company has successfully permitted mining properties in Florida and anticipates that it will be able to permit these properties. Nevertheless, a denial of these permits or the issuance of permits with cost-prohibitive conditions would adversely impact the Company by preventing it from mining at Ona or Pine Level.

Mining Operations. In the last several years, regulatory agencies in the United States and Canada have undertaken a review of potential health impacts from diesel emissions on miners in underground mining operations. The Province of Ontario has adopted, and the United States Mine Safety and Health Administration has proposed, limits of exposure to diesel emissions for all underground mining operations including salt and potash. Moreover, in 1998, the National Institute for Occupational Safety and Health (NIOSH) began a multi-year study to determine whether exposure to exhaust generated by diesel equipment used in underground mining operations results in adverse, long-term health effects to miners. This study involves a review of Potash's two potash mines in Carlsbad, New Mexico. The Company cannot currently estimate the extent of expenditures that may be necessary to address conclusions of the NIOSH study, once completed, or additional regulatory standards that may arise.

Management of Residual Materials. Mining and processing potash, salt and phosphate generates residual materials that must be managed. Potash tailings, which contain primarily salt, iron and clay, are stored in surface disposal sites. Salt residuals are managed in piles. Phosphate mining residuals, such as overburden and sand tailings, are used in reclamation, while clay residuals are deposited in clay ponds. Phosphate processing generates phosphogypsum which is stored in phosphogypsum stack systems. The Company has incurred and will continue to incur significant costs to manage its potash, salt and phosphate residual materials in accordance with environmental laws, regulations and permit requirements.

For potash and salt residuals in Saskatchewan, the Department of Environmental and Resource Management (Department) has required all mine operators to obtain approval of facility decommissioning and reclamation plans (Plans) that will apply once mining operations at any facility are terminated. These Plans must specify procedures for decommissioning all mine facilities and for handling potash and salt residual materials, including salt piles and potash tailings management areas. As part of these Plans, the Department will require operators to provide financial assurance that the Plans will be carried out. Along with other members of the Saskatchewan potash industry, the Company filed its Plans for its Saskatchewan potash mines in 1997. The Department rejected those potash industry Plans that did not provide for the underground disposal of all surface tailings. The potash industry is cooperating with the Department to evaluate technically feasible, cost-effective and environmentally responsible disposal. Costs for decommissioning in accordance with the Plans are likely to be significant. However, the Company does not anticipate expending such funds in the foreseeable future. Facility decommissioning will not occur until a facility has closed, and such closure is not imminent given the anticipated life of the Company's mines. Also, implementation of the Plans has been deferred until the Department and the industry can reach agreement over the appropriate technical approach for long-term potash tailings management. This approach may change as advances are made in tailings management technology. Changes also occur from time to time in rules and regulations governing tailings management. Finally, the Company will not be required to provide financial assurance until an appropriate assurance mechanism has been specified by the Department. For these reasons, the Company cannot predict with certainty the financial impact of these decommissioning requirements on the Company.

Monitoring of the Company's Saskatchewan potash tailing management areas has indicated that some of these areas might have impacted local groundwater. The consequences of this impact are unknown and it is uncertain whether any corrective action will be required. As a result, management cannot currently estimate the financial impact that these groundwater results may have on the Company.

IMC Salt's Saskatchewan salt mine also submitted its decommissioning plan in 1997. The plan provided for dissolution and underground reinjection of the facility's residual salt pile and was conditionally approved. The dissolution process has begun; however, the Department still has not specified the type of financial assurance that it will require the facility to provide.

With regard to phosphate processing, Florida law may require Phosphates to close one or more of its unlined phosphogypsum stacks and/or associated cooling ponds after March 25, 2001 if the stack system or pond is demonstrated to cause an exceedance of Florida's groundwater quality standards. Phosphates has already begun closure activities at its unlined gypsum stack at its New Wales facility in Central Florida. Phosphates cannot predict at this time whether Florida law will require closure of any of its other stack systems. The costs of such closure and decommissioning could be significant. In addition, Phosphates currently operates an unlined cooling pond at New Wales. Monitoring indicates that discharges from the unlined cooling pond are within Florida groundwater standards. Phosphates received a permit in August 1999 to continue operating this pond through March 25, 2001. Over the past several years, the Company has successfully permitted this pond and anticipates that it will be able to obtain future permits. However, if Phosphates does not receive the permit, it will need to line or relocate the cooling pond, which is estimated to cost approximately $45.0 million.

Restructuring Charges

In connection with the Company's Rightsizing Program, Phosphates has discontinued mining or processing operations at a number of its facilities including the Payne Creek and Noralyn mines and the Nichols concentrates plant. Such discontinuation will trigger decommissioning, closure and reclamation requirements under a number of Florida regulations and Company permits. These activities are estimated to cost $41.0 million, for which reserves have been established. Although the Company believes that it has reasonably estimated these costs, additional expenditures could be required to address unanticipated environmental conditions as they arise.

Remedial Activities

Remediation at Company Facilities. Many of the Company's formerly owned or current facilities have been in operation for a number of years. The historical use and handling of regulated chemical substances, crop and animal nutrients and additives, salt and by-product or process tailings at these facilities by the Company and predecessor operators have resulted in soil and groundwater contamination. In addition, through the FTX Merger, the Company assumed responsibility for contamination at some crop nutrient facilities that were owned or operated by FTX, PLP or their predecessors.

At many of these facilities, spills or other unintended releases of regulated substances have occurred previously and potentially could occur in the future, possibly requiring the Company to undertake or fund cleanup efforts. In some instances, the Company has agreed, pursuant to consent orders with the appropriate governmental agencies, to undertake certain investigations, which currently are in progress, to determine whether remedial action may be required to address contamination.

At other locations, the Company has entered into consent orders with appropriate governmental agencies to perform required remedial activities that will address identified site conditions. Expenditures for these known conditions currently are not expected to be material. However, material expenditures by the Company could be required in the future to remediate the contamination at these or at other current or former sites.

The Company believes that, pursuant to several indemnification agreements, it is entitled to at least partial, and in many instances complete, indemnification for the costs that may be expended by the Company to remedy environmental issues at certain facilities. These agreements address issues that resulted from activities occurring prior to the Company's acquisition of facilities or businesses from parties including PPG Industries, Inc.; Kaiser Aluminum & Chemical Corporation; Beatrice Companies, Inc.; Estech, Inc.; ARCO; Conoco; The Williams Companies; Kerr-McGee Inc.; and certain other private parties. The Company has already received and anticipates receiving amounts pursuant to the indemnification agreements for certain of its expenses incurred to date as well as future anticipated expenditures.

During 1999, under a consent order with the state of South Carolina, the Company successfully deconstructed its former fertilizer production facility in Spartanburg, South Carolina. Subsequently, the EPA performed an expanded site investigation (ESI) at this facility to determine whether the Company will be required to conduct any additional remedial activities. Because the results of that ESI have not been finalized, the Company cannot determine the cost of any remedial action that ultimately may be required. Recently, several attorneys purportedly representing 600 neighbors of the Spartanburg facility have expressed their intention to file suit against the Company for alleged personal injury and property damage. Until these suits are filed, the Company is unable to determine the magnitude of potential exposure; however, the Company intends to vigorously contest any actions that may be brought.

Remediation at Third-Party Facilities. Along with impacting the sites at which the Company has operated, parties have alleged that the Company's historic operations have resulted in contamination to neighboring off-site areas or third-party facilities. In some instances, the Company has agreed, pursuant to consent orders with appropriate governmental agencies, to undertake investigations, which currently are in progress, to determine whether remedial action may be required to address contamination. The Company's remedial liability at these sites, either alone or in the aggregate, currently is not expected to be material. As more information is obtained regarding these sites, this expectation could change.

In September 1999, four plaintiffs filed Moore et al. vs. Agrico Chemical Company et al., a class-action lawsuit naming Agrico Chemical Company, FTX, PLP and a number of unrelated defendants. The suit seeks unspecified compensation for alleged property damage, medical monitoring, remediation of an alleged public health hazard and other appropriate damages purportedly arising from operation of the neighboring fertilizer and crop protection chemical facilities in Lakeland, Florida. Agrico Chemical Company owned the Landia portion of these facilities for approximately 18 months during the mid-1970s. Because the litigation is in its early stages, management cannot determine the magnitude of any exposure to the Company; however, the Company intends to vigorously contest this action and to seek any indemnification to which it may be entitled. Concurrent with this litigation, the EPA has undertaken on-site and off-site investigations of these facilities to determine whether any remediation of existing contamination may be necessary. Pursuant to an indemnification agreement with the Company, The Williams Companies have assumed responsibility for any costs that Agrico Chemical Company might incur for remediation as a result of the EPA's actions.

Superfund

The Comprehensive Environmental Response Compensation and Liability Act (Superfund) imposes liability, without regard to fault or to the legality of a party's conduct, on certain categories of persons who are considered to have contributed to the release of "hazardous substances" into the environment. Currently, the Company is involved or concluding involvement at less than 20 Superfund or equivalent state sites. The Company's remedial liability at these sites, either alone or in the aggregate, is not currently expected to be material. As more information is obtained regarding these sites and the potentially responsible parties involved, this expectation could change.

Oil and Gas

Through the FTX Merger, the Company assumed responsibility for contamination and environmental impacts at a significant number of oil and gas facilities that were businesses operated by FTX, PLP or their predecessors. The Company recorded an additional $18.3 million, $10.8 million after tax, of environmental exit costs as a result of additional information which became available to the Company in the fourth quarter of 1999 concerning the Company's obligations with respect to previously owned oil and gas properties. The Company is currently involved in eight such claims, which allege destruction of marshland by oil and gas operations or contamination resulting from disposal of oil and gas residual materials. The Company's liability for these claims, either alone or in the aggregate, taking into account established reserves, is not expected to have a material adverse effect on the Company's financial position or results of operations. As more information is obtained regarding these claims or as new claims arise, this expectation could change.

1.27

PENNZOIL-QUAKER STATE COMPANY AND SUBSIDIARIES (DEC)

Environmental.

The Company is subject to certain laws and regulations relating to environmental remediation activities associated with past operations, such as the Comprehensive Environmental Response, Compensation, and Liability Act ("CERCLA"), the Resource Conservation and Recovery Act and similar state statutes. In response to liabilities associated with these activities, accruals have been established when reasonable estimates are possible. Such accruals primarily include estimated costs associated with remediation. The Company has not used discounting in determining its accrued liabilities for environmental remediation, and no claims for possible recovery from third-party insurers or other parties related to environmental costs have been recognized in the Company's consolidated financial statements. The Company adjusts the accruals when new remediation responsibilities are discovered and probable costs become estimatable, or when current remediation estimates are adjusted to reflect new information.

Certain of the Company's subsidiaries are involved in matters in which it has been alleged that such subsidiaries are potentially responsible parties ("PRPs") under CERCLA or similar state legislation with respect to various waste disposal areas owned or operated by third parties. In addition, certain of the Company's subsidiaries are involved in other environmental remediation activities, including the removal, inspection and replacement, as necessary, of underground storage tanks. As of December 31, 1999 and 1998, the Company's consolidated balance sheet included accrued liabilities for environmental remediation of $38.0 million and $27.2 million, respectively. Of these reserves, $5.4 million and $4.2 million are reflected on the consolidated balance sheet as current liabilities as of December 31, 1999 and 1998, respectively, and $32.6 million and $23.0 million are reflected as other liabilities as of December 31, 1999 and 1998, respectively. The Company does not currently believe there is a reasonable possibility of incurring additional material costs in excess of the current accruals recognized for such environmental remediation activities. With respect to the sites in which the Company's subsidiaries are PRPs, the Company's conclusion is based in large part on (i) the availability of defenses to liability, including the availability of the "petroleum exclusion" under CERCLA and similar state laws, and/or (ii) the Company's current belief that its share of wastes at a particular site is or will be viewed by the Environmental Protection Agency or other PRPs as being de minimis. As a result, Pennzoil-Quaker State's monetary exposure is not expected to be material beyond the amounts reserved.

1.28

VARIAN MEDICAL SYSTEMS, INC., AND SUBSIDIARY COMPANIES (SEP)

Environmental Matters

VMS's operations are subject to various foreign, federal, state and/or local laws regulating the discharge of materials into the environment or otherwise relating to the protection of the environment. This includes discharges into soil, water and air, and the generation, handling, storage, transportation and disposal of waste and hazardous substances. In addition, several countries are reviewing proposed regulations that would require manufacturers to dispose of their products at the end of a product's useful life. These laws have the effect of increasing costs and potential liabilities associated with the conduct of such operations.

The Company has been named by the U.S. Environmental Protection Agency or third parties as a potentially responsible party under the Comprehensive Environmental Response Compensation and Liability Act of 1980, as amended ("CERCLA"), at nine sites where Varian is alleged to have shipped manufacturing waste for recycling or disposal. The Company is also involved in various stages of environmental investigation and/or remediation under the direction of, or in consultation with, federal, state and/or local agencies at certain current VMS or former Varian facilities (including facilities disposed of in connection with the Company's sale of its Electron Devices business during 1995, and the sale of its Thin Film Systems business during 1997). Under the terms of the Distribution Agreement, VI and VSEA are each obligated to indemnify VMS for one-third of these environmental-related investigation and remediation costs (after adjusting for any insurance proceeds realized or tax benefits recognized by the Company). Expenditures for environmental investigation and remediation amounted to $0.9 million in fiscal year 1999, $1.7 million in fiscal year 1998 and $0.8 million in fiscal year 1997, net of amounts that were, or would have been, borne by VI and VSEA.

For certain of these sites and facilities, various uncertainties make it difficult to assess the likelihood and scope of further investigation or remediation activities or to estimate the future costs of such activities if undertaken. As of October 1, 1999, VMS nonetheless estimated that VMS's future exposure (net of VI and VSEA's indemnification obligations) for environmental-related investigation and remediation costs for these sites ranged in the aggregate from $12.4 million to $29.8 million. The time frame over which the Company expects to incur such costs varies with each site, ranging up to approximately 30 years as of October 1, 1999. Management believes that no amount in the foregoing range of estimated future costs is more probable of being incurred than any other amount in such range and therefore accrued $12.4 million in estimated environmental costs as of October 1, 1999. The amount accrued has not been discounted to present value.

As to other sites and facilities, VMS has gained sufficient knowledge to be able to better estimate the scope and costs of future environmental activities. As of October 1, 1999, VMS estimated that VMS's future exposure (net of VI and VSEA's indemnification obligations) for environmental-related investigation and remediation costs for these sites and facilities ranged in the aggregate from $22.9 million to $39.0 million. The time frame over which these costs are expected to be incurred varies with each site and facility, ranging up to approximately 30 years as of October 1, 1999. As to each of these sites and facilities, management determined that a particular amount within the range of estimated costs was a better estimate of the future environmental liability than any other amount within the range, and that the amount and timing of these future costs were reliably determinable. Together, these amounts totaled $26.7 million at October 1, 1999. VMS accordingly accrued $11.9 million, which represents its best estimate of the future costs discounted at 4%, net of inflation. This accrual is in addition to the $12.4 million described in the preceding paragraph.

At October 1, 1999, the Company's reserve for environmental liabilities, based upon future environmental related costs estimated by the Company as of that date, was calculated as follows:

(Dollars in millions)	Recurring Costs	Non-Recurring Costs	Total Anticipated Future costs
Fiscal Year:			
2000	$ 1.2	$2.8	$ 4.0
2001	1.3	1.1	2.4
2002	1.4	0.0	1.4
2003	1.3	0.0	1.3
2004	1.4	0.0	1.4
Thereafter	27.2	1.4	28.6
Total costs	$33.8	$5.3	$ 39.1
Less imputed interest			(14.8)
Reserve amount			$ 24.3

The amounts set forth in the foregoing table are only estimates of anticipated future environmental-related costs, and the amounts actually spent may be greater or less than such estimates. The aggregate range of cost estimates reflects various uncertainties inherent in many environmental investigation and remediation activities and the large number of sites and facilities involved. VMS believes that most of these cost ranges will narrow as investigation and remediation activities progress. VMS believes that its reserves are adequate, but as the scope of its obligations becomes more clearly defined, these reserves (and the associated indemnification obligations of VI and VSEA) may be modified and related charges against earnings may be made.

Although any ultimate liability arising from environmental-related matters described herein could result in significant expenditures that, if aggregated and assumed to occur within a single fiscal year, would be material to VMS's financial statements, the likelihood of such occurrence is considered remote. Based on information currently available to management and its best assessment of the ultimate amount and timing of environmental-related events (and assuming VI and VSEA satisfy their indemnification obligations), management believes that the costs of these environmental related matters are not reasonably likely to have a material adverse effect on the consolidated financial statements of VMS.

VMS evaluates its liability for environmental-related investigation and remediation in light of the liability and financial wherewithal of potentially responsible parties and insurance companies with respect to which VMS believes that it has rights to contribution, indemnity and/or reimbursement (in addition to the obligations of VI and VSEA). Claims for recovery of environmental investigation and remediation costs already incurred, and to be incurred in the future, have been asserted against various insurance companies and other third parties. In 1992, the Company filed a lawsuit against 36 insurance companies with respect to most of the above-referenced sites and facilities. The Company received certain cash settlements during fiscal years 1995, 1996, 1997 and 1998 from defendants in that lawsuit. The Company has also reached an agreement with another insurance company under which the insurance company has agreed to pay a portion of the Company's past and future environmental-related expenditures, and VMS therefore has a $3.6 million receivable in Other Assets at October 1, 1999. VMS believes that this receivable is recoverable because it is based on a binding, written settlement agreement with a solvent and financially viable insurance company. Although VMS intends to aggressively pursue additional insurance and other recoveries, VMS has not reduced any liability in anticipation of recovery with respect to claims made against third parties.

Varian's present and past facilities have been in operation for many years, and over that time in the course of those operations, such facilities have used substances which are or might be considered hazardous, and Varian has generated and disposed of wastes which are or might be considered hazardous. Therefore, it is possible that additional environmental issues may arise in the future that VMS cannot now predict.

Year 2000 Excerpts

1.29

HUGHES SUPPLY, INC. (JAN)

Year 2000 Issues

The Company studied the "Year 2000" issues affecting its information technology systems, its non-information technology systems, and its issues with third-party companies and other significant suppliers, and implemented a plan to address them. Year 2000 issues have not had a material adverse effect on the Company's operations. The cost of addressing its Year 2000 issues was approximately $1.2 million. These costs have not had a material effect on the Company's financial position or results of operations in any one period in part because they represent the re-deployment of existing information technology resources, and because they would have been incurred as part of normal software upgrades and replacements.

1.30

KMART CORPORATION (JAN)

Year 2000

The Company's Year 2000 Compliance Program consisted of four phases, (I) inventory and assessment, (II) remediation and unit testing, (III) return to production and (IV) integration testing, all of which were successfully completed. As of March 1, 2000, the Company concluded its Year 2000 Compliance Program, as no Year 2000 related events had occurred that materially affected either the Company's operations or its financial statements.

The total cost of the Company's Year 2000 Compliance Program will approximate $80 million, with $29 million incurred in 1999, $46 million incurred in 1998 and $5 million incurred in 1997. Certain information technology projects were delayed as a result of the Company's Year 2000 compliance efforts, which is not expected to have a significant impact on the Company's financial position, results of operations or cash flows.

1.31

THE KROGER CO. (JAN)

Year 2000 Disclosure

We did not experience any significant malfunctions or errors in our operating or business systems either when the date changed from 1999 to 2000 or on February 29, 2000. Based on operations since January 1, 2000, we do not expect any significant impact on our ongoing business as a result of the "Year 2000" issue. However, it is possible that the full impact of the date change, which was of concern due to computer programs that use two digits instead of four digits to define years, has not been fully recognized. For example, it is possible that Year 2000 or similar issues may occur with billing, payroll, or financial closings at period, quarter, or year-end. We believe that any such problems are likely to be minor and correctable. In addition, we could still be negatively affected if the Year 2000 or similar issues adversely affect our customers or suppliers. We currently are not aware of any significant Year 2000 or similar problems that have arisen for our customers and suppliers.

We spent $23 million on Year 2000 readiness efforts in 1999 and a total of $49 million from 1997 through 1999. These efforts included replacing some outdated, noncompliant hardware and noncompliant software as well as identifying and remediating Year 2000 problems.

Market Risk Information Excerpts From Management's Discussion and Analysis

1.32

AIR PRODUCTS AND CHEMICALS, INC. AND SUBSIDIARIES (SEP)

Financial Instruments Sensitivity Analysis

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 (other than the currency options related to the BOC transaction) are calculated by the company utilizing a third-party software model which utilizes standard pricing models to determine the present value of the instruments based on the market conditions (interest rates, spot and forward exchange rates, and implied volatilities) as of the valuation date. The market values for the currency options related to the BOC transaction are calculated by the financial institution with whom the options were executed. All instruments are entered into for other than trading purposes. The utilization of these instruments is described more fully in the financial instruments section of the Management's Discussion and Analysis and Notes 3, 5, and 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 $38.4 million at 30 September 1999 and $18.4 million at 30 September 1998 as disclosed in Note 3 to the consolidated financial statements. These amounts principally 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 1999, the net financial instrument position before the impact of the currency options executed to hedge the BOC transaction was a liability of $2,504.2 million. When the currency options related to the BOC transaction are included, the net financial instrument position at 30 September 1999 falls to a liability of $2,433.8 million. At 30 September 1998, the net financial instrument position was a liability of $2,713.6 million. The decrease in the net financial instrument position from fiscal 1998 is due mainly to the increase in market interest rates in the current year and the execution of the currency options related to the BOC transaction.

Interest Rate Risk

The company's debt portfolio, including interest rate swap agreements, as of 30 September 1999 is composed primarily of debt denominated in U.S. dollars (60%). The primary currencies of non-U.S. dollar debt are British Pound Sterling and the Euro currencies. The company has both fixed- and 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 their levels of 30 September 1999 and 1998, with all other variables (including foreign exchange rates) held constant. A 100 basis point increase in market interest rates would result in a decrease in the net financial instrument position of $95 million and $119 million at 30 September 1999 and 1998, respectively. A 100 basis point decrease in market interest rates would result in an increase in the net financial instrument position of $117 million and $141 million at 30 September 1999 and 1998, respectively.

Based on the variable-rate debt included in the company's debt portfolio, including interest rate swap agreements, as of 30 September 1999 and 1998, a 100 basis point increase in interest rates would result in an additional $12 million in interest incurred per year at both 30 September 1999 and 1998. A 100 basis point decline would lower interest incurred by $12 million per year at both 30 September 1999 and 1998.

1.33

ALLEN TELECOM INC. (DEC)

Quantitative and Qualitative Disclosures About Market Risk

The Company's primary market risk exposure relating to derivatives results from the use of foreign currency forward contracts to offset the impact of currency rates against certain assets related to accounts receivable. The contracts entered into at year-end all expire within one year. The Company also entered into two foreign currency forward contracts in October 1999 to offset the impact of currency rate changes with regard to foreign denominated purchase obligations relating to the Company's purchase of the remaining minority interest of certain European companies. The Company does not enter into derivative instrument transactions for trading or speculative purposes.

The Company's on-balance sheet instruments which are subject to interest rate fluctuations are various components of its long-term debt. The Company believes the risks are minimal. Approximately 57% of the Company's long-term debt is fixed rate debt and not subject to interest rate fluctuation. The variable rate debt is primarily made up of the Company's domestic revolving credit facility and industrial revenue bonds. The revolving credit debt interest is determined on a LIBOR or prime rate basis, at the

Company's option. The industrial development bonds carry interest rates which are established based on the low yield, tax free bond market.

The table below provides information about the Company's derivative financial instruments and other financial instruments that are sensitive to changes in exchange and interest rates. For derivative instruments, the table presents contract amounts and related average contractual exchange rates by expected maturity date as of December 31, 1999 and 1998. For debt obligations, the table presents principal cash flows and related weighted average interest rates by expected maturity dates as of December 31, 1999.

Anticipated Transactions and Related Derivatives

(US $ equivalent	Carrying Value		Fair Value	
in thousands)	2000	1999	2000	1999
Lira Functional Currency				
Foreign Exchange Agreements:				
Receive Lira/Pay USD				
Contract Amount	$2,004.0	—	$2,050.0	—
Avg. Contractual Exchange Rate	1,810.6	—	1,852.3	—
Receive Lira/Pay LST				
Contract Amount	$4,476.4	—	$4,496.5	—
Avg. Contractual Exchange Rate	2,817.5	—	3,028.7	—
Receive Lira/Pay DM				
Contract Amount	—	$ 291.4	—	$ 291.1
Avg. Contractual Exchange Rate	—	990.0	—	989.3
Receive Lira/Pay EURO				
Contract Amount	—	$3,667.2	—	$3,664.9
Avg. Contractual Exchange Rate	—	1,947.0	—	1,945.8
Receive Lira/Pay FF				
Contract Amount	—	$1,564.5	—	$1,562.9
Avg. Contractual Exchange Rate	—	295.3	—	295.0
Deutschmark Functional Currency				
Foreign Exchange Agreements:				
Receive DM/Pay USD				
Contract Amount	$8,265.7	—	$7,723.6	—
Avg. Contractual Exchange Rate	1.8148	—	1.9421	—

Debt Obligations

(US $ equivalent in thousands)	Expected Maturity Date 2000	2001	2002	2003	2004	Thereafter	Total	Fair value
Long Term Debt:								
Fixed Rate (US)	$6	$ 3,007	$10,841	$10,841	$7,841	$32,558	$65,094	$65,094
Avg. interest rate	9%	6%	6%	6%	6%	6%	6%	6%
Fixed Rate (Lira)	651	425	484	468	365	963	3,356	3,356
Avg. interest rate	5%	4%	4%	4%	5%	5%	5%	5%
Fixed Rate (DM)	472	420	177	60	—	—	1,129	1,129
Avg. interest rate	4%	4%	4%	3%	—	—	4%	4%
Fixed Rate (FF)	90	36	—	—	—	—	126	126
Avg. interest rate	9%	9%	—	—	—	—	9%	9%
Variable Rate (US)	—	41,500	—	—	—	11,900	53,400	53,400
Avg. interest rate	—	7%	—	—	—	3%	6%	6%
Variable Rate (Lira)	290	—	—	—	—	—	290	290
Avg. interest rate	5%	—	—	—	—	—	5%	5%

1.34

NOBLE AFFILIATES, INC. AND SUBSIDIARIES (DEC)

Item 7a. Quantitative and Qualitative Disclosures About Market Risk.

The Company is exposed to market risk in the normal course of its business operations. Management believes that the Company is well positioned with its mix of oil and gas reserves to take advantage of future price increases that may occur. However, the uncertainty of oil and gas prices continues to impact the domestic oil and gas industry. Due to the volatility of oil and gas prices, the Company, from time to time, has used derivative hedging and may do so in the future as a means of controlling its exposure to price changes. The Company had no crude oil or natural gas hedges for its production in 1999. The swap component of the contracts discussed in the following paragraphs was treated as a hedge for accounting purposes only. There was no payment obligation in 1999.

The Company has entered into three crude oil premium swap contracts related to its production for calendar year 2000. Two of the contracts provide for payments based on daily NYMEX settlement prices. These contracts relate to 2,500 BBLS per day and 2,000 BBLS per day and have trigger prices of $21.73 per BBL and $22.45 per BBL, respectively, and both have knockout prices of $17.00 per BBL. These two contracts entitle the Company to receive settlements from the counterparties in amounts, if any, by which the settlement price for each NYMEX trading day is less than the trigger price, provided the NYMEX price is also greater than the $17.00 per BBL knockout price. If a daily settlement price is $17.00 per BBL or less, then neither party will have any liability to the other for that day. If a daily settlement price is above the applicable trigger price, then the Company will owe the counterparty for the excess of the settlement price over the trigger price for that day. Payment is made monthly under each of these contracts, in an amount equal to the net amount due to either party based on the sum of the daily amounts determined as described in this paragraph for that month.

The third contract relates to 2,500 BBLS per day and provides for payments based on monthly average NYMEX settlement prices. The contract entitles the Company to receive monthly settlements from the counterparty in an amount, if any, by which the arithmetic average of the daily NYMEX settlement prices for the month is less than the trigger price, which is $21.73 per BBL, multiplied by the number of days in the month, provided such average NYMEX price is also greater than the $17.00 per BBL knockout price. If the average NYMEX settlement price for the month is $17.00 per BBL or less, then neither party will have any liability to the other for that month. If the average NYMEX settlement price for the month is above the trigger price, then the Company will pay the counterparty an amount equal to the excess of the average settlement price over the trigger price, multiplied by the number of days in the month.

The Company has treated the swap component of these contracts as a hedge (for accounting purposes only), at swap prices ranging from $19.40 per BBL to $20.20 per BBL, which existed at the dates it entered into these contracts. In addition, the Company has separately accounted for the premium component of these contracts by marking them to market, resulting in a gain of $2,990,000 recorded in other income for the year ended December 31, 1999.

In addition to the premium swap crude oil hedging contracts, the Company has entered into crude oil costless collar hedges from January 1, 2000, to April 30, 2000, for volumes of 2,000 BBLS per day. These costless collars have a floor price ranging from $21.53 per BBL to $23.27 per BBL and a cap price ranging from $25.83 per BBL to $27.31 per BBL. These costless collar contracts entitle the Company to receive settlements from the counterparties in amounts, if any, by which the monthly average settlement price for each NYMEX trading day during a contract month is less than the floor price. If the monthly average settlement price is above the applicable cap price, then the Company will owe the counterparties for the excess of the monthly average settlement price over the applicable cap price. If the monthly average settlement price falls between the applicable floor and cap price, then neither party will have any liability to the other party for that month. Payment, if any, is made monthly under each of the contracts in an amount equal to the net amount due either party based on the volumes per day multiplied by the difference between the NYMEX average price and the cap, if the NYMEX average price exceeds the cap price, or if the NYMEX average price is less than the floor price, then the volumes per day multiplied by the difference between the floor price and the NYMEX average price.

NGM, from time to time, employs hedging arrangements in connection with its purchases and sales of production. While most of NGM's purchases are made for an index-based price, NGM's customers often require prices that are either fixed or related to NYMEX. In order to establish a fixed margin and mitigate the risk of price volatility, NGM may convert a fixed or NYMEX sale to an index-based sales price (such as by purchasing an index-based futures contract obligating NGM for delivery of production). Due to the size of such transactions and certain restraints imposed by contract and by Company guidelines, as of December 31, 1999, the Company had no material market risk exposure from NGM's hedging activity.

The Company has a $300 million credit agreement (see Note 3—Debt, to the Consolidated Financial Statements) which exposes the Company to the risk of earnings or cash flow loss due to changes in market interest rates. At December 31, 1999, there was no borrowing against the credit facility which has a maturity date of December 24, 2002. The interest rate is based upon a Eurodollar rate plus a range of 17.5 to 50 basis points. All other Company long-term debt is fixed-rate and, therefore, does not expose the Company to the risk of earnings or cash flow loss due to changes in market interest rates.

On June 17, 1999, the Company entered into a new $100 million 364 day credit agreement with certain commercial lending institutions. There is no balance outstanding on this agreement which is based upon a Eurodollar rate plus 37.5 to 87.5 basis points depending upon the percentage of utilization.

The Company does not invest in foreign currency derivatives. The U.S. dollar is considered the primary currency for each of the Company's international operations. Transactions that are completed in a foreign currency are translated into U.S. dollars and recorded in the financial statements. Translation gains or losses were not material in any of the periods presented and the Company does not believe it is currently exposed to any material risk of loss on this basis.

Such gains or losses are included in other expense on the income statement. However, certain sales transactions are concluded in foreign currencies and the Company therefore is exposed to potential risk of loss based on fluctuation in exchange rates from time to time.

1.35

WOLVERINE WORLD WIDE, INC. (DEC)

Market Risk

The Company has assets, liabilities and inventory purchase commitments outside the United States that are subject to fluctuations in foreign currency exchange rates. A substantial portion of inventory sourced from foreign countries is purchased in U.S. dollars and is accordingly not subject to exchange rate fluctuations. Similarly, revenues from products sold in foreign countries under licensing and distribution arrangements are denominated in U.S. dollars. As a result, the Company engages in forward foreign exchange and other similar contracts to reduce its economic exposure to changes in exchange rates on a limited basis because the associated risk is not considered significant.

Assets and liabilities outside the United States are primarily located in Canada and the United Kingdom. The Company's investment in foreign subsidiaries with a functional currency other than the U.S. dollar are generally considered long-term. Accordingly, the Company does not hedge these net investments. As a result of management's decision to exit its Russian wholesale footwear operations in the second quarter of 1999, the Company's previous exposure to foreign currency risk in Russia was substantially eliminated as of the end of the year.

Because the Company markets, sells and licenses its products throughout the world, it could be significantly affected by weak economic conditions in foreign markets that could reduce demand for its products.

The Company is exposed to changes in interest rates primarily as a result of its long-term debt requirements. The Company's interest rate risk management objectives are to limit the effect of interest rate changes on earnings and cash flows and to lower overall borrowing costs. To achieve its objectives, the Company maintains a significant percentage of fixed-rate debt (70% at January 1, 2000) to take advantage of lower relative interest rates currently available and finances seasonal working capital needs with variable-rate debt. The Company has not historically utilized interest swap or similar hedging arrangements to fix interest rates, but in 1998 entered into an interest rate lock agreement to fix the interest rate prior to the issuance of 6.5% senior notes in the amount of $75 million. The contract was settled in 1998 and resulted in a prepayment of $2.2 million that is being amortized over the term of the senior notes. The amortization of the prepayment creates an effective interest rate of 6.78% on the senior debt.

The table that follows provides principal cash flows and related interest rates of the Company's short- and long-term debt by fiscal year of maturity. For foreign currency-denominated debt, the information is presented in U.S. dollar equivalents. Variable interest rates are based on the weighted average rates of the portfolio at January 1, 2000.

(Millions of dollars)	2000	2001	2002	2003	2004	There-after	1999 Total	1999 Fair Value	1998 Total	1998 Fair Value
Denominated in U.S. Dollars:										
Fixed Rate	$4.7	$ 4.3	$15.0	$15.0	$15.0	$42.8	$96.8	$98.0	$101.2	$102.2
Average Interest Rate	7.8%	7.8%	6.9%	6.9%	6.9%	6.5%	6.8%		6.8%	
Variable Rate		$40.0					$40.0	$40.0	$ 59.0	$ 59.0
Average Interest Rate		6.5%					6.5%		6.7%	
Denominated in Canadian Dollars:										
Variable Rate									$ 4.5	$ 4.5
Average Interest Rate									6.5%	
Denominated in British Sterling:										
Variable Rate	$2.5						$ 2.5	$ 2.5	$ 3.5	$ 3.5
Average Interest Rate	5.2%						5.2%		7.0%	

The Company does not enter into contracts for speculative or trading purposes, nor is it a party to any leveraged derivative instruments.

SEGMENT INFORMATION

1.36 Effective for fiscal years beginning after December 15, 1997, *Statement of Financial Accounting Standards No. 131* supersedes *SFAS No. 14* in reporting information about a public business enterprise's operating segments. Operating segments are components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance.

1.37 *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.

1.38 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.

1.39

TABLE 1-3: SEGMENT INFORMATION

	Number of Companies			
	1999	**1998**	**1997**	**1996**
Industry segments				
Revenue	357	387	306	312
Operating income or loss	309	305	271	279
Identifiable assets	368	362	297	307
Depreciation expense	409	365	300	311
Capital expenditures	374	358	297	303
Geographic area				
Revenue	300	297	283	281
Operating income or loss	66	111	213	208
Identifiable assets	92	177	269	258
Depreciation expense	41	38	17	16
Capital expenditures	41	25	18	17
Export sales	51	111	168	154
Sales to major customers	133	136	145	137

1.40

ARMSTRONG WORLD INDUSTRIES, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2. Nature of Operations

Industry Segments

	For year ended 1999					
(Millions)	Floor Coverings	Building Products	Wood Products	Insulation Products	All Other	Totals
Net sales to external customers	$1,593.0	$752.1	$ 822.6	$225.7	$50.4	$3,443.8
Intersegment sales	2.7	—	—	—	20.7	23.4
Equity (earnings) loss from affiliates	0.1	(16.1)	—	—	(0.8)	(16.8)
Segment operating income	217.4	119.7	85.0	45.7	6.0	473.8
Reorganization and restructuring reversals	(1.1)	(0.3)	—	—	—	(1.4)
Segment assets	1,477.6	535.1	1,308.0	155.8	16.0	3,492.5
Depreciation and amortization	74.7	34.1	36.1	10.8	2.8	158.5
Equity investment	3.3	14.9	—	—	16.0	34.2
Capital additions	79.9	45.5	41.5	9.1	2.7	178.7

	For year ended 1998					
(Millions)	Floor Coverings	Building Products	Wood Products	Insulation Products	All Other	Totals
Net sales to external customers	$1,317.6	$756.8	$ 346.0	$230.0	$95.8	$2,746.2
Intersegment sales	—	—	—	—	39.5	39.5
Equity (earnings) loss from affiliates	0.2	(14.2)	—	—	0.2	(13.8)
Segment operating income	176.5	116.6	38.6	46.3	9.1	387.1
Reorganization charges	53.5	10.1	—	0.2	1.9	65.7
Segment assets	1,359.5	550.1	1,279.0	172.0	67.6	3,428.2
Depreciation and amortization	63.6	39.2	15.3	12.1	7.2	137.4
Equity investment	2.2	39.6	—	—	—	41.8
Capital additions	93.6	42.5	12.4	11.3	5.9	165.7

	For year ended 1997					
(Millions)	Floor Coverings	Building Products	Wood Products	Insulation Products	All Other	Totals
Net sales to external customers	$1,116.0	$754.5	$ —	$228.4	$99.8	$2,198.7
Intersegment sales	—	—	—	—	35.8	35.8
Equity (earnings) loss from affiliates	0.2	(12.9)	—	—	42.4	29.7
Segment operating income (loss)	186.5	122.3	—	45.4	(2.6)	351.6
Segment assets	713.8	554.9	—	165.1	219.2	1,653.0
Depreciation and amortization	65.5	37.5	—	12.0	9.6	124.6
Equity investment	2.5	36.7	—	—	135.7	174.9
Capital additions	76.6	54.4	—	13.4	3.1	147.5

Segment information has been prepared in accordance with Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (SFAS) No. 131, "Disclosures about Segments of an Enterprise and Related Information." Segments were determined based on products and services provided by each segment. Accounting policies of the segments are the same as those described in the summary of significant accounting policies. Performance of the segments is evaluated on operating income before income taxes, excluding reorganization and restructuring charges, unusual gains and losses, and interest expense. Armstrong accounts for intersegment sales and transfers as if the sales or transfers were to third parties at current market prices.

The floor coverings segment includes resilient flooring, adhesives, installation and maintenance materials and accessories sold to commercial and residential customers through wholesalers, retailers and contractors. To reduce interchannel conflict, distinctive resilient flooring products have been introduced to allow exclusive product offerings by our customers. Raw materials, especially plasticizers and resins, are a significant cost of resilient flooring products. Armstrong has no influence on the worldwide market prices of these materials and thus is subject to cost changes.

The building products segment includes commercial and residential ceiling systems. Grid products, manufactured through Armstrong's WAVE joint venture with Worthington Industries, have become an important part of this business worldwide. Earnings from this joint venture are included in this segment's operating income and in "Equity Earnings from Affiliates" (see "Equity Investments" note on page 43). The major sales activity in this segment is commercial ceiling systems sold to resale distributors and contractors worldwide, with European sales having a significant impact. Ceiling systems for the residential home segment are sold through wholesalers and retailers, mainly in the United States. Through a joint venture with a Chinese partner, a plant in Shanghai manufactures ceilings for the Pacific area.

The wood products segment is composed of Triangle Pacific Corp., a wholly owned subsidiary, a leading manufacturer of consumer wood products including hardwood flooring and cabinets. Products in this segment are used primarily in residential new construction and remodeling and commercial applications such as retail stores and restaurants. Approximately 35% of sales are from new construction which is more cyclical than remodeling activity. Triangle Pacific manufactures hardwood flooring under the brand names of Bruce, Hartco and Robbins while cabinets are manufactured under the brand names of Bruce and IXL.

The insulation products segment includes flexible pipe insulation used in construction and in original equipment manufacturing. Sales are primarily in Europe, with Germany having the largest concentration due to its regulatory requirements. Strong competition exists in insulation since there are minimal barriers to entry into this market.

During most of 1999, "all other" included business units making a variety of specialty products for the building, automotive, textile and other industries worldwide. Gasket materials are sold for new and replacement use in automotive, construction and farm equipment, appliance, small engine and compressor industries. On June 30, 1999, Armstrong sold 65% of the gaskets business. Since the divestiture, Armstrong has accounted for the gaskets business under the equity method within the "all other" segment. Textile mill supplies, including cots and aprons, are sold to equipment manufacturers and textile mills. On September 30, 1999, Armstrong sold the textiles business. From 1997 to 1998, Armstrong owned an equity interest in Dal-Tile International Inc. ("Dal-Tile"), whose ceramic tile products are sold through home centers, Dal-Tile sales service centers and independent distributors. In 1998, Armstrong sold its interest in Dal-Tile.

During 1999, Armstrong recognized revenue of approximately $348 million from The Home Depot, Inc., from sales in the floor coverings, building products, wood products and insulation products segments.

The table below provides a reconciliation of segment information to total consolidated information.

(Millions)	1999	1998	1997
Net sales:			
Total segment sales	$3,443.8	$2,746.2	$2,198.7
Intersegment sales	23.4	39.5	35.8
Elimination of intersegment sales	(23.4)	(39.5)	(35.8)
Total consolidated sales	$3,443.8	$2,746.2	$2,198.7
Operating income:			
Total segment operating income	$ 473.8	$ 387.1	$ 351.6
Segment reorganization and restructuring (charges) reversals	1.4	(65.7)	—
Corporate reorganization charges	—	(8.9)	—
Dal-Tile charge	—	—	(29.7)
Asbestos liability charge	(335.4)	(274.2)	—
Unallocated corporate (expense) income	(12.0)	1.6	0.1
Total consolidated operating income	$ 127.8	$ 39.9	$ 322.0
Assets:			
Total assets for reportable segments	$3,492.5	$3,428.2	$1,653.0
Assets not assigned to business segments	672.0	845.0	722.5
Total consolidated assets	$4,164.5	$4,273.2	$2,375.5
Other significant items:			
Depreciation and amortization expense:			
Segment totals	$ 158.5	$ 137.4	$ 124.6
Unallocated corporate depreciation and amortization expense	10.7	5.3	8.1
Total consolidated depreciation and amortization expense	$ 169.2	$ 142.7	$ 132.7
Capital additions:			
Segment totals	$ 178.7	$ 165.7	$ 147.5
Unallocated corporate capital additions	16.5	18.6	13.0
Total consolidated capital additions	$ 195.2	$ 184.3	$ 160.5

Geographic Areas

Net trade sales (millions)	1999	1998	1997
Americas:			
United States	$2,246.8	$1,803.2	$1,412.2
Canada	119.0	98.6	89.3
Other Americas	29.1	20.2	16.6
Total Americas	$2,394.9	$1,922.0	$1,518.1
Europe:			
Germany	$ 291.3	$ 182.5	$ 110.2
England	144.1	142.5	130.3
France	90.1	65.9	53.1
Netherlands	101.4	57.0	33.1
Other Europe	278.9	251.4	221.8
Total Europe	$ 905.8	$ 699.3	$ 548.5
Pacific area:			
China	$ 33.1	$ 35.5	$ 26.1
Australia	30.1	28.5	30.5
Other Pacific area	79.9	60.9	75.5
Total Pacific area	$ 143.1	$ 124.9	$ 132.1
Total net trade sales	$3,443.8	$2,746.2	$2,198.7

Sales are attributed to countries based on location of customer.

Long-lived assets (millions)	1999	1998	1997
Americas:			
United States	$ 980.3	$ 991.9	$746.3
Canada	16.1	17.1	20.5
Other Americas	0.1	0.1	0.1
Total Americas	$ 996.5	$1,009.1	$766.9
Europe:			
Germany	$ 227.0	$ 270.3	$ 47.7
England	52.7	52.7	54.7
Netherlands	45.6	42.3	13.0
Belgium	27.3	34.5	—
France	13.8	15.9	15.1
Sweden	15.2	14.2	11.3
Other Europe	19.7	21.8	21.3
Total Europe	$ 401.3	$ 451.7	$163.1
Pacific area:			
China	$ 33.7	$ 34.0	$ 34.0
Other Pacific area	7.6	7.2	8.2
Total Pacific area	$ 41.3	$ 41.2	$ 42.2
Total long-lived assets	$1,439.1	$1,502.0	$972.2

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ATLANTIC RICHFIELD COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2 Segment Information

Segment information has been prepared in accordance with SFAS No. 131, "Disclosure about Segments of an Enterprise and Related Information." ARCO has two reportable segments: exploration and production (E&P) and refining and marketing (R&M). The segments were determined based upon types of products produced/sold by each segment. Segment performance is evaluated based upon net income, excluding interest expense.

The E&P segment is an aggregation of several business units engaged in one or more of the following: the worldwide exploration, development and production of petroleum liquids (crude oil, condensate and natural gas liquids) and natural gas; the purchase and sale of petroleum liquids and natural gas; and the transportation via pipeline of petroleum liquids within the State of Alaska. The company's investments in the LUKARCO joint venture and LUKOIL common stock are included in the E&P segment as well.

The R&M segment comprises the refining of crude oil, primarily from the North Slope of Alaska; the marketing of petroleum products, primarily in the West Coast region of the U.S.; and the transportation of petroleum liquids and petroleum products via ocean-going tankers, primarily between Alaska and the West Coast. The company's equity investment in Zhenhai Refining and Chemical Company is included in the R&M segment as well.

Revenue from other operating segments is attributable to the pipeline transportation and storage of petroleum liquids and petroleum products in the 48 contiguous United States.

Intersegment sales were made at prices approximating current market value.

Segment Information

(Millions)	Exploration & Production	Refining & Marketing	All Other	Unallocated Items	Totals
			1999		
Sales and other operating revenue:					
U.S.	$5,045	$6,941	$ 46	$ —	$12,032
International	1,977	59	—	10	2,046
Intersegment revenues	(1,563)	—	(4)	(10)	(1,577)
Total	5,459	7,000	42	—	12,501
Income from equity affiliates	20	—	36	—	56
Interest revenue	30	25	—	71	126
Interest expense	—	—	—	398	398
Depreciation, depletion and amortization	1,501	268	9	7	1,785
Income tax expense (benefit)	366	334	52	(219)	533
Net income (loss)	938	593	87	(196)[a]	1,422
Investment in equity affiliates	972	190	342	4	1,508
Property, plant and equipment (net):					
U.S.	7,735	3,225	170	101	11,231
International	7,212	23	—	—	7,235
Additions to fixed assets	2,225	481	5	16	2,727
Segment assets	18,752	4,695	916	1,909[b]	26,272
			1998		
Sales and other operating revenue:					
U.S.	$4,374	$5,457	$ 156	$ —	$9,987
International	1,562	27	—	14	1,603
Intersegment revenues	(1,179)	(14)	(80)	(14)	(1,287)
Total	4,757	5,460	76	—	10,303
Income from equity affiliates	25	19	34	—	78
Interest revenue	18	5	—	96	119
Interest expense	—	—	—	259	259
Depreciation, depletion and amortization	1,239	252	18	26	1,535
Income tax expense (benefit)	(563)	145	65	(298)	(651)
Net income (loss)	(616)	281	111	676[a]	452
Investment in equity affiliates	661	219	344	11	1,235
Property, plant and equipment (net):					
U.S.	7,420	2,939	432	132	10,923
International	7,824	15	—	—	7,839
Additions to fixed assets	3,020	488	38	5	3,551
Segment assets	18,203	3,826	1,119	2,051[b]	25,199
			1997		
Sales and other operating revenue:					
U.S.	$7,920	$6,853	$ 177	$ 1	$14,951
International	1,630	3	—	15	1,648
Intersegment revenues	(2,164)	(3)	(77)	(15)	(2,259)
Total	7,386	6,853	100	1	14,340

Income from equity affiliates	5	8	6	—	19
Interest revenue	12	3	—	99	114
Interest expense	—	—	—	343	343
Depreciation, depletion and amortization	1,184	226	15	21	1,446
Income tax expense (benefit)	653	161	47	(357)	504
Net income	1,347	325	82	17[a]	1,771
Investment in equity affiliates	336	98	329	—	763
Property, plant and equipment (net):					
U.S.	6,734	2,714	470	146	10,064
International	3,496	—	—	—	3,496
Additions to fixed assets	2,276	330	46	3	2,655
Segment assets	13,269	3,564	1,149	4,443[b]	22,425

[a] Includes: income from discontinued operations of $179 and $267 in 1998 and 1997, respectively; gain on disposition of discontinued operations of $77, $928 and $291 in 1999, 1998 and 1997, respectively; and extraordinary loss of $118 in 1997.

[b] Includes assets of discontinued operations of $67 (1999), $339 (1998) and $2,777 (1997).

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BALL CORPORATION AND SUBSIDIARIES (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Business Segment Information

Ball's operations are organized along its product lines and include two segments—the packaging segment and the aerospace and technologies segment. The accounting policies of the segments are the same as those described in the summary of significant accounting policies. See notes 3 and 4 for information regarding transactions affecting segment results.

Packaging

The packaging segment includes the manufacture and sale of metal and PET (polyethylene terephthalate) containers, primarily for use in beverage and food packaging. The Company's consolidated packaging operations are located in and serve North America (the U.S. and Canada) and Asia, primarily the People's Republic of China (PRC). Packaging operations in the U.S. have increased as a result of the August 1998 acquisition of the North American beverage can manufacturing business of Reynolds Metals Company. Operations in Asia also have increased as a result of the early 1997 acquisition of a controlling interest in Ball Asia Pacific Limited, formerly M.C. Packaging (Hong Kong) Limited. The results of both operations are included within the packaging segment since their acquisition dates. Ball also has investments in packaging companies in Brazil and Thailand which are accounted for under the equity method, and, accordingly, those results are not included in segment earnings or assets.

Aerospace and Technologies

The aerospace and technologies segment includes civil space systems, defense systems, commercial space operations, commercial products and technologies, systems engineering services, advanced antenna and video systems and engineering technology products.

Summary of Business by Segment

($ in millions)	1999	1998	1997
Net Sales			
Packaging	$3,201.2	$2,533.8	$1,989.8
Aerospace and technologies	383.0	362.6	398.7
Consolidated net sales	$3,584.2	$2,896.4	$2,388.5
Earnings Before Interest and Taxes			
Packaging	$ 276.7	$ 164.7	$ 108.3
Plant closures, dispositions and other costs (Note 4)	—	(56.2)	(3.0)
Total packaging	276.7	108.5	105.3
Aerospace and technologies	24.9	30.4	34.0
Segment earnings before interest and taxes	301.6	138.9	139.3
Headquarters relocation costs (Note 4)	—	(17.7)	—
Corporate undistributed expenses	(22.8)	(15.3)	(11.9)
Dispositions and other (Note 4)	—	—	12.0
Earnings before interest and taxes	278.8	105.9	139.4
Interest expense	(107.6)	(78.6)	(53.5)
Provision for income tax expense	(64.9)	(8.8)	(32.0)
Minority interests	(1.9)	7.9	5.1
Equity in (losses) earnings of affiliates	(0.2)	5.6	(0.7)
Consolidated earnings before extraordinary item and accounting change	$ 104.2	$ 32.0	$ 58.3
Depreciation and Amortization			
Packaging	$ 146.4	$ 125.8	$ 101.4
Aerospace and technologies	13.5	15.0	14.3
Segment depreciation and amortization	159.9	140.8	115.7
Corporate	3.0	4.2	1.8
Consolidated depreciation and amortization	$ 162.9	$ 145.0	$ 117.5

Net Investment			
Packaging	$1,319.7	$1,164.3	$1,088.5
Aerospace and technologies	161.6	143.5	126.6
Segment net investment	1,481.3	1,307.8	1,215.1
Corporate net investment and eliminations	(790.4)	(685.5)	(580.9)
Consolidated net investment	$ 690.9	$ 622.3	$ 634.2
Investments in Equity Affiliates			
Packaging	$ 79.0	$ 80.9	$ 74.5
Aerospace and technologies	2.3	—	—
Segment investments in equity affiliates	81.3	80.9	74.5
Corporate	—	—	—
Consolidated investments in equity affiliates	$ 81.3	$ 80.9	$ 74.5
Property, Plant and Equipment Additions			
Packaging	$ 95.8	$ 63.7	$ 75.7
Aerospace and technologies	10.1	17.2	18.6
Segment property, plant and equipment additions	105.9	80.9	94.3
Corporate	1.1	3.3	3.4
Consolidated property, plant and equipment additions	$ 107.0	$ 84.2	$ 97.7

Financial data segmented by geographic area is provided below.

Summary of Net Sales by Geographic Area

($ in millions)	U.S.	Other[(1)]	Consolidated
1999	$3,128.3	$455.9	$3,584.2
1998	2,449.5	446.9	2,896.4
1997	1,888.9	499.6	2,388.5

[(1)] Includes the Company's net sales in the PRC and Canada, neither of which are significant, intercompany eliminations and other.

Summary of Long-Lived Assets[(1)] by Geographic Area

($ in millions)	U.S.	PRC	Other[(2)]	Consolidated
1999	$1,701.6	$352.0	$(217.3)	$1,836.3
1998	1,763.2	369.3	(163.3)	1,969.2
1997	972.4	465.5	(145.9)	1,292.0

[(1)] Long-lived assets primarily consist of property, plant and equipment, goodwill and other intangible assets.
[(2)] Includes the Company's long-lived assets in Canada, which are not significant, intercompany eliminations and other.

Major Customers

Packaging segment sales to Miller Brewing Company, a customer since a 1998 acquisition, represented approximately 15 percent of net sales in 1999 and less than 10 percent in 1998. Sales to PepsiCo, Inc., and affiliates represented approximately 13 percent of consolidated net sales in 1999, 15 percent of consolidated net sales in 1998 and 12 percent of consolidated net sales in 1997. Sales to Coca-Cola and affiliates represented 11 percent of consolidated net sales in 1999, 10 percent of consolidated net sales in 1998 and less than 10 percent in 1997. Sales to all bottlers of Pepsi-Cola and Coca-Cola branded beverages comprised approximately 35 percent of consolidated net sales in 1999, 40 percent of consolidated net sales in 1998 and 36 percent of consolidated net sales in 1997. Sales to various U.S. government agencies by the aerospace and technologies segment, either as a prime contractor or as a subcontractor, represented approximately 9 percent, 11 percent and 14 percent of consolidated net sales in 1999, 1998 and 1997, respectively.

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THE BLACK & DECKER CORPORATION AND SUBSIDIARIES (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 17: Business Segments and Geographic Information

The Corporation has elected to organize its businesses based principally upon products and services. In certain instances where a business does not have a local presence in a particular country or geographic region, however, the Corporation has assigned responsibility for sales of that business's products to one of its other businesses with a presence in that country or region.

The Corporation operates in three reportable business segments: Power Tools and Accessories, Hardware and Home Improvement, and Fastening and Assembly Systems. The Power Tools and Accessories segment has worldwide responsibility for the manufacture and sale of consumer and professional power tools and accessories, electric cleaning and lighting products, and electric lawn and garden tools, as well as for product service. In addition, the Power Tools and Accessories segment has responsibility for the sale of plumbing products to customers outside of the United States and Canada and for sales of the retained portion of the household products business. The Hardware and Home Improvement segment has worldwide responsibility for the manufacture and sale of security hardware. It also has responsibility for the manufacture of plumbing products and for the sale of plumbing products to customers in the United States and Canada. The Fastening and Assembly Systems segment has worldwide responsibility for the manufacture and sale of fastening and assembly systems.

The Corporation also operated several businesses that do not constitute reportable business segments. These businesses included the manufacture and sale of glass container-forming and inspection equipment, as well as recreational and household products. As more fully described in Note 2, during 1998, the Corporation completed the sale or recapitalization of its glass container-forming and inspection equipment business, Emhart Glass; its recreational products business, True Temper Sports; and its household products businesses (excluding certain assets associated with cleaning and lighting products) in North America, Central America, the Caribbean, South America (excluding Brazil), and Australia. Because True Temper Sports, Emhart Glass, and the divested household products businesses are not treated as discontinued operations under generally accepted accounting principles, they remain a part of the Corporation's reported results from continuing operations, and the results of operations and financial positions of these businesses have been included in the consolidated financial statements through the dates of consummation of the respective transactions. Amounts relating to these businesses are included in the following table under the caption "All Others". The results of the household products businesses included under the caption "All Others" are based upon certain assumptions and allocations. The household products businesses sold during 1998 were jointly operated with the cleaning and lighting products businesses retained by the Corporation. Further, the Corporation's divested household products businesses in Central America, the Caribbean, South America (excluding Brazil), and Australia were operated jointly with the power tools and accessories businesses. Accordingly, the results of the household products businesses included in the segment table under the caption "All Others" were determined using certain assumptions and allocations that the Corporation believes are reasonable under the circumstances.

Business Segments
(Millions of dollars)

	Reportable Business Segments							
Year Ended December 31, 1999	Power Tools & Accessories	Hardware & Home Improvement	Fastening & Assembly Systems	Total	All Others	Currency Translation Adjustments	Corporate, Adjustments & Eliminations	Consolidated
Sales to unaffiliated customers	$3,209.3	$881.8	$497.7	$4,588.8	$ —	$(68.3)	$ —	$4,520.5
Segment profit (loss) (for Consolidated, operating income)	377.3	124.0	84.3	585.6	—	(6.9)	(42.4)	536.3
Depreciation and amortization	87.7	31.1	15.4	134.2	—	(1.8)	27.6	160.0
Income from equity method investees	16.8	—	—	16.8	—	—	(2.1)	14.7
Capital expenditures	109.1	38.3	26.9	174.3	—	(3.5)	.3	171.1
Segment assets (for Consolidated, total assets)	1,836.0	508.2	273.2	2,617.4	—	(59.4)	1,454.7	4,012.7
Investment in equity method investees	26.3	—	.6	26.9	—	.6	2.3	29.8
Year Ended December 31, 1998								
Sales to unaffiliated customers	$2,946.4	$851.1	$463.0	$4,260.5	$333.6	$(34.2)	$ —	$4,559.9
Segment profit (loss) (for Consolidated, operating income before restructuring and exit costs, write-off of goodwill, and gain on sales of businesses)	293.4	125.2	76.6	495.2	16.5	(4.4)	(23.3)	484.0
Depreciation and amortization	88.2	27.1	13.4	128.7	—	(1.1)	27.6	155.2
Income from equity method investees	8.8	—	—	8.8	—	—	(2.9)	5.9
Capital expenditures	79.1	36.5	16.2	131.8	13.3	(1.1)	2.0	146.0
Segment assets (for Consolidated, total assets)	1,631.3	507.8	246.7	2,385.8	—	(4.6)	1,471.3	3,852.5
Investment in equity method investees	22.5	—	.6	23.1	—	.1	2.3	25.5
Year Ended December 31, 1997								
Sales to unaffiliated customers	$2,936.4	$804.8	$451.3	$4,192.5	$718.1	$ 29.9	$ —	$4,940.5
Segment profit (loss) (for Consolidated, operating income)	290.7	121.3	69.7	481.7	61.7	(2.3)	(51.8)	489.3
Depreciation and amortization	87.5	24.7	11.9	124.1	24.4	(.3)	66.0	214.2
Income from equity method investees	6.1	—	—	6.1	—	.3	(1.7)	4.7
Capital expenditures	113.2	47.3	15.4	175.9	25.3	(.2)	2.1	203.1
Segment assets (for Consolidated, total assets)	1,635.4	476.5	248.2	2,360.1	438.6	8.0	2,554.0	5,360.7
Investment in equity method investees	23.1	—	.6	23.7	—	.9	1.0	25.6

The Corporation assesses the performance of its reportable business segments based upon a number of factors, including segment profit. In general, segments follow the same accounting policies as those described in Note 1, except with respect to foreign currency translation and except as further indicated below. The financial statements of a segment's operating units located outside of the United States, except those units operating in highly inflationary economies, are generally measured using the local currency as the functional currency. For these units located outside of the United States, segment assets and elements of segment profit are translated using budgeted rates of exchange. Budgeted rates of exchange are established annually and, once established, all prior period segment data is restated to reflect the current year's budgeted rates of exchange. The amounts included in the preceding table under the captions "Reportable Business Segments", "All Others", and "Corporate, Adjustments, & Eliminations" are reflected at the Corporation's budgeted exchange rates for 1999. The amounts included in the preceding table under the caption "Currency Translation Adjustments" represent the difference between consolidated amounts determined using those budgeted rates of exchange and those determined based upon the rates of exchange applicable under accounting principles generally accepted in the United States.

Segment profit excludes interest income and expense, non-operating income and expense, goodwill amortization, adjustments to eliminate intercompany profit in inventory, and income tax expense. In addition, segment profit excludes restructuring and exit costs and, for 1998, the write-off of goodwill and gain on sale of businesses. For certain operations located in Brazil, Mexico, Venezuela, and Turkey, segment profit is reduced by net interest expense and non-operating expenses. In determining segment profit, expenses relating to pension and other post-retirement benefits are based solely upon estimated service costs. Corporate expenses are allocated to each reportable segment based upon budgeted amounts. No Corporate expenses have been allocated to divested businesses. While sales and transfers between segments are accounted for at cost plus a reasonable profit, the effects of intersegment sales are excluded from the computation of segment profit. Intercompany profit in inventory is excluded from segment assets and is recognized as a reduction of cost of sales by the selling segment when the related inventory is sold to an unaffiliated customer. Because the Corporation compensates the management of its various businesses on, among other factors, segment profit, the Corporation may elect to record certain segment-related expense items of an unusual or non-recurring nature in consolidation rather than reflect such items in segment profit. In addition, certain segment-related items of income or expense may be recorded in consolidation in one period and transferred to the various segments in a later period.

Segment assets exclude pension and tax assets, goodwill, intercompany profit in inventory, and intercompany receivables.

Amounts in the preceding table under the caption "Corporate, Adjustments & Eliminations" on the lines entitled "Depreciation and amortization" represent depreciation of Corporate property and consolidated goodwill amortization. The reconciliation of segment profit to consolidated earnings (loss) before income taxes for each year, in millions of dollars, is as follows:

	1999	1998	1997
Segment profit for total reportable business segments	$585.6	$495.2	$481.7
Segment profit for all other businesses	—	16.5	61.7
Items excluded from segment profit:			
Adjustment of budgeted foreign exchange rates to actual rates	(6.9)	(4.4)	(2.3)
Depreciation of Corporate property and amortization of goodwill	(27.6)	(27.6)	(66.0)
Adjustment to businesses' postretirement benefit expenses booked in consolidation	24.8	24.4	23.8
Adjustment to eliminate net interest and non-operating expenses from results of certain operations in Brazil, Mexico, Venezuela, and Turkey	1.0	5.7	3.6
Other adjustments booked in consolidation directly related to reportable business segments	(12.4)	(20.4)	(17.6)
Amounts allocated to businesses in arriving at segment profit in excess of (less than) Corporate center operating expenses, eliminations, and other amounts identified above	(28.2)	(5.4)	4.4
Operating income before restructuring and exit costs, write-off of goodwill, and gain on sale of businesses	536.3	484.0	489.3
Restructuring and exit costs	—	164.7	—
Write-off of goodwill	—	900.0	—
Gain on sale of businesses	—	114.5	—
Operating income (loss)	536.3	(466.2)	489.3
Interest expense, net of interest income	95.8	114.4	124.6
Other (income) expenses	(.8)	7.7	15.2
Earnings (loss) before income taxes	$441.3	$(588.3)	$349.5

The reconciliation of segment assets to the consolidated total assets at the end of each year, in millions of dollars, is as follows:

	1999	1998	1997
Segment assets for total reportable business segments	$2,617.4	$2,385.8	$2,360.1
Segment assets for all other businesses	—	—	438.6
Items excluded from segment assets:			
Adjustment of budgeted foreign exchange rates to actual rates	(59.4)	(4.6)	8.0
Goodwill	743.4	768.7	1,877.3
Pension assets	377.0	348.8	391.6
Other corporate assets	334.3	353.8	285.1
	$4,012.7	$3,852.5	$5,360.7

Other Corporate assets principally consist of cash and cash equivalents, tax assets, property, and other assets.

Sales to The Home Depot, a customer of the Power Tools and Accessories and Hardware and Home Improvement segments, accounted for $755.9 million, $622.3 million and $541.6 million of the Corporation's consolidated sales for the years ended December 31, 1999, 1998 and 1997, respectively.

The composition of the Corporation's sales by product group for each year, in millions of dollars, is set forth below:

	1999	1998	1997
Consumer and professional power tools and product service	$2,318.6	$2,123.9	$2,070.4
Consumer and professional accessories	357.3	339.8	342.1
Electric lawn and garden products	287.7	283.6	262.1
Electric cleaning and lighting products	134.3	99.0	183.3
Security hardware	619.2	596.3	573.5
Plumbing products	260.6	257.0	242.3
Fastening and assembly systems	498.4	461.0	460.2
Household products	44.4	197.1	485.4
Glass container-forming and inspection equipment	—	130.3	238.6
Recreational products	—	71.9	82.6
	$4,520.5	$4,559.9	$4,940.5

The Corporation markets its products and services in over 100 countries and has manufacturing sites in ten countries. Other than in the United States, the Corporation does not conduct business in any country in which its sales in that country exceed 10% of consolidated sales. Sales are attributed to countries based on the location of customers. The composition of the Corporation's sales to unaffiliated customers between those in the United States and those in other locations for each year, in millions of dollars, is set forth below:

	1999	1998	1997
United States	$2,825.2	$2,703.7	$2,855.7
Canada	137.0	137.4	179.4
North America	2,962.2	2,841.1	3,035.1
Europe	1,255.5	1,364.5	1,378.0
Other	302.8	354.3	527.4
	$4,520.5	$4,559.9	$4,940.5

The composition of the Corporation's property, plant, and equipment between those in the United States and those in other countries as of the end of each year, in millions of dollars, is set forth below:

	1999	1998	1997
United States	$480.8	$469.0	$532.9
United Kingdom	121.2	118.3	105.1
Other countries	137.6	140.3	277.1
	$739.6	$727.6	$915.1

1.44

BMC INDUSTRIES, INC. (DEC)

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

13. Segment Information

The Company has two operating segments which manufacture and sell a variety of products: Buckbee-Mears and Optical Products. Buckbee-Mears manufactures principally aperture masks, photochemically etched fine mesh grids used in the manufacture of color television tubes and computer monitors. Optical Products manufactures ophthalmic lenses. Net sales of aperture masks comprised 89%, 86% and 87% of Buckbee-Mears revenues in 1999, 1998 and 1997, respectively, and 55%, 54% and 61% of the Company's consolidated total revenues in 1999, 1998 and 1997, respectively.

The following is a summary of certain financial information relating to the two segments:

	1999	1998	1997
Total Revenues by Segment			
Buckbee-Mears	$217,868	$212,083	$219,007
Optical Products	135,986	123,055	93,531
Total Revenues	$353,854	$335,138	$312,538
Operating Profit (Loss) by Segment			
Buckbee-Mears			
Before corporate allocation and impairment charge	$ 23,863	$ 1,969	$ 41,489
Impairment of long-lived assets	—	(42,800)	—
Less corporate allocation[1]	(2,183)	(2,522)	(2,314)
Total	21,680	(43,353)	39,175
Optical Products			
Before corporate allocation and acquired research and development charge	5,749	19,678	14,885
Acquired in-process research and development	—	(9,500)	—
Less corporate allocation[1]	(1,362)	(1,464)	(988)
Total	4,387	8,714	13,897
Total Segment Operating Profit (Loss)	26,067	(34,639)	53,072
Corporate expense	(1,157)	(1,193)	(1,014)
Interest income (expense), net	(13,099)	(13,374)	(1,065)
Other income (expense)	1,036	522	209
Earnings (loss) before income taxes	$ 12,847	$(48,684)	$ 51,202
Identifiable Assets by Segment			
Buckbee-Mears	$159,431	$168,540	$218,988
Optical Products	196,074	206,825	81,834
Total Identifiable Assets	355,505	375,365	300,822
Corporate and other assets	28,048	24,100	18,585
Total Assets	$383,553	$399,465	$319,407

Depreciation and Amortization by Segment			
Buckbee-Mears	$12,883	$13,582	$10,457
Optical Products	10,231	7,215	2,670
Corporate and other	166	217	222
Total Depreciation and Amortization	$23,280	$21,014	$13,349
Captial Expenditures by Segment			
Buckbee-Mears	$ 5,556	$ 9,764	$60,605
Optical Products	7,469	11,526	14,397
Corporate and other	132	137	108
Total Capital Expenditures	$13,157	$21,427	$75,110

(1) Corporate allocations consist of estimated administrative expenses incurred at the corporate headquarters which provide direct benefit to the operation divisions.

The following is a summary of the Company's operations in different geographic areas:

	1999	1998	1997
Total Revenues from Unaffiliated Customers			
United States	$227,390	$233,142	$199,825
Germany	103,788	94,181	104,384
Other	22,676	7,815	8,329
Total	$353,854	$335,138	$312,538
Long-Lived Assets			
United States	$119,190	$124,543	$150,576
Germany	24,155	30,052	27,178
Other	7,893	7,999	4,628
Total	$151,238	$162,594	$182,382

The Company evaluates segment performance based on profit or loss from operations before interest, other income/expense, taxes and charges for corporate administration. Revenues by geographic area are based upon revenues generated from each country's operations. Net sales to unaffiliated foreign customers from domestic operations (export sales) in 1999, 1998 and 1997 were $56,893, $40,820 and $47,913, or 16%, 12% and 15%, respectively, of total revenues. Buckbee-Mears had sales to one customer of $71,303, $51,785 and $48,963; to another customer of $46,078, $33,801 and $33,336; to a third customer of $45,077, $56,983 and $62,062; and to a fourth customer of $19,980, $23,266 and $34,101 in 1999, 1998 and 1997, respectively. Optical Products did not have sales to any individual customer greater than 10% of total revenues.

1.45

CABOT CORPORATION (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note A (In Part): Significant Accounting Policies

Financial Information by Segment

Beginning with this annual report, Cabot adopted Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information" ("SFAS No. 131"). SFAS No. 131 supersedes SFAS No. 14, "Financial Reporting for Segments of a Business Enterprise," replacing the "industry segment" approach with the "management" approach. The new framework for segment reporting is intended to give analysts and other financial statement users a view of Cabot "through the eyes of management." It designates Cabot's internal management reporting structure as the basis for determining Cabot's reportable segments, as well as the basis for determining the information to be disclosed for those segments. SFAS No. 131 also requires certain disclosures about products and services, geographic areas, and major customers. The adoption of SFAS No. 131 did not affect results of operations or financial position, but did affect the disclosure of segment information. (Note Q)

Note Q Financial Information by Segment & Geographic Area

Segment Information

During 1999, Cabot reorganized into 19 market-focused strategic business units ("SBUs"), each having responsibility for individual global marketing strategies, day-to-day business operations, and new product development. Under SFAS No. 131, these SBUs aggregate into five reportable segments: Chemicals Group (which includes carbon black, fumed silica, plastics, and inkjet colorants), Performance Materials, Specialty Fluids, Microelectronics Materials, and Liquefied Natural Gas. Cabot was organized into SBUs to better direct its technical strengths and focus on key markets. Cabot's business segment reporting under SFAS No. 131 is consistent with the changes in its financial reporting structure incorporated in Cabot's management reporting during 1999. Segment information for 1998 and 1997 has been restated to conform to the current presentation. A description of Cabot's five business segments and their products, services, and markets served is shown on page 20.

The accounting policies of the segments are the same as those described in the summary of "Significant Accounting Policies." Exceptions are noted as follows and are incorporated in the following tables. Revenues from external customers for certain operating segments within the Chemicals Group include 100% of equity affiliate sales. Transfers of ore to Performance Materials from Specialty Fluids are generally valued at market-based prices, and revenues generated by these transfers are shown as segment revenues from external customers. Cabot evaluates the performance of its segments and allocates resources based on segment profit or loss before tax ("PBT"), including equity in net income of affiliated companies, but excluding special items (Note B), gains on the sale of equity securities, and foreign currency transaction gains and losses. Corporate costs, costs related to divested businesses, and interest expense are not allocated to operating segments. Cash, short-term investments, investments other than equity basis, income taxes receivable, deferred taxes, and headquarters' assets are included in Unallocated and Other. Expenditures for additions to long-lived assets include total equity and other investments (including available-for-sale securities), property, plant and equipment, and intangible assets.

Financial information by segment was as follows:

Dollars in millions	Chemicals Group	Performance Materials	Specialty Fluids	Micro-Electronics Materials	Liquefied Natural Gas	Segment Total	Unallocated and Other[1]	Consolidated Total
1999								
Revenues from external customers[2]	$1,204	$187	$12	$96	$265	$1,764	$ (69)	$1,695
Depreciation and amortization	104	8	4	3	4	123	2	125
Equity in net income of affiliated companies	8	5	—	—	—	13	—	13
Profit (loss) before taxes[3]	188	34	(3)	22	7	248	(112)	136
Assets[4]	1,244	205	50	70	167	1,736	106	1,842
Investment in equity-basis affiliates	52	20	—	—	—	72	—	72
Total expenditures for additions to long-lived assets[5]	$ 114	$ 9	$ 3	$17	$ 22	$ 165	$ 7	$ 172
1998								
Revenues from external customers[2]	$1,279	$175	$13	$57	$211	$1,735	$ (91)	$1,644
Depreciation and amortization	100	7	3	2	2	114	1	115
Equity in net income of affiliated companies	12	5	—	—	—	17	—	17
Profit (loss) before taxes[3]	221	25	(2)	9	15	268	(100)	168
Assets[4]	1,242	207	39	45	139	1,672	133	1,805
Investment in equity-basis affiliates	75	15	—	—	1	91	—	91
Total expenditures for additions to long-lived assets[5]	$ 156	$ 11	$ 4	$ 9	$ 44	$ 224	$ 23	$ 247
1997								
Revenues from external customers[2]	$1,326	$153	$11	$34	$200	$1,724	$ (99)	$1,625
Depreciation and amortization	97	6	2	2	2	109	1	110
Equity in net income of affiliated companies	18	2	—	—	—	20	—	20
Profit (loss) before taxes[3]	209	16	(4)	1	7	229	(112)	117
Assets[4]	1,252	202	31	31	96	1,612	214	1,826
Investment in equity-basis affiliates	71	15	—	—	—	86	—	86
Total expenditures for additions to long-lived assets[5]	$ 133	$ 13	$14	$ 2	$ 7	$ 169	$ 12	$ 181

(1) Unallocated and Other includes certain corporate items and eliminations that are not allocated to the operating segments.

(2) Revenues from external customers for certain operating segments within Chemicals Group include 100% of equity affiliate sales. Specialty Fluids sales include transfers of ore to Performance Materials at market-based prices. Unallocated and Other reflects an adjustment for these equity affiliate sales and interoperating segment revenues and includes royalties paid by equity affiliates:

	1999	1998	1997
Equity affiliate sales	$(69)	$(92)	$(103)
Royalties paid by equity affiliates	7	8	10
Interoperating segment revenues	(7)	(7)	(6)
Total	$(69)	$(91)	$ (99)

(3) Profit or loss before taxes for Unallocated and Other includes:

	1999	1998	1997
Interest expense	$ (46)	$ (42)	$ (43)
Gain on sale of equity securities	10	90	—
Corporate governance costs/ other expenses, net[a]	(32)	(31)	(27)
Costs related to divested businesses	—	(5)	—
Corporate expenses incurred on behalf of the segments	(4)	(7)	(2)
Equity in net income of affiliated companies	(13)	(17)	(20)
Foreign currency transaction gains (losses)[b]	(1)	(3)	(2)
Special charges (Note B)	(26)	(85)	(18)
Total	$(112)	$(100)	$(112)

(a) Corporate governance costs/other expenses, net, includes corporate headquarters costs reduced by investment income.

(b) Net of other hedging activity.

(4) Unallocated and Other assets include cash, short-term investments, investments other than equity basis, income taxes receivable, deferred taxes, and headquarters' assets.

(5) Expenditures for additions to long-lived assets include total equity and other investments (including available-for-sale securities), property, plant and equipment, and intangible assets.

Geographic Area Information

Sales are attributed to the United States and to all foreign countries based on customer location (region of sale) and not on the geographic location from which goods were shipped (region of manufacture). Revenues from external customers attributable to an individual country, other than the United States, were not material for disclosure. The only other country, besides the United States, with material long-lived assets was Indonesia, with approximately 4%, 5% and 11% of Cabot's total in 1999, 1998 and 1997, respectively. No customer represents 10% or more of Cabot's revenues.

Revenues from external customers and long-lived asset information by geographic area are summarized as follows:

Dollars in millions	United States	All Foreign Countries	Consolidated Total
1999			
Revenues from external customers	$883	$812	$1,695
Long-lived assets[1]	525	638	1,163
1998			
Revenues from external customers	$787	$857	$1,644
Long-lived assets[1]	515	650	1,165
1997			
Revenues from external customers	$727	$898	$1,625
Long-lived assets[1]	568	626	1,194

(1) Long-lived assets include total equity and other investments, (including available-for-sale securities), net property, plant and equipment, and net intangible assets.

1.46

DELUXE CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 15: Business Segment Information

During 1999, the Company announced a plan to reorganize its operations into four independently operated business units. This reorganization was completed by the end of 1999. Accordingly, the segment information for prior years has been restated to conform to the current operating structure.

The Company has organized its business units into four operating segments based on the nature of the products and services offered by each: Paper Payment Systems, Electronic Payment Solutions, Professional Services and Government Services. Paper Payment Systems provides check printing services to financial service companies and markets checks and business forms directly to households and small businesses. Electronic Payment Solutions provides comprehensive electronic payment management solutions that combine transaction processing with decision support and risk management tools to the financial services and retail industries. Professional Services provides information technology development, maintenance and support and business process management to financial services companies and to all of the Company's businesses. Government Services provides EBT services and online medical eligibility verification services to state and local governments. During 1999, the Company sold its collections business (see Note 6). The results of this business are not included in the Company's segment information, but are included in the Company's reconciliations to consolidated amounts.

In 1997 and 1998, the Company operated two additional segments: Direct Response and Deluxe Direct. Direct Response, which was sold in 1998, provided direct marketing, customer database management and related services to the financial industry and other businesses. Deluxe Direct, which was also sold in 1998, primarily sold greeting cards, stationery and specialty paper products through direct mail.

The Company's segments operate primarily in the United States. The Electronic Payment Solutions and Professional Services segments also have international operations. No single customer of the Company accounted for more than 10% of net sales in 1999, 1998 or 1997.

The accounting policies of the segments are the same as those described in Note 1. In evaluating segment performance, management focuses on income from operations, net income and earnings before interest, taxes, depreciation and amortization (EBITDA). The income from operations measurement utilized by management excludes special charges (e.g., restructuring charges, asset impairment charges, certain one-time charges that management believes are not reflective of on-going operations, etc.). Holding company expenses were allocated to the segments as a fixed percentage of segment revenues. This allocation included expenses for various support functions such as human resources, information services and finance and included depreciation and amortization expense related to holding company assets. The corresponding holding company asset balances have been allocated to the segments. Most inter-segment sales are based on current market pricing.

Prior to the acquisition of the remaining 50% interest in HCL-Deluxe, N.V. in 1999 (see Note 6), the results of this business were recorded under the equity method of accounting. As such, the Company recorded its 50% ownership of the joint venture's results of operations prior to the acquisition in other expense in the consolidated statements of income. To be consistent with management reporting, the entire results of the joint venture for the pre-acquisition periods are reflected in the business segment information as if the business had been a consolidated entity.

1999 (Dollars in thousands)	Paper Payment Systems	Electronic Payment Solutions	Professional Services	Government Services	Total Segments
Net sales to external customers	$1,232,924	$237,885	$10,745	$48,277	$1,529,831
Intersegment sales		3,500	8,630		12,130
Operating income (loss) excluding special charges	307,458	14,842	(7,809)	3,454	317,945
Special charges (recoveries)	(2,782)	(225)	2,938	10,096	10,027
Operating income (loss) including special charges	310,240	15,067	(10,747)	(6,642)	307,918
Net income (loss)	286,041	9,125	(12,566)	(5,033)	277,567
EBITDA	368,608	32,312	(8,767)	(4,540)	387,613
Depreciation and amortization expense	59,257	20,681	1,963		81,901
Segment assets	474,044	210,661	36,200	34,410	755,315
Capital purchases	73,037	34,068	3,373	929	111,407

1998 (Dollars in thousands)	Paper Payment Systems	Electronic Payment Solutions	Professional Services	Government Services	Direct Response	Deluxe Direct	Total Segments
Net sales to external customers	$1,279,738	$221,964	$7,994	$43,970	$42,662	$223,906	$1,820,234
Intersegment sales	1,956	1,586	5,234		722		9,498
Operating income (loss) excluding special charges	312,782	23,459	(3,406)	(6,496)	(20,060)	5,047	311,326
Asset impairment charges				26,252			26,252
Other special charges	11,099	2,375		14,928	2,513		30,915
Operating income (loss) including special charges	301,683	21,084	(3,406)	(47,676)	(22,573)	5,047	254,159
Net income (loss)	245,814	18,843	(5,495)	(31,680)	(12,461)	(6,839)	208,182
EBITDA	360,730	37,009	(3,146)	(39,666)	(16,781)	(3,147)	334,999
Depreciation and amortization expense	54,022	17,294	260	4,225	2,213		78,014
Segment assets	540,871	145,572	5,410	37,286			729,139
Capital purchases	80,416	30,148	1,934	320	602	1,623	115,043

1997 (Dollars in thousands)	Paper Payment Systems	Electronic Payment Solutions	Professional Services	Government Services	Direct Response	Deluxe Direct	Total Segments
Net sales to external customers	$1,288,630	$199,662	$1,589	$26,965	$49,781	$249,682	$1,816,309
Intersegment sales	786	2,438	1,691		3,187	1,137	9,239
Operating income (loss) excluding special charges	291,626	27,744	(1,590)	(12,269)	(19,742)	(5,231)	280,538
Asset impairment charges		11,831			5,000	82,188	99,019
Other special charges	17,696	2,316				1,824	21,836
Operating income (loss) including special charges	273,930	13,597	(1,590)	(12,269)	(24,742)	(89,243)	159,683
Net income (loss)	222,336	(2,743)	(1,739)	(30,659)	(16,053)	(92,969)	78,173
EBITDA	315,405	32,513	(1,578)	(48,739)	(14,389)	(89,118)	194,094
Depreciation and amortization expense	45,228	19,168	12	3,580	6,902	697	75,587
Segment assets	525,795	141,360	3,704	46,115	47,876	121,824	886,674
Capital purchases	81,183	17,295	151	690	3,026	2,191	104,536

Segment information reconciles to consolidated amounts as follows *(dollars in thousands)*:

Net Sales to External Customers	1999	1998	1997
Total segment net sales to external customers	$1,529,831	$1,820,234	$1,816,309
Divested businesses not included in segments	124,074	121,419	105,909
Professional Services pre-acquisition elimination	(3,405)	(7,994)	(1,589)
Total consolidated net sales to external customers	$1,650,500	$1,933,659	$1,920,629

Operating Income Including Special Charges	1999	1998	1997
Total segment operating income	$ 307,918	$ 254,159	$ 159,683
Divested businesses not included in segments	(2,409)	3,612	6,730
Professional Services pre-acquisition elimination	1,234	3,387	1,590
Elimination of intersegment profits		28	99
Unallocated holding company expenses	(4,649)	(18,177)	(12,383)
Total consolidated operating income	$ 302,094	$ 243,009	$ 155,719

1999 and 1998 unallocated holding company expenses consist of holding company restructuring charges and charges for certain liabilities that are not allocated to the segments. 1997 unallocated holding company expenses consist primarily of holding company restructuring charges.

Net Income Including Special Charges	1999	1998	1997
Total segment net income	$277,567	$208,182	$78,173
Divested businesses not included in segments	(4,229)	(445)	1,767
Professional Services pre-acquisition elimination	248	3,741	1,074
Elimination of intersegment profits		165	49
Unallocated holding company expenses	(70,564)	(68,580)	(36,391)
Total consolidated net income	$203,022	$143,063	$44,672

Unallocated holding company expenses affecting net income consist of holding company restructuring charges and charges for certain liabilities that are not allocated to the segments, gains and losses on sales of businesses, interest expense, investment income and related income tax expense.

Depreciation and Amortization Expense	1999	1998	1997
Total segment depreciation and amortization expense	$ 81,901	$ 78,014	$ 75,587
Divested businesses not included in segments	2,050	5,957	5,460
Professional Services pre-acquisition elimination	(143)	(260)	(12)
Unallocated holding company expense	102	105	108
Total consolidated depreciation and amortization expense	$ 83,910	$ 83,816	$ 81,143

Total Assets	1999	1998	1997
Total segment assets	$755,315	$ 729,139	$ 886,674
Assets of divested businesses not included in segments		68,734	63,317
Professional Services pre-acquisition elimination		(4,732)	(3,369)
Unallocated holding company assets	237,328	378,378	201,742
Total consolidated assets	$992,643	$1,171,519	$1,148,364

Unallocated holding company assets consist primarily of cash, investments and deferred tax assets relating to holding company activities.

Capital Purchases	1999	1998	1997
Total segment capital purchases	$111,407	$115,043	$104,536
Divested businesses not included in segments	3,337	8,156	5,115
Professional Services pre-acquisition elimination	(145)	(1,934)	(151)
Holding company capital purchases	421	10	
Total consolidated capital purchases	$115,020	$121,275	$109,500

Revenues are attributed to geographic areas based on the location of the assets producing the revenues. The Company's operations by geographic area are as follows (in thousands):

	Net Sales to External Customers			Long-Lived Assets December 31,	
	1999	1998	1997	1999	1998
United States	$1,629,853	$1,907,157	$1,883,363	$289,827	$337,048
Foreign countries	20,147	26,502	37,266	4,958	3,029
Total consolidated	$1,650,500	$1,933,659	$1,920,629	$294,785	$340,077

1.47

E. I. DU PONT DE NEMOURS AND COMPANY AND CONSOLIDATED SUBSIDIARIES (DEC)

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

28. Industry Segment Information

The company's strategic business units (operating segments) are organized by product line. For purposes of SFAS No. 131, these have been aggregated into nine reportable segments including Agriculture & Nutrition, Nylon Enterprise, Performance Coatings & Polymers, Pharmaceuticals, Pigments & Chemicals, Pioneer, Polyester Enterprise, Specialty Fibers and Specialty Polymers. The company's ongoing photomasks, safety resources, and global services businesses, and the divested businesses of printing and publishing and coal are included in Other. Major products by segment include: Agriculture & Nutrition (herbicides, fungicides, insecticides, soy protein and value-enhanced grains); Nylon Enterprise (flooring systems, textiles, industrial fibers and intermediates); Performance Coatings & Polymers (automotive finishes, engineering polymers and elastomers); Pharmaceuticals (prescription pharmaceuticals and radiopharmaceuticals); Pigments & chemicals (white pigment and mineral products, specialty chemicals and fluorochemicals); Pioneer (hybrid seed corn and soybean seed); Polyester Enterprise (Dacron(R) polyester, high-performance films and resins and intermediates); Specialty Fibers (Lycra(R)) elastane, nonwovens and aramids); and Specialty Polymers (photopolymers and electronic materials, packaging and industrial polymers, Corian(R) solid surfaces and fluoropolymers). The company operates globally in substantially all of its product lines. The company's sales are not materially dependent on a single customer or small group of customers. The Performance Coatings & Polymers, Pharmaceuticals and Nylon Enterprise segments have several large customers in their respective industries that are important to these segments' operating results.

In general, the accounting policies of the segments are the same as those described in the Summary of Significant Accounting Policies. Exceptions are noted as follows and are shown in the reconciliations below. Prior year data have been restated to reflect the 1999 organizational structure. Sales include pro rata equity affiliate sales and intersegment transfers. After-tax operating income does not include corporate expenses, interest and exchange gains (losses). Segment net assets measures net working capital, net permanent investment and other noncurrent operating assets and liabilities of the segment. Affiliate net assets (pro rata share) excludes borrowings and other long-term liabilities. Depreciation and amortization includes depreciation on research and development facilities and amortization of intangible assets, excluding write-down of assets discussed in Note 5. Expenditures for long-lived assets excludes investments in affiliates and includes payments for property, plant and equipment as part of business acquisitions. See Note 23 for discussion of strategic acquisitions in the segments.

	Agriculture & Nutrition	Nylon Enterprise	Performance Coatings & Polymers	Pharmaceuticals	Pigments & Chemicals	Pioneer	Polyester Enterprise	Specialty Fibers	Specialty Polymers	Other	Total[1]
1999											
Total Segment Sales	$2,598	$4,487	$6,111	$1,630	$3,660	$ 422	$2,649	$3,448	$4,255	$ 480	$29,740
Intersegment Transfers	—	35	9	—	237	—	188	80	152	32	733
After-Tax Operating Income[2]	358	63	582	230	626	(2,309)	(119)	732	668	51	882
Depreciation and Amortization	142	241	225	121	191	85	226	229	172	59	1,691
Equity in Earnings of Affiliates	2	43	60	—	2	20	(13)	28	27	(4)	165
Provision for Income Taxes	50	220	416	102	312	(54)	(40)	361	365	31	1,763
Segment Net Assets	3,184	3,004	4,061	1,939	1,811	7,762	2,679	2,734	2,328	238	29,740
Affiliate Net Assets	123	572	404	31	63	—	770	135	248	—	2,346
Expenditures for Long-Lived Assets	262	377	759	101	144	786	126	251	270	125	3,201
1998											
Total Segment Sales	$2,791	$4,594	$4,563	$1,156	$3,659	$ 365	$2,797	$3,296	$4,040	$ 542	$27,803
Intersegment Transfers	—	39	9	—	228	—	175	86	155	37	729
After-Tax Operating Income[3]	249	244	508	(668)	577	8	(228)	659	598	183	2,130
Depreciation and Amortization	133	236	149	60	242	—	252	230	165	58	1,525
Equity in Earnings of Affiliates	2	35	16	77	(3)	8	(1)	25	12	81	252
Provision for Income Taxes	41	189	302	(317)	337	8	(80)	363	356	89	1,288
Segment Net Assets	3,070	3,082	2,214	1,843	1,768	999	3,142	2,574	2,166	243	21,101
Affiliate Net Assets	170	551	281	23	62	999	174	134	237	—	2,631
Expenditures for Long-Lived Assets	214	493	229	655	190	—	706	361	356	89	1,288
1997											
Total Segment Sales	$2,501	$4,582	$4,622	$ 775	$3,812	$ 12	$2,215	$3,320	$4,037	$1,133	$27,009
Intersegment Transfers	—	26	9	—	228	—	169	70	192	60	754
After-Tax Operating Income[4]	(98)	372	519	234	513	(919)	124	708	575	(223)	1,805
Depreciation and Amortization	73	231	157	—	241	—	126	240	174	68	1,310
Equity in Earnings of Affiliates	6	42	67	232	—	(919)	3	23	21	67	(458)
Provision for Income Taxes	7	222	303	142	262	(5)	96	344	320	(155)	1,536
Segment Net Assets	2,395	2,928	2,043	404	1,887	836	3,156	2,332	1,996	388	18,365
Affiliate Net Assets	46	507	262	437	68	836	158	127	199	249	2,889
Expenditures for Long-Lived Assets	499	490	258	—	203	—	1,131	285	311	145	3,322

(1) A reconciliation of the totals reported for the operating segments to the applicable line items on the consolidated financial statements is as follows:

Segment Sales to Total Sales

	1999	1998	1997
Total Segment Sales	$29,740	$27,803	$27,009
Elimination of Intersegment Transactions	(733)	(729)	(754)
Elimination of Equity Affiliate Sales	(2,092)	(2,263)	(2,226)
Miscellaneous	3	(44)	60
Total Sales	$26,918	$24,767	$24,089

After-Tax Operating Income to Income from Continuing Operations

	1999	1998	1997
Total Segment ATOI	$882	$2,130	$1,805
Interest and Exchange Gains (Losses)	(362)*	(292)	(226)
Corporate Expenses	(301)	(190)	(147)
Income from Continuing Operations	$219	$1,648	$1,432

* Includes a charge of $81 on forward exchange contracts to lock in the U.S. dollar cost of the Herberts acquisition partly offset by a $49 benefit related to recalculation of interest on federal tax refunds and tax liabilities.

Segment Net Assets to Total Assets

	1999	1998	1997
Total Segment Net Assets	$29,740	$21,101	$18,365
Corporate Assets	5,654	4,768	5,296
Liabilities included in Net Assets	5,383	4,250	4,630
Net Assets of Discontinued Operations	—	8,417	8,398
Total Assets	$40,777	$38,536	$36,689

Other Items

	Segment Totals	Adjustments	Consolidated Totals
1999			
Depreciation and Amortization	$1,691	$(1)	$1,690
Equity in Earnings of Affiliates	165	(30)	135
Provision for Income Taxes	1,763	(353)	1,410
Affiliate Net Assets	2,346	(887)	1,459
Expenditures for Long-Lived Assets	3,201	177	3,378
1998			
Depreciation and Amortization	$1,525	$35	$1,560
Equity in Earnings of Affiliates	252	26	278
Provision for Income Taxes	1,288	(347)	941
Affiliate Net Assets	2,631	(835)	1,796
Expenditures for Long-Lived Assets	3,248	135	3,383
1997			
Depreciation and Amortization	$1,310	$71	$1,381
Equity in Earnings of Affiliates	(458)	1,101*	643
Provision for Income Taxes	1,536	(182)	1,354
Affiliate Net Assets	2,889	(517)	2,372
Expenditures for Long-Lived Assets	3,322	118	3,440

* Includes a charge of $903 for Pioneer in-process research and development reported in Note 4.

(2) Includes the following (charges) benefits:

Agriculture & Nutritiona,[b]	$103
Nylon Enterprise[a,c]	(326)
Performance Coatings & Polymers[a,d]	(63)
Pharmaceuticals[a,e]	(33)
Pigments & Chemicals[a]	1
Pioneer[f]	(2,213)
Polyester Enterprise[a,g]	(80)
Specialty Fibers[a]	1
Specialty Polymers[a]	2
Other[a]	16
	$(2,592)

(a) Includes a net benefit of $47 resulting from changes in estimates related to restructuring and divestiture activities as follows: Agriculture & Nutrition—$2; Nylon Enterprise—$11; Performance Coatings & Polymers—$1; Pharmaceuticals—$3; Pigments & Chemicals—$1; Polyester Enterprise—$10; Specialty Fibers—$1; Specialty Polymers—$2; and Other—$16.

(b) Includes a $208 gain associated with exchanging the company's investment in WebMD for Healtheon/WebMD partly offset by charges of $107 attributable to employee separation costs, shutdown of various manufacturing facilities and the write-off of an intangible asset resulting from the loss of exclusive product marketing rights.

(c) Includes a charge of $337, of which $247 is attributable to an impairment charge for the write-down of the adipic acid plant in Singapore that continues to be operated. Other costs are principally due to the write-down of manufacturing assets in India pursuant to a sales agreement and the liquidation of a joint venture in China.

(d) Includes a charge of $64 attributable to purchased in-process research and development in conjunction with the acquisition of Herberts.

(e) Includes a charge of $36 resulting from the finalization of the tax basis related to the assets acquired and liabilities assumed in connection with the purchase of Merck's 50 percent interest in The DuPont Merck Pharmaceutical Company.

(f) Includes a charge of $2,186 related to the write-off of purchased in-process research and development in conjunction with the acquisition of the remaining 80 percent interest in Pioneer.

(g) Includes a $50 charge resulting from a loss on the formation of a 50/50 global joint venture with Teijin for the polyester films business and a $40 charge related to employee separation costs.

(3) Includes the following (charges) benefits:

Agriculture & Nutrition[a]	$ (73)
Nylon Enterprise[b]	(162)
Performance Coatings & Polymers[b]	(17)
Pharmaceuticals[c]	(853)
Pigments & Chemicals[b]	(4)
Polyester Enterprise[d]	(221)
Specialty Fibers[b]	(3)
Specialty Polymers[b]	(10)
Other[e]	78
	$(1,265)

(a) Includes a $60 charge to adjust the preliminary allocation of purchased in-process research and development for PTI and a $13 charge related to productivity improvement initiatives.

(b) Includes charges associated with productivity improvement initiatives.

(c) Includes a $799 charge for purchased in-process research and development associated with the purchase of Merck's 50 percent interest in The DuPont Merck Pharmaceutical Company and a $54 impairment write-down to fair value of certain Pharmaceuticals assets.

(d) Includes a $123 charge for adjustments to the preliminary allocation of purchased in-process research and development for the purchase of the ICI polyester businesses and a $98 charge associated with productivity improvement initiatives.

(e) Includes a $121 gain on the sale of CONSOL Energy Inc. and a $43 charge related to productivity improvement initiatives.

[d] Includes the following (charges) benefits:

Agriculture & Nutrition[a]	$ (562)
Pharmaceuticals[b]	72
Pioneer[c]	(903)
Polyester Enterprise[d]	(63)
Other[e]	(220)
	$(1,676)

[a] Includes charges of $500 for acquired in-process research and development relating to the PTI transaction and $62 associated with the Benlate® 50 DF fungicide recall.
[b] Includes a benefit of $72 from the gain on the sale by DuPont Merck of its generic and multisource product lines.
[c] Includes a charge of $903 for acquired in-process research and development related to the Pioneer transaction.
[d] Includes a charge of $63 for acquired in-process research and development relating to the ICI polyester resins and intermediate transaction.
[e] Includes a charge of $220 associated with the divestiture of certain printing and publishing businesses.

See Segment Reviews on pages 16–26 for a description of each industry segment. Products are transferred between segments on a basis intended to reflect as nearly as practicable the "market value" of the products.

1.48

FEDERAL-MOGUL CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

15. Operations by Industry Segment and Geographic Area

During 1999, the Company reorganized its operating segments. Prior to the internal reorganization, the Company's three operating segments were Powertrain Systems; Sealing Systems and General Products. As a result of the Company's internal reorganization, integrated operations are conducted under three operating segments corresponding to major product areas: Powertrain Systems; Sealing Systems, Visibility and Systems Protection Products; and Brake, Chassis, Ignition and Fuel Products. The segment information to follow has been restated to reflect the internal reorganization changes announced in 1999.

Powertrain Systems Products are used primarily in automotive, light truck, heavy-duty, industrial, marine, agricultural, power generation and small air-cooled engine applications. The primary products of this operating unit include camshafts, sintered products, engine bearings, large bearings, pistons, piston pins, rings, cylinder liners and connecting rods.

Sealing Systems, Visibility and Systems Protection Products are used in automotive, light truck, heavy-duty, agricultural, off-highway, marine, railroad, high performance and industrial applications. The primary products of this operating unit include dynamic seals, gaskets, lighting products, wiper blades and systems protection products.

Brake, Chassis, Ignition and Fuel Products are used in automotive, light truck, heavy-duty, agricultural, off - highway, marine and high performance applications. The primary products of this operating unit include brake and friction products, chassis products, ignition products and fuel system components.

Divested Activities include the historical operating results and assets of aftermarket operations in South Africa, Australia, Chile and heavy wall bearing operations in Germany and Brazil which were sold or closed in 1997.

The accounting policies of the business segments are consistent with those described in the summary of significant accounting policies. The Company evaluates segmental performance based on several factors, including both Economic Value Added (EVA) and Operational EBIT. Operational EBIT is defined as earnings before interest, income taxes, extraordinary items and certain nonrecurring items such as certain acquisition related adjustments and integration costs associated with new acquisitions. Operational EBIT for each segment is shown below, as it is most consistent with the measurement principles used in measuring the corresponding amounts in the consolidated financial statements.

(Millions of dollars)	1999	1998	1997
Net Sales:			
Powertrain Systems	$2,459	$2,107	$782
Sealing Systems, Visibility and Systems Protection Products	1,887	1,252	333
Brake, Chassis, Ignition and Fuel Products	2,123	1,036	577
Divested Activities	19	74	115
Total	$6,488	$4,469	$1,807

(Millions of dollars)	1999	1998	1997
Operational EBIT:			
Powertrain Systems	$ 262	$ 248	$ 68
Sealing Systems, Visibility and Systems Protection Products	297	154	26
Brake, Chassis, Ignition and Fuel Products	277	104	44
Divested Activities	(1)	(4)	1
Total	$ 835	$ 502	$ 139

(Millions of dollars)	1999	1998	1997
Reconciliation:			
Total segments operational EBIT	$835	$502	$ 139
Net interest and other financing costs	(309)	(233)	(29)
Restructuring, impairment and other special charges	(8)	(20)	(10)
Acquisition-related costs	(58)	(63)	—
Earning before income taxes, extraordinary items and cumulative effect change in accounting principle	$ 460	$ 186	$ 100

(Millions of dollars)	1999	1998	1997
Assets:			
Powertrain Systems	$3,526	$3,467	$ 786
Sealing Systems, Visibility and Systems Protection Products	3,000	2,925	382
Brake, Chassis, Ignition and Fuel Products	3,419	3,471	508
Divested Activities	—	77	126
Total	$9,945	$9,940	$1,801

(Millions of dollars)	1999	1998	1997
Capital Expenditures:			
Powertrain Systems	$229	$153	$28
Sealing Systems, Visibility and Systems Protection Products	79	41	13
Brake, Chassis, Ignition and Fuel Products	87	35	9
Total	$395	$229	$50

(Millions of dollars)	1999	1998	1997
Depreciation and Amortization:			
Powertrain Systems	$151	$115	$28
Sealing Systems, Visibility and Systems Protection Products	94	50	11
Brake, Chassis, Ignition and Fuel Products	109	62	12
Divested Activities	1	1	1
Total	$355	$228	$52

Included in the consolidated financial statements are amounts relating to geographic locations listed below. This geographic information is based on the location of Federal-Mogul operations.

	Net Sales			Net Property, Plant and Equipment		
(Millions of dollars)	1999	1998	1997	1999	1998	1997
United States	$3,922	$2,345	$1,111	$1,492	$1,422	$166
Mexico	153	124	87	28	30	7
Canada	162	76	58	43	39	1
Total North America	4,237	2,545	1,256	1,563	1,491	174
United Kingdom	533	516	21	305	312	9
Germany	630	478	126	344	318	105
France	303	327	33	79	113	9
Italy	252	200	71	77	77	9
Other Europe	295	188	117	55	62	3
Total Europe	2,013	1,709	368	860	882	135
Rest of World	238	215	183	81	104	5
Total	$6,488	$4,469	$1,807	$2,504	$2,477	$314

1.49

SONOCO PRODUCTS COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

18. Financial Reporting for Business Segments

Sonoco reports its results in two primary segments, Industrial Packaging and Consumer Packaging. The Industrial Packaging segment includes the following products: paper and plastic engineered carriers, paper, recovered paper, designed interior packaging and protective reels. This segment also included fiber and plastic drums and intermediate bulk containers, which were sold in 1998. The Consumer Packaging segment includes the following products and services: composite cans, printed flexibles, bag and film products, container seals, folding cartons, covers and coasters, graphics management and packaging services. This segment also included the North American labels operations sold in 1998 and the United Kingdom labels operations sold in 1999.

	Industrial Packaging	Consumer Packaging	Corporate	Consolidated
Total Revenue				
1999	$1,415,469	$1,174,809		$2,590,278
1998	1,466,133	1,134,003		2,600,136
1997	1,630,969	1,259,337		2,890,306
Intersegment Sales[1]				
1999	$ 43,544			$ 43,544
1998	41,121	1,098		42,219
1997	42,362	113		42,475
Sales to Unaffiliated Customers				
1999	$1,371,925	$1,174,809		$2,546,734
1998	1,425,012	1,132,905		2,557,917
1997	1,588,607	1,259,224		2,847,831
Operating Profit[2]				
1999	$ 188,704	$ 148,008	$ (47,152)	$ 289,560
1998	282,114	106,347	(48,863)	339,598
1997	217,775	(101,833)	(52,223)	63,719
Identifiable Assets[3]				
1999	$1,208,056	$ 706,052	$ 382,912	$2,297,020
1998	1,240,915	512,715	329,353	2,082,983
1997	1,228,796	717,172	213,964	2,159,932
Depreciation, Depletion and Amortization				
1999	$ 91,235	$ 54,611		$ 145,846
1998	98,331	47,338		145,669
1997	93,336	60,188		153,524
Capital Expenditures				
1999	$ 81,093	$ 54,635		$ 135,728
1998	143,852	55,028		198,880
1997	140,581	90,070		230,651

Geographic Regions

The sales to unaffiliated customers and long-lived assets by geographic region are as follows:

	1999	1998	1997
Sales to Unaffiliated Customers			
United States	$1,881,472	$1,959,117	$2,245,772
Europe	313,457	304,435	287,467
Canada	162,574	119,930	121,227
All Other	189,231	174,435	193,365
Total	$2,546,734	$2,557,917	$2,847,831
Long-Lived Assets			
United States	$821,291	$745,937	$712,111
Europe	185,336	235,825	183,950
Canada	135,602	62,676	54,400
All Other	144,854	139,766	133,178
Total	$1,287,083	$1,184,204	$1,083,639

[1] Intersegment sales are recorded at a market-related transfer price.

[2] Industrial Packaging's 1998 results include a pre-tax gain of $119,552 on the sale of the industrial containers operation and one-time, pre-tax charges of $(37,480). Consumer Packaging's results include a pre-tax gain of $3,500 in 1999 related to the sale of the label operation in the United Kingdom, and pre-tax charges of $(19,198) in 1998 and $(226,358) in 1997 related to the disposition of the North American labels operation and one-time, pre-tax charges of $(3,856) in 1998. Interest income and interest expense are excluded from the operating profits by segment and are shown under Corporate.

[3] Identifiable assets are those assets used by each segment in its operations. Corporate assets consist primarily of cash and cash equivalents, investments in affiliates, head-quarters facilities and prepaid expenses.

NATURAL BUSINESS YEAR

1.50 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.

1.51 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.

1.52 For 1999, 161 survey companies were on a 52-53 week fiscal year. During 1999, 7 survey companies changed the date of their fiscal year end. Examples of fiscal year end changes and of fiscal year definitions follow.

1.53

TABLE 1-4: MONTH OF FISCAL YEAR END

	1999	1998	1997	1996
January	26	25	24	21
February	11	11	10	11
March	16	14	14	15
April	9	9	10	10
May	17	14	14	14
June	53	52	53	57
July	9	8	11	11
August	15	14	14	15
September	38	38	36	37
October	21	23	22	23
November	16	15	15	14
Subtotal	**231**	**223**	**223**	**228**
December	369	377	377	372
Total Companies	**600**	**600**	**600**	**600**

Change in Date of Fiscal Year End

1.54

3COM CORPORATION

Consolidated Balance Sheets

	May 28, 1999	May 31, 1998

Consolidated Statements of Income

		Years ended	
	May 28, 1999	May 31, 1998	May 31, 1998

Consolidated Statements of Cash Flows

	May 28, 1999	May 31, 1998	May 31, 1997

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2 (In Part): Significant Accounting Policies

Fiscal Year. Effective June 1, 1997, 3Com adopted a 52-53 week fiscal year ending on the Sunday nearest to May 31. Effective June 1, 1998, 3Com adopted a 52-53 week fiscal year ending on the Friday nearest to May 31. These changes did not have a significant effect on 3Com's consolidated financial statements. Fiscal year 1999 contained 52 weeks, whereas fiscal year 2000 will contain 53 weeks. For fiscal year 2000, the first three quarters will contain 13 weeks, whereas the fourth quarter will contain 14 weeks.

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders of 3Com Corporation:

We have audited the consolidated balance sheets of 3Com Corporation and its subsidiaries (the Company) as of May 28, 1999 and May 31, 1998, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended May 28, 1999. 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 generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of 3Com Corporation and its subsidiaries at May 28, 1999 and May 31, 1998, and the results of their operations and their cash flows for each of the three years in the period ended May 28, 1999 in conformity with generally accepted accounting principles. 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.

1.55

APPLE COMPUTER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Basis of Presentation and Preparation (In Part)

During the first quarter of 1999, the Company amended its by-laws to provide that beginning in 1999 its fiscal year would end on the last Saturday in September rather than the last Friday. Likewise, beginning with the first fiscal quarter of 1999 each of the Company's fiscal quarters now also end on Saturday rather than Friday. Accordingly, one day was added to the first quarter of 1999 so that the quarter ended on Saturday, December 26, 1998. These changes did not have a material effect on the Company's revenue or results of operations for any quarter during fiscal 1999. Fiscal years 1999, 1998 and 1997, each 52-week years, ended on September 25, 25, and 26, respectively. Approximately every six years, the Company reports a 53-week fiscal year to align its fiscal quarters with calendar quarters by adding a week to its first fiscal quarter. The next 53-week year is fiscal 2000.

1.56

ATMEL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Fiscal Year Change

Effective January 1, 1999, the Company changed its fiscal year from a 52 or 53-week year ending on the Monday nearest the last day in December of each year to a calendar year ending December 31. The quarters have changed from a 13-week quarter to a calendar quarter. For presentation purposes, fiscal 1998 and 1997 have been disclosed as ending on December 31.

1.57

CK WITCO CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Accounting Policies (In Part)

Principles of Consolidation (In Part)

Effective with the Merger, the Company adopted a fiscal year ending on December 31. Prior to the Merger, Crompton's fiscal year ended on the last Saturday in December.

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders
CK Witco Corporation

We have audited the accompanying consolidated balance sheets of CK Witco Corporation and subsidiaries (the Company) as of December 31, 1999 and December 26, 1998, and the related consolidated statements of operations, stockholders' equity (deficit) and cash flows for each of the years in the three-year period ended December 31, 1999. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 1999 and December 26, 1998, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1999, in conformity with generally accepted accounting principles.

1.58

GEORGIA-PACIFIC CORPORATION

Consolidated Balance Sheets

	January 1, 2000	December 31, 1998

Consolidated Statements of Income

	January 1, 2000	Year ended December 31, 1998	1997

Consolidated Statements of Cash Flows

	January 1, 2000	Year ended December 31, 1998	1997

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Change in Fiscal Year: On or about April 22, 1999, the Georgia-Pacific Group determined to change its fiscal year from December 31 to end on the Saturday closest to December 31. Additionally, the Georgia-Pacific Group reports its quarterly periods on a 13-week basis ending on a Saturday. The impact of one additional day on the year ended January 1, 2000 was not material. There will be no transition period on which to report.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Georgia-Pacific Corporation:

We have audited the accompanying combined balance sheets of Georgia-Pacific Corporation—The Timber Company (as described in Note 1) as of January 1, 2000 and December 31, 1998 and the related combined statements of income, shareholders' equity, and cash flows for each of the three years in the period ended January 1, 2000. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of Georgia-Pacific Corporation—The Timber Company as of January 1, 2000 and December 31, 1998 and the results of their operations and their cash flows for each of the three years in the period ended January 1, 2000 in conformity with generally accepted accounting principles.

As explained in Note 1 of the Notes to Consolidated Financial Statements, effective December 31, 1997, Georgia-Pacific Corporation changed its method of accounting for business process reengineering costs incurred as part of a project to acquire, develop, or implement internal-use software.

1.59

KNAPE & VOGT MANUFACTURING COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part). Summary of Significant Accounting Policies

Year End

Effective July 1, 1999, the Company adopted a 52- or 53-week fiscal year, changing the year-end date from June 30 to the Saturday nearest the end of June.

Definition of Fiscal Year

1.60

ARDEN GROUP, INC. AND CONSOLIDATED SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Accounting Policies

Fiscal Year

The company operates on a fiscal year ending on the Saturday closest to December 31. Fiscal years for the consolidated financial statements included herein ended on January 1, 2000 (52 weeks), January 2, 1999 (52 weeks) and January 3, 1998 (53 weeks).

1.61

AVNET, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Fiscal year—The Company operates on a "52/53 week" fiscal year which ends on the Friday closest to June 30th. Fiscal year 1999 contained 53 weeks as compared with 52 weeks in fiscal 1998 and 1997. Unless otherwise noted, all references to the "year 1999" or any other "year" shall mean the Company's fiscal year.

1.62

BRIGGS & STRATTON CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 (In Part): Summary of Significant Accounting Policies

Fiscal Year: The Company's fiscal year consists of 52 or 53 weeks, ending on the Sunday nearest the last day of June in each year. Therefore, the 1999, 1998 and 1997 fiscal years were 52 weeks long. All references to years relate to fiscal years rather than calendar years.

1.63

CSP INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Fiscal Year

The Company's fiscal year end is the last Friday in August.

1.64

DOLE FOOD COMPANY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Annual Closing Date: The Company's fiscal year ends on the Saturday closest to December 31. Fiscal year 1999 ended January 1, 2000 and included 52 weeks, while fiscal years 1998 and 1997 ended on January 2, 1999 and January 3, 1998 and included 52 weeks and 53 weeks, respectively.

COMPARATIVE FINANCIAL STATEMENTS

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

1.66 In their annual reports, the survey companies usually present an income statement as the first financial statement followed by either a balance sheet or a statement of changes in retained earnings. For 1999, 340 survey companies presented an income statement as the first financial statement followed by a balance sheet; 39 survey companies presented an income statement as the first financial statement followed by either a statement of changes in stockholders' equity or a statement of cash flows; 15 survey companies presented an income statement as the first financial statement followed by a statement of comprehensive income; and 9 survey companies presented an income statement as the first financial statement followed by a statement of changes in retained earnings. The remaining 197 survey companies presented a balance sheet as the first financial statement followed by an income statement.

1.67 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 1999, 8 survey companies did not present their financial statements on consecutive pages.

ROUNDING OF AMOUNTS

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

1.69

TABLE 1-5: ROUNDING OF AMOUNTS

	1999	1998	1997	1996
To nearest dollar	26	31	30	33
To nearest thousand dollars:				
Omitting 000	338	345	349	352
Presenting 000	6	9	13	17
To nearest million dollars	230	215	208	198
Total Companies	**600**	**600**	**600**	**600**

NOTES TO FINANCIAL STATEMENTS

1.70 Securities and Exchange Commission *Regulations S-X* and *S-K*, and *SAS No. 32* state the need for adequate disclosure in financial statements. Normally the financial statements alone cannot present all information necessary for adequate disclosure without considering appended notes which disclose information of the sort listed below:

Changes in accounting principles.

Retroactive adjustments.

Long-term lease agreements.

Assets subject to lien.

Preferred stock data.

Pension and retirement plans.

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

Contingencies and commitments.

Depreciation and depletion policies.

Stock option or stock purchase plans.

Consolidation policies.

Computation of earnings per share.

Subsequent events.

Quarterly data.

Segment information.

Financial instruments.

1.71 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.

1.72

TABLE 1-6: NOTES TO FINANCIAL STATEMENTS

	1999	1998	1997	1996
General reference only	429	431	445	431
General and direct references	168	167	155	169
Direct reference only	3	2	—	—
Total Companies	**600**	**600**	**600**	**600**

DISCLOSURE OF ACCOUNTING POLICIES

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

1.74 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.

1.75

TABLE 1-7: DISCLOSURE OF ACCOUNTING POLICIES

	Number of Companies			
	1999	**1998**	**1997**	**1996**
Depreciation methods	587	587	586	581
Consolidation policy	583	578	583	583
Use of estimates	574	568	582	577
Inventory pricing	542	543	555	555
Property	537	521	526	509
Cash equivalents	516	503	509	492
Amortization of intangibles	479	448	439	419
Financial instruments	428	406	398	327
Earnings per share calculation	405	413	475	482
Translation of foreign currency	386	366	358	351
Interperiod tax allocation	377	359	358	362
Stock-based compensation	336	281	290	253
Nature of operations	312	267	274	239
Research and development costs	179	173	178	181
Advertising costs	174	151	129	123
Fiscal years	171	157	158	156
Credit risk concentrations	147	124	126	100
Environmental costs	140	136	145	130
Employee benefits	124	101	290	253
Capitalization of interest	76	81	75	86

1.76

AMCAST INDUSTRIAL CORPORATION (AUG)

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

Accounting Policies

The consolidated financial statements include the accounts of Amcast Industrial Corporation and its domestic and foreign subsidiaries (the Company). Intercompany accounts and transactions have been eliminated. The Company's investment in Casting Technology Company (CTC), a joint venture, is included in the accompanying consolidated financial statements using the equity method of accounting. The Company's investment in CTC was $2,394 and $3,846 at August 31, 1999 and 1998, respectively, and is included in Other Assets. Operations of the Company's European subsidiaries are included in the consolidated financial statements for periods ending one month prior to the Company's fiscal year end in order to ensure timely preparation of the consolidated financial statements. Certain prior year amounts have been reclassified to conform to the current year presentation.

For foreign subsidiaries, the local foreign currency is the functional currency. Assets and liabilities are translated into U.S. dollars at the rate of exchange existing at year-end. Translation gains and losses are included as a component of shareholders' equity. Income statement amounts are translated at the average monthly exchange rates. Transaction gains and losses are included in the statement of income and were not material.

Revenue is recognized at the time products are shipped to customers.

Cash and cash equivalents include amounts on deposit with financial institutions and investments with original maturities of 90 days or less.

Accounts receivable are stated net of allowances for doubtful accounts of $217 and $264 at August 31, 1999 and 1998, respectively. The Company held a note receivable of $3,000 and accounts receivable of $6,498 and $3,962 from CTC at August 31, 1999 and 1998, respectively. During the first quarter of fiscal 2000, the Company increased its investment in CTC with an additional capital contribution of $7,200 accomplished through conversion of a $3,000 note receivable and $4,200 of the accounts receivable.

Inventories are valued at the lower of cost or market using the last-in, first-out (LIFO) and the first-in, first-out (FIFO) methods.

Property, plant, and equipment are stated at cost. Expenditures for significant renewals and improvements are capitalized. Repairs and maintenance are charged to expense as incurred. Depreciation is computed using the straight-line method based upon the estimated useful lives of the assets as follows: buildings—20 to 40 years; machinery and equipment—3 to 20 years.

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 $3,494 and $2,259 at August 31, 1999 and 1998, respectively. The carrying value of goodwill is evaluated periodically in relation to the operating performance and future undiscounted cash flows of the underlying businesses.

Deferred income taxes are provided for temporary differences between financial and tax reporting in accordance with the liability method under the provisions of Statement of Financial Accounting Standards (SFAS) No. 109, "Accounting for Income Taxes."

Use of estimates and assumptions are made by management in the preparation of the financial statements in conformity with generally accepted accounting principles that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Earnings per common share are calculated under the provisions of SFAS No. 128, "Earnings per Share," which established new standards for computing and presenting earnings per share. Adopted by the Company during 1998, SFAS No. 128 requires the Company to report both basic earnings per share, which is based on the weighted-average number of common shares outstanding, and diluted earnings per share, which is based on the weighted-average number of common shares outstanding plus all potential dilutive common shares outstanding. Earnings per share amounts for all periods are presented, and where necessary, restated to give effect to the adoption of SFAS No. 128.

Start-up and organization costs are accounted for under the provisions of the American Institute of Certified Public Accountants' Statement of Position (SOP) 98-5, "Reporting on the Costs of Start-up Activities." Adopted by the Company effective September 1, 1997, SOP 98-5 provides guidance on the financial reporting of start-up and organization costs and requires such costs to be expensed as incurred. The total amount of deferred start-up costs reported as a cumulative effect of a change in accounting principle was $8,588, net of tax benefits of $5,044. The Company's share of CTC's cumulative effect of a change in accounting principle was $3,529, net of tax. Assuming the new accounting principle was applied retroactively, pro forma earnings per share amounts for the year ended August 31, 1997, are as follows:

	Basic	Diluted
Earnings per share		
Income before cumulative effect of accounting change–as reported.....	$1.50	$1.48
Income before cumulative effect of accounting change–pro forma....	$1.52	$1.51
Net income–as reported	$1.50	$1.48
Net income–pro forma	$1.52	$1.51

Accounting standards adopted during 1999 include SFAS No. 130, "Reporting Comprehensive Income," SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," and SFAS No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits." The adoption of these standards had no effect on the Company's consolidated results of operations, financial position, or cash flows.

SFAS No. 130 establishes standards for the reporting and display of comprehensive income, which is defined as all changes in shareholders' equity during a period except those resulting from investments by and distributions to shareholders. The standard requires reporting certain transactions that result in a change in shareholders' equity to be included in other comprehensive income and displayed as a separate component in the consolidated statements of shareholders' equity.

SFAS No. 131 establishes new standards for determining operating segments and disclosure requirements for those segments, products, geographic areas, and major customers. As required by SFAS No. 131, the Company has revised certain disclosures included in its Business Segments footnote.

SFAS No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits," revises the disclosure requirements related to pension and other postretirement benefits. The new standard does not change the measurement or accounting recognition for such plans. As required by SFAS No. 132, the Company has revised the disclosures included it its Pension Plans and Postretirement Health Care and Life Insurance Benefits footnote.

The Company also adopted SOP 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use," which requires that certain costs related to developing or obtaining internal use software should be capitalized. The adoption of this standard did not have a material effect on the Company's consolidated results of operations, financial position, or cash flows.

New accounting standards issued include SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," which establishes a comprehensive standard for the recognition and measurement of derivatives and hedging activities. The new standard requires that all derivatives be recognized as assets or liabilities in the statement of financial position and measured at fair value. Gains or losses resulting from changes in fair value are required to be recognized in current earnings unless specific hedge criteria are met. SFAS No. 133 will become effective for the Company beginning in the first quarter of fiscal year 2001. The Company has not determined the effect of this new standard; however, due to the Company's limited use of derivatives, the impact is not expected to be material.

1.77

HOMASOTE COMPANY AND SUBSIDIARY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1: Summary of Significant Accounting Policies

Description of Business: Homasote Company is in the business of manufacturing insulated wood fiberboard and polyisocyanurate foam products, and operates in only one industry segment: the manufacture and sale of rigid polyisocyanurate and structural insulating building materials, and packing products for industrial customers. Sales in 1999 were distributed as follows: Building material wholesalers and contractors, approximately 76%; industrial manufacturers, approximately 24%; in 1998: Building material wholesalers and contractors, approximately 79%; industrial manufacturers, approximately 21%; in 1997: Building material wholesalers and contractors, approximately 77%, industrial manufacturers, approximately 23%. The Company's primary basic raw material, wastepaper, is generally readily available from two suppliers with which the Company has purchase contracts that expire in 2009 (see note 10).

Principles of Consolidation: The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, Homasote International Sales Co., Inc. All significant intercompany balances and transactions have been eliminated in consolidation.

Cash and Cash Equivalents: The Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Inventory Valuation: Inventories are valued at the lower of weighted average actual cost, which approximates first in, first out (FIFO), or market.

Depreciation: Property, plant and equipment are stated at cost. Depreciation of plant and equipment is computed using the straight-line and various accelerated methods at rates adequate to depreciate the cost of applicable assets over their expected useful lives. Maintenance and repairs are charged to operations as incurred and major improvements are capitalized. The cost of assets retired or otherwise disposed of and the accumulated depreciation thereon is removed from the accounts with any gain or loss realized upon sale or disposal charged or credited to operations.

Fair Value of Financial Instruments: As of December 31, 1999 and 1998 the fair value of the Company's financial instruments approximates cost.

Revenue Recognition: Revenue from product sales is recognized when the related goods are shipped and all significant obligations of the Company have been satisfied.

Net Loss Per Share: Basic net loss per share has been computed by dividing net loss by the weighted average number of common shares outstanding during the period. Diluted net loss per share is the same as basic net loss per common share since the Company has a simple capital structure with only common stock outstanding in 1999, 1998, and 1997.

Business and Credit Concentrations: Sales of the Company's products are dependent upon the economic conditions of the housing and manufacturing industries. Changes in these industries may significantly affect management's estimates and the Company's performance.

The majority of the Company's customers are located in the northeastern United States, with the remainder spread throughout the United States and Canada. One customer accounted for 11% of the Company's sales in 1999 and accounts receivable at December 31, 1999.

The Company estimates an allowance for doubtful accounts based upon the actual payment history of each individual customer. Consequently, an adverse change in the financial condition or the local economy of a particular customer could affect the Company's estimate of its bad debts.

Employee Benefit Plans: The Company has a non-contributory pension plan covering substantially all of its employees who meet age and service requirements. Additionally, the Company provides certain health care and life insurance benefits to retired employees. The net periodic pension costs are recognized as employees render the services necessary to earn pension and post-retirement benefits.

Income Taxes: Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled.

Impairment of Long-Lived Assets and Long-Lived Assets To Be Disposed of: Long-lived assets and intangibles are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of the assets to the future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less the cost to sell.

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

1.78

THE QUAKER OATS COMPANY AND SUBSIDIARIES (DEC)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 1: Summary of Significant Accounting Policies

Consolidation—The consolidated financial statements include The Quaker Oats Company and all of its subsidiaries (the Company). All significant intercompany transactions have been eliminated. Divested Businesses are included in the results of operations until their divestiture dates.

Cash and Cash Equivalents—Cash equivalents are composed of all highly liquid investments with an original maturity of three months or less. As a result of the Company's cash management system, checks issued but not presented to the banks for payment may create negative book cash balances. Such negative balances are included in trade accounts payable and totaled $55.0 million and $40.8 million as of December 31, 1999 and 1998, respectively.

Inventories—Inventories are valued at the lower of cost or market, using various cost methods, and include the cost of raw materials, labor and overhead. The percentages of year-end inventories valued using each of the methods were as follows:

December 31	1999	1998
Last-in, first out (LIFO)	54%	52%
Average quarterly cost	44%	46%
First-in, first-out (FIFO)	2%	2%

If the LIFO method of valuing these inventories was not used, total inventories would have been $1.8 million lower and $5.9 million higher than reported as of December 31, 1999 and 1998, respectively.

Long-lived Assets—Long-lived assets are comprised of intangible assets and property, plant and equipment. Long-lived assets, including certain identifiable intangibles and goodwill related to those assets to be held and used, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. An estimate of undiscounted future cash flows produced by the asset, or the appropriate grouping of assets, is compared to the carrying value to determine whether an impairment exists, pursuant to the provisions of SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." 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 and fundamental analysis. The Company reports an asset to be disposed of at the lower of its carrying value or its estimated net realizable value.

Intangibles—Intangible assets consist principally of excess purchase price over net tangible assets of businesses acquired (goodwill) and trademarks. Intangible assets are amortized on a straight-line basis over periods primarily ranging from two to 40 years.

Intangible assets, net of amortization, and their estimated useful lives consisted of the following at December 31, 1999 and 1998:

Dollars in millions	Estimated Useful Lives (In Years)	1999	1998
Goodwill	10 to 40	$370.3	$385.3
Trademarks and other	2 to 40	19.5	25.4
Intangible assets		389.8	410.7
Less: Accumulated amortization		152.9	165.0
Intangible assets–net of amortization		$236.9	$245.7

Property and Depreciation—Property, plant and equipment are carried at cost and depreciated primarily on a straight-line basis over their estimated useful lives. Useful lives range from 20 to 50 years for buildings and improvements and from three to 17 years for machinery and equipment.

Software Costs—The Company defers significant software development project costs and amortizes them over a three-year period beginning with the project's completion. As of December 31, 1999 and 1998, all deferred software costs were fully amortized.

Derivative Financial and Commodity Instruments—The Company uses a variety of futures, swaps, options and forward contracts in its management of foreign currency exchange rate, commodity price and interest rate exposures. Instruments used as hedges must be effective at reducing the risks associated with the underlying exposure and must be designated as a hedge at the inception of the contract.

Accordingly, changes in the market value of the instruments must have a high degree of inverse correlation with changes in the market value or cash flows of the underlying hedged item. Summarized below are the specific accounting policies by market risk category.

Foreign Currency Exchange Rate Risk—The Company uses forward contracts, purchased options and currency swap agreements to manage foreign currency exchange rate risk related to certain projected cash flows from foreign operations and net investments in foreign subsidiaries. The fair value method is used to account for these instruments. Under the fair value method, the instruments are carried at fair value in the consolidated balance sheets as a component of other current assets (deferred charges) or other accrued liabilities (deferred revenue). Changes in the fair value of derivative instruments that are used to manage exchange rate risk in foreign currency denominated cash flows and net investments in highly inflationary economies are recognized in the consolidated statements of income as foreign exchange loss or gain. Changes in the fair value of such instruments used to manage exchange rate risk on net investments in economies that are not highly inflationary are recognized in the consolidated balance sheets as a component of accumulated other comprehensive income in common shareholders' equity. To the extent an instrument is no longer effective as a hedge of a net investment due to a change in the underlying exposure, losses and gains are recognized currently in the consolidated statements of income as foreign exchange loss or gain.

Commodity Price Risk—The Company uses commodity futures and options to reduce price exposures on commodity inventories or anticipated purchases of commodities. The deferral method is used to account for those instruments that effectively hedge the Company's price exposures. For hedges of anticipated transactions, the significant characteristics and terms of the anticipated transaction must be identified, and the transaction must be probable of occurring to qualify for deferral method accounting. Under the deferral method, gains and losses on derivative instruments are deferred in the consolidated balance sheets as a component of other current assets (if a loss) or other accrued liabilities (if a gain) until the underlying inventory being hedged is sold. As the hedged inventory is sold, the deferred gains and losses are recognized in the consolidated statements of income as a component of cost of goods sold. Derivative instruments that do not meet the above criteria required for deferral treatment are accounted for under the fair value method, with gains and losses recognized currently in the consolidated statements of income as a component of cost of goods sold.

Interest Rate Risk—The Company uses interest rate swap agreements to manage its exposure to changes in interest rates and to balance the mix of its fixed and floating rate debt. The settlement costs of terminated swap agreements are reported in the consolidated balance sheets as a component of other assets and are amortized over the life of the original swap agreements. The amortization of the settlement amounts is reported in the consolidated statements of income as a component of interest expense.

Foreign Currency Translation—Assets and liabilities of the Company's foreign subsidiaries, other than those located in highly inflationary countries, are translated at current exchange rates, while income and expense are translated at average rates for the period. For entities in countries designated as highly inflationary, a combination of current and historical rates is used to determine foreign currency gains and losses resulting from financial statement translation. Translation gains and losses are reported as a component of accumulated other comprehensive income in common shareholders' equity, except for those associated with countries designated as highly inflationary, which are reported directly in the consolidated statements of income.

Advertising Costs—In accordance with SOP No. 93-7, "Reporting on Advertising Costs," the Company expenses all advertising expenditures as incurred except for production costs which are deferred and expensed when advertisements run for the first time. The amount of production costs deferred and included in the consolidated balance sheets as of December 31, 1999 and 1998, was $7.7 million and $5.6 million, respectively.

Income Taxes—The Company uses an asset and liability approach to financial accounting and reporting for income taxes. Deferred income taxes are provided when tax laws and financial accounting standards differ with respect to the amount of income for a year and the bases of assets and liabilities. Current deferred tax assets and liabilities are netted in the consolidated balance sheets as are long-term deferred tax assets and liabilities. Income taxes have been provided on $147.6 million of the $148.7 million of unremitted earnings from foreign subsidiaries. Taxes are not provided on earnings expected to be indefinitely reinvested. Income taxes have also been provided for potential tax assessments and the related tax accruals are in the consolidated balance sheets. To the extent tax accruals differ from actual payments or assessments, the accruals will be adjusted through the provision for income taxes.

Segment Reporting—The Company reports segments consistent with the way management assesses segment performance. The Company reports results by Foods, Beverages and Divested operating segments. U.S. and Canadian Foods includes hot and ready-to-eat cereals, snacks, flavored rice and pasta, mixes, syrups and corn products. Latin American Foods include *Quaker* brand cereals and snacks, *Coqueiro* brand canned fish and *Toddy, ToddYnho* and *FrescaAvena* brand beverages and beverage powders. Other Foods includes the combined results of the European and Asia/Pacific foods businesses. U.S. and Canadian Beverages, Latin American Beverages and Other Beverages, the combined European and Asia/Pacific businesses, all include results from *Gatorade* thirst quencher products. The Divested Businesses segment includes historical results for businesses that have been sold by the Company. In determining the operating income or loss of each segment, restructuring charges, asset impairment losses, divestiture gains and losses and certain other expenses, such as income taxes, general corporate expenses and financing costs, are not allocated to operating segments.

Current and Pending Accounting Changes—In January 1998, SOP No. 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use," was issued. This SOP provides guidance on the accounting for computer software costs. In April 1998, SOP No. 98-5, "Reporting on the Costs of Start-Up Activities," was issued. This SOP provides guidance on accounting for the cost of start-up activities. The Company's adoption of these Statements in January 1999 did not materially affect the Company's financial statements.

In June 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." This statement establishes accounting and reporting standards requiring that all derivative instruments (including certain derivative instruments imbedded in other contracts) be recorded in the balance sheet as either an asset or a liability measured at its fair value. This statement requires that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. The accounting provisions for qualifying hedges allow a derivative's gains and losses to offset related results of the hedged item in the income statement and require that the Company must formally document, designate and assess the effectiveness of transactions that qualify for hedge accounting. The Company has not determined its method or timing of adopting this statement, but will be required to adopt it by January 2001. When adopted, this statement could increase volatility in reported earnings and other comprehensive income.

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

1.79

ROUGE INDUSTRIES, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1: 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 wholly-owned subsidiaries of Rouge Industries include QS Steel Inc. ("QS Steel") and Eveleth Taconite Company ("Eveleth"). QS Steel holds minority ownership interests in five Michigan-based joint ventures. Eveleth holds a 45 percent interest in Eveleth Mines LLC, 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.

Principles of Consolidation

The consolidated financial statements include the accounts of Rouge Industries and its subsidiaries. Intercompany transactions have been eliminated. Investments in business entities in which the Company does not have control, but has the ability to exercise significant influence over the operating and financial policies, are accounted for under the equity method.

Segment Information

Rouge Industries has one operating segment that comprises its flat rolled steel products. The Company's business is conducted entirely in the United States. Significant customers are discussed elsewhere in the Note.

Internal Use Software

In 1998, the Company adopted AICPA Statement of Position ("SOP") No. 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." SOP No. 98-1 requires, in certain cases, capitalization of software costs that previously would have been expensed as incurred. Software costs capitalized were $1,864,000 and $4,669,000 in 1999 and 1998, respectively. These capitalized software costs will be amortized over the lesser of 60 months or the useful life of the software.

Financial Instruments

The carrying amount of the Company's financial instruments, which include cash equivalents, marketable securities, accounts receivable, accounts payable and long-term debt, approximates their fair value at December 31, 1999 and 1998. The Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Concentration of Credit Risk

Financial instruments which potentially subject the Company to concentrations of credit risk are cash equivalents, marketable securities and accounts receivable. The Company attempts to limit its credit risk associated with cash equivalents and marketable securities by utilizing outside investment managers to place the Company's investments with highly rated corporate and financial institutions. With respect to accounts receivable, the Company limits its credit risk by performing ongoing credit evaluations and, when deemed necessary, requiring letters of credit, guarantees or collateral. The Company's customer base is comprised principally of domestic automotive manufacturers and their suppliers. Management does not believe significant risk exists in connection with the Company's concentrations of credit at December 31, 1999.

Significant Customers

The Company's significant customers are Ford Motor Company ("Ford") and DaimlerChrysler AG ("DaimlerChysler"). Sales to Ford, which are primarily made pursuant to a ten-year steel purchase agreement, totaled $381,546,000 in 1999, $429,230,000 in 1998 and $434,898,000 in 1997. The steel purchase agreement expires after model-year 2000.

Sales to DaimlerChrysler totaled $96,667,000 in 1999, $120,061,000 in 1998 and $116,013,000 in 1997.

Sales to Worthington Industries, Inc. ("Worthington") totaled $157,307,000 in 1997. In 1998 and 1999 sales to Worthington were less than 10 percent of total sales.

Inventories

Inventories are stated at the lower of cost or market with cost determined by the last-in, first-out ("LIFO") method for raw materials, work-in-process and finished goods and the first-in, first-out ("FIFO") method for nonproduction and sundry. Costs in inventory include materials, direct labor, Double Eagle electrogalvanizing and Spartan Steel hot dip galvanizing (see Note 4) and applied manufacturing overhead.

Nonmonetary Transactions

The Company routinely exchanges iron ore inventory with other parties. Since the exchanges involve similar productive assets and do not complete an earnings process, the Company accounts for the exchanges on the cost basis of the inventory relinquished without recognition of gain or loss.

Property, Plant, and Equipment

Property, plant, and equipment are recorded at cost. Replacements and major improvements are capitalized; maintenance and repairs are expensed as incurred. Gains or losses on asset dispositions are included in the determination of net income.

Depreciation and Amortization

Depreciation of the Company's property, plant, and equipment is computed using the straight-line method. The average estimated useful lives are as follows:

	Years
Buildings	35
Land Improvements	20
Steel-Producing Machinery and Equipment	18
Power Equipment	28
Office Furniture	12

The costs of relines to the blast furnaces and the refurbishment of turbo generators are capitalized and amortized over their expected lives which are eight to ten years, respectively.

As a result of the Powerhouse explosion (see Note 11), during 1999 the Company installed temporary facilities to provide steam and electrical distribution. The cost of these assets was approximately $65,100,000, which is being amortized over their expected useful lives of thirteen to sixteen months.

The excess of net assets acquired over cost, relating to the acquisition of the Company from Ford in 1989 (the "Acquisition"), has been amortized on a straight-line basis over a ten-year period.

Environmental Accounting

Environmental expenditures are capitalized if the costs mitigate or prevent future environmental contamination or if the costs improve existing assets' environmental safety or efficiency. All other environmental expenditures are expensed. Liabilities for environmental expenditures are accrued when it is probable that such obligations have been incurred and the amounts can be reasonably estimated.

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, liabilities, revenues and expenses. Actual results could differ from those estimates.

1.80

SAMES CORPORATION AND CONSOLIDATED SUBSIDIARIES (NOV)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Summary of Significant Accounting Policies

Principles of Consolidation and Report Preparation

The consolidated financial statements include the accounts of the Company and consolidated subsidiaries in the U.S., France, Japan, and Sweden. All material intercompany balances and transactions have been eliminated in consolidation.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make certain estimates and assumptions which affect reported results of operations, financial position, and various disclosures. Actual results could differ from those estimates.

Currency Translation

The results of operations for non-U.S. subsidiaries are translated from local currencies into U.S. dollars using average exchange rates during each period; assets and liabilities are translated using exchange rates at the end of each period. At November 30, 1999, the French franc had depreciated by approximately 14% compared to the prior year-end while the average French franc/U.S. dollar exchange rate was approximately 3% higher in the twelve months ended November 30, 1999 compared to the comparable 1998 period. Adjustments resulting from the translation process are reported in a separate component of stockholders' equity, and are not included in the determination of the results of operations.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and amounts due from banks with original maturities of three months or less.

Inventories

Inventories are stated at the lower of cost (first-in, first-out) or market (net realizable value).

Property, Plant, and Equipment

Depreciation of property, plant, and equipment is computed by the straight-line method. Estimated lives range from 25 to 40 years for buildings and from 4 to 12 years for machinery and equipment.

Intangible Assets

Intangible assets are comprised of goodwill and patents. Goodwill represents excess costs of acquired companies over the fair values of their net tangible assets. All intangibles are amortized by the straight line method, with goodwill amortized over 40 years, and patents over their respective useful lives.

Impairment of Long-Lived Assets

In the event that facts and circumstances indicate that the carrying amounts of long-lived assets may be impaired, an evaluation of recoverability would be performed. If an evaluation is required, the estimated future undiscounted cash flows associated with the asset would be compared to the asset's carrying amount to determine if a writedown is required. If this review indicates that the assets will not be recoverable, the carrying value of the Company's assets would be reduced to their estimated market value.

Fair Value of Financial Instruments

The fair value approximates the carrying value for all financial instruments, with the exception of long-term debt, for which the fair value is less than the carrying value by an amount which is immaterial to the consolidated financial statements.

Revenue Recognition

Revenues on long-term equipment production and installation contracts are recorded on the basis of the estimated percentage of completion of individual contracts determined under the cost-to-cost method. Estimated losses on long-term contracts are recognized in the period in which a loss becomes apparent. Revenue from sales of the Company's general industry and non-robotic automotive products are recorded at the time the goods are shipped and title passes. The Company provides appropriate provisions for uncollectible accounts and credit for returns.

Research and Development Expenses

Research and development costs are charged to expense when incurred.

Advertising Expenses

Advertising costs are charged to expense when incurred. Advertising costs were $.8 million, $.5 million, and $.6 million in fiscal 1999, 1998, and 1997, respectively.

Income Taxes

The asset and liability method is used in accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for operating loss and tax credit carryforwards and for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in 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.

Stock-Based Compensation

In 1995, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 123, "Accounting for Stock-Based Compensation." The Company has elected to continue to apply the principles of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," as discussed in note 12 to the consolidated financial statements.

Net Income (Loss) Per Share

Basic earnings per share are based upon the weighted-average number of common shares outstanding. Diluted earnings per share assumes the exercise of all options which are dilutive, whether exercisable or not.

Impact of Newly Issued Accounting Standards

The Company adopted SFAS No. 130, "Reporting Comprehensive Income," in fiscal 1999. Comprehensive income is defined as "all changes in stockholders' equity exclusive of transactions with owners." All transactions representing comprehensive income during the years ended November 30, 1999, 1998 and 1997 are presented in the Consolidated Statements of Stockholders' Equity. Prior year financial statements have been changed to conform to the SFAS 130 requirements.

ACCOUNTING CHANGES

1.81 *APB Opinion No. 20* "defines various types of accounting changes and establishes guides for determining the manner of reporting each type." Table 1-8 lists the accounting changes disclosed in the annual reports of the survey companies. As shown in Table 1-8, most of the accounting changes disclosed by the survey companies were changes made to conform to requirements stated in authoritative pronouncements.

1.82 Examples of accounting change disclosures follow.

1.83

TABLE 1-8: ACCOUNTING CHANGES

	Number of Companies			
	1999	1998	1997	1996
Software development costs (SOP 98-1)	66	37	1	N/C*
Start-up costs (SOP 98-5)	39	29	2	N/C*
Inventories	5	5	4	5
Revenue recognition (SAB 101)	5	N/C*	N/C*	N/C*
Depreciable lives	4	4	3	3
Software revenue recognition	3	4	N/C*	N/C*
Derivatives and hedging activities (SFAS 133)	3	N/C*	N/C*	N/C*
Market-value valuation of pension	3	N/C*	N/C*	N/C*
plan assets	3	N/C*	N/C*	N/C*
Bankruptcy code reporting (SOP 90-7)	3	N/C*	N/C*	N/C*
Recoverability of goodwill	2	N/C*	N/C*	N/C*
Depreciation method	2	—	3	4
Business process reengineering costs (EITF 97-13)	2	10	28	N/C*
Impairment of long-lived assets (SFAS 121)	—	3	39	134
Reporting entity	—	2	1	1
Other	10	13	57	28

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

Software Development Costs

1.84

HON INDUSTRIES INC. AND SUBSIDIARIES (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Summary of Significant Accounting Policies

Computer Software

SOP 98-1 requires the capitalization of certain costs incurred in connection with developing or obtaining internal use software. Prior to the adoption of SOP 98-1, the Company expensed all internal use software related costs as incurred. The Company capitalized approximately $3.5 million of computer software during 1999.

Start-Up Costs

1.85

HECLA MINING COMPANY (DEC)

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

Dollars and shares in thousands, except per share amounts	1999	1998	1997
Loss before cumulative effect of change in accounting principle	(38,605)	(300)	(483)
Cumulative effect of change in accounting principle, net of tax	(1,385)	—	—
Net loss	(39,990)	(300)	(483)
Preferred stock dividends	(8,050)	(8,050)	(8,050)
Loss applicable to common shareholders	(48,040)	(8,350)	(8,533)
Other comprehensive income (loss) net of tax			
Unrealized gains (losses) on securities	13	(115)	(351)
Reclassification adjustment for losses included in net loss	96	96	320
Minimum pension liability adjustment	289	(289)	—
Other comprehensive income (loss)	398	(308)	(31)
Comprehensive loss applicable to common shareholders	$(47,642)	$(8,658)	$ (8,564)
Basic and diluted loss per common share before cumulative effect of change in accounting principle	$ (0.75)	$ (0.15)	$ (0.16)
Cumulative effect of change in accounting principle	$ (0.02)	—	—
Basic and diluted loss per common share	$ (0.77)	$ (0.15)	$ (0.16)
Weighted average number of common shares outstanding	62,347	55,101	54,763

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

R (In Part): New Accounting Pronouncements

In April 1998, Statement of Position 98-5 (SOP 98-5), "Reporting on the Costs of Start-up Activities" was issued. SOP 98-5 provides guidance on the financial reporting of start-ups costs and organizational costs. It requires costs of start-up activities and organizational costs to be expensed as incurred, as well as the recognition of a cumulative effect of a change in accounting principle for retroactive application of the standard. Hecla adopted SOP 98-5 as required on January 1, 1999. The impact of this change in accounting principle related to unamortized start-up costs associated with Hecla's 29.73% ownership interest in the

Greens Creek mine. The $1.4 million cumulative effect of this change in accounting principle is included in the consolidated statement of operations for the year ended December 31, 1999. Due to the availability of net operating losses, there was no tax effect associated with the change.

Inventories

1.86

BANTA CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (In Part): Summary of Accounting Policies

Inventories. At January 1, 2000, the Corporation's inventories are stated at the lower of cost or market using the first-in, first-out (FIFO) method. Effective January 3, 1999, certain operations (comprising approximately one third of the Corporation's inventories) changed from the last-in, first-out basis to FIFO. The change in accounting principles was made to provide a better matching of revenue and expenses. This accounting change was not material to the financial statements, and accordingly, no retroactive restatement of prior years' financial statements was made. Inventories include material, labor and manufacturing overhead.

Revenue Recognition

1.87

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Accounting Policies

Basis of presentation. In 1999, after giving consideration to guidance provided by SEC Staff Accounting Bulletin (SAB) No. 101, *Revenue Recognition in Financial Statements,* the Company changed certain revenue recognition policies affecting Department stores and catalog. Changes primarily affected the reporting of sales for licensed departments and catalog orders shipped to various Company facilities for customer pickup. These changes reduced sales by $152 million, $217 million and $136 million in 1999, 1998 and 1997, respectively, and resulted in a $67 million reduction of reinvested earnings, net of tax, as of January 28, 1995. The impact on earnings and cash flows for the intervening periods presented in this report is not material. Accordingly, the cumulative effects of the changes have been reflected as a $20 million pre-tax charge to cost of goods sold in the statement of income for fiscal 1999, the period in which the change was made.

Third-party credit fees of $91 million in 1999 and $93 million in both 1998 and 1997 have been reclassified from Net interest expense and credit operations to Department stores and catalog SG&A expenses to reflect these costs as operating expenses. Certain other prior year amounts have been reclassified to conform to the current year presentation.

1.88

KMART CORPORATION (JAN)

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

1 (In Part): Summary of Significant Accounting Policies

Laway Sales: In consideration of guidance issued by the Securities and Exchange Commission under Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements" ("SAB 101"), the Company has retroactively changed its method of accounting for layaway sales effective January 28, 1999. Based upon the new guidance, the Company defers recognition of layaway sales and profit to the accounting period when the merchandise is delivered to the customer. Under the prior method of accounting, sales and profits were recognized at the time the customer put the merchandise into layaway, with a reserve for anticipated merchandise to be returned to stock. The Company has recorded a one-time, non-cash after-tax earnings reduction of $7, or $0.01 per share, in the fourth quarter of 1999 to reflect the cumulative effect of the accounting change.

1.89

THE TJX COMPANIES, INC. (JAN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Summary of Accounting Policies (In Part)

A. Change in Accounting Principle

Effective January 31, 1999, the Company changed its method of accounting for layaway sales in compliance with Staff Accounting Bulletin No. 101 "Revenue Recognition in Financial Statements," issued by the Securities and Exchange Commission during the fourth quarter of fiscal 2000. Under the new accounting method, the Company will defer recognition of a layaway sale and its related profit to the accounting period when the customer picks up layaway merchandise. The cumulative effect of this change for periods prior to January 31, 1999 of $5.2 million (net of income taxes of $3.4 million), or $.02 per share, is shown as the cumulative effect of accounting change in the Consolidated Statements of Income. The accounting change has virtually no impact on annual sales and earnings (before cumulative effect). However, due to the seasonal influences of the business, the accounting change results in a shift of sales and earnings among the Company's quarterly periods. As a result, the Company has restated its earnings for the first three quarters of the fiscal year ended January 29, 2000 (see Selected Quarterly Financial Data, page 45, for more information). Except for the Selected Quarterly Financial Data, the Company has not presented pro forma results for prior fiscal years due to immateriality.

Service Life of Machinery and Equipment

1.90

WILLAMETTE INDUSTRIES, INC. (DEC)

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

Note 4: Property, Plant and Equipment

Property, plant and equipment accounts are summarized as follows:

	range of useful lives	1999	1998
Land	—	$ 41,985	40,446
Buildings	15-35	380,967	366,125
Machinery & equipment	5-25	4,569,273	4,354,789
Furniture & fixtures	3-15	92,411	90,606
Leasehold improvements	life of lease	6,619	7,209
Construction in progress	—	145,479	101,522
		5,236,734	4,960,697
Accumulated depreciation		2,485,524	2,253,551
		$2,751,210	2,707,146

Effective January 1, 1999, the company changed its accounting estimates relating to depreciation. The estimated service lives for most machinery and equipment were extended five years. The change was based upon a study performed by the company's engineering department, comparisons to typical industry practices and the effect of the company's extensive capital investments which have resulted in a mix of assets with longer productive lives due to technological advances. As a result of the change, 1999 net income was increased $51,900, or $046 per diluted share.

Software Revenue Recognition

1.91

NOVELL, INC. (OCT)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A (In Part): Summary of Significant Accounting Policies

In fiscal 1999, the Company adopted Statement of Position 97-2 (SOP 97-2), "Software Revenue Recognition," which requires that revenue recognized from software arrangements be allocated to each element of the arrangement based on the relative fair values of the elements, such as software products, upgrades, enhancements, post contract customer support, installation, or training. The implementation of SOP 97-2 did not have a material impact on the recognized revenue of the Company.

Revenue on product sales is recognized upon shipment or transfer of title to the customer. Certain sales require continuing service, support, and performance by the Company, and accordingly a portion of the revenue is deferred until the future service, support, and performance are provided. Reserves for sales returns and allowances are recorded in the same period as the related revenues.

Derivatives and Hedging Activities

1.92

ADC TELECOMMUNICATIONS, INC. AND SUBSIDIARIES (OCT)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 10: Derivative Instruments and Hedging Activities

Accounting for Derivatives and Hedging Activities: ADC adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," on November 1, 1998. In doing so, ADC did not incur any transition adjustments to earnings.

All derivatives are recognized on the balance sheet at their fair value. On the date the derivative contract is entered into, ADC designates the derivative as (1) a fair value hedge, (2) a cash flow hedge, (3) a foreign-currency hedge, (4) a net investment in a foreign operation or (5) a trading instrument. ADC engages primarily in derivatives classified as trading instruments, and changes in the fair value of the derivatives are reported in current-period earnings. ADC also hedges some selected foreign-currency denominated forecasted transactions (cash flow hedges), in which changes in the fair value of highly effective derivatives are recorded in accumulated other comprehensive income (loss).

ADC formally documents all relations between hedging instruments and the hedged items, as well as its risk-management objectives and strategy for undertaking various hedge transactions. ADC formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of the hedged items.

Cash Flow Hedges: ADC uses foreign-currency forward-exchange contracts with durations of less than twelve months to hedge against the effect of exchange-rate fluctuations on forecasted intercompany transactions. Such contracts had a total notional amount of $8.5 million at October 31, 1999. For the year ended October 31, 1999, ADC recognized a gain of $352,415 reported in other income (expense) in the statements of income, for the hedges that have settled.

As of October 31, 1999, $580,997 of deferred net gains on derivative instruments included in accumulated other comprehensive income are expected to be reclassified to earnings during the next twelve months.

Trading Derivatives: ADC purchases foreign-currency forward exchange contracts with contract terms normally lasting less than six months to protect against the adverse effect that exchange-rate fluctuations may have on foreign-currency-denominated assets, principally Canadian Dollars, Mexican Pesos and the Euro. These derivatives do not qualify for hedge accounting, in accordance with SFAS No. 133, because they relate to existing assets denominated in a foreign currency. The gains and losses on both the derivatives and the foreign-currency-denominated assets are recorded as transaction adjustments in current earnings. At October 31, 1999 there were no open trading derivatives.

1.93

ETHYL CORPORATION & SUBSIDIARIES (DEC)

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(In thousands of dollars except share amounts)	Common Stock Shares	Common Stock Amounts	Additional Paid-in Capital	Accumulated Other Comprehensive (Loss) Income	Retained Earnings	Total Shareholders' Equity
Balance at December 31, 1998	83,465,460	$83,465	—	(5,604)	109,141	187,002
Comprehensive income:						
Net income					55,297	55,297
Foreign currency translation adjustments				(6,779)		(6,779)
Unrealized gain on marketable securities adjustments				(213)		(213)
Minimum pension liability adjustments				2,667		2,667
Unrealized loss on derivative instruments				(1,899)		(1,899)
Total comprehensive income						49,073
Cash dividends declared ($.25 per share)					(20,866)	(20,866)
Balance at December 31, 1999	83,465,460	$83,465	$—	$(11,828)	$143,572	$215,209

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

1 (In Part): Summary of Significant Accounting Policies

Derivative Financial Instruments—We use derivative financial instruments to manage the risk of foreign currency exchange. Ethyl does not enter into derivative financial instruments for trading or speculative purposes. We record realized gains and losses in current income and unrealized gains and losses in accumulated other comprehensive loss.

18. Financial Instruments

Fair Value—We determine the fair value of our outstanding financial instruments as follows:

Cash and Cash Equivalents—The carrying value approximates fair value.

Investments in Marketable Securities—We classify these investments as "available for sale" and record them at fair value with the unrealized gains, net of tax, included in accumulated other comprehensive loss. See Note 19.

Long-Term Debt—Ethyl estimates the fair value of our long-term debt based on current rates available to us for debt of the same remaining duration.

Foreign Currency Forward Contracts—We adopted FASB Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities," effective January 1, 1999. Accordingly, we record the foreign currency forward contracts at fair value in our consolidated balance sheet. The fair value is based on the forward rates provided by First Chicago Bank. We include the unrealized gains and losses, net of tax, in accumulated other comprehensive loss.

Prior to the adoption of FASB Statement No. 133, we recorded the foreign currency forward contract under FASB Statement No. 52, "Foreign Currency Translation." We have not restated the carrying value or fair value of the forward contracts for 1998. The effect of adopting FASB Statement No. 133 was to include the $2 million unrealized after tax loss at December 31, 1999, on our forward contracts in accumulated other comprehensive income

The estimated fair values of our financial instruments are:

	1999		1998	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	$ 15,846	$ 15,846	$ 8,403	$ 8,403
Investments in marketable securities	$ 20,078	$ 20,078	$ 19,663	$ 19,663
Long-term debt including current maturities	$(474,222)	$(474,205)	$(558,824)	$(559,342)
Foreign currency forward contracts	$ (2,981)	$ (2,981)	$ (360)	$ (886)

Derivatives—As part of our strategy to minimize the risk of foreign currency exposure, Ethyl uses foreign currency forward contracts to hedge the risk on forecasted intercompany sales transactions denominated in Japanese Yen.

During 1999, Ethyl used derivative instruments with maturity dates throughout the year to hedge the foreign currency exposure of approximately $22 million of Japanese Yen denominated intercompany sales. These cash flow hedges were highly effective since a foreign currency rate change on the forward contract is offset by a corresponding change in the value of the hedged Yen intercompany sale.

At December 31, 1999, Ethyl had foreign currency forward contracts for the sale of $24 million of Japanese Yen. These contracts are at a fixed price and have maturity dates throughout 2000. We recorded unrealized losses of $2 million, net of tax, in accumulated other comprehensive loss on these forward contracts. We expect to recognize these losses in net income over the next twelve months when the related intercompany sales transaction takes place.

For the year 1999, Ethyl recognized a $500 thousand loss on the contracts. A corresponding increase in the U.S. dollar value of the Japanese Yen intercompany sales, which we made during 1999, offset all of the loss. Ethyl includes foreign currency gains and losses in cost of sales.

19 (In Part): Comprehensive Income

The pre-tax, tax, and after-tax effects related to the adjustments in accumulated other comprehensive loss follow:

	Foreign Currency Translation Adjustments	Unrealized Gain on Marketable Securities Adjustments	Minimum Pension Liability Adjustments	Unrealized Loss on Derivative Instruments	Accumulated Other Comprehensive (Loss) Income
December 31, 1998	(5,758)	2,821	(2,667)	—	(5,604)
Adjustments	(10,719)	(334)	3,865	(2,981)	
Tax benefit (expense)	3,940	121	(1,198)	1,082	
Other comprehensive income (loss)	(6,779)	(213)	2,667	(1,899)	(6,224)
December 31, 1999	$(12,537)	$2,608	$ —	$(1,899)	$(11,828)

1.94

TRIBUNE COMPANY AND SUBSIDIARIES (DEC)

CONSOLIDATED STATEMENTS OF INCOME

(In thousands of dollars, except per share data)	1999	1998	1997
Operating profit	$ 770,440	$702,289	$642,031
Net loss on equity investments	(21,545)	(33,980)	(34,696)
Interest income	47,436	6,112	26,343
Interest expense	(113,031)	(88,451)	(86,502)
Gain on change in fair values of derivatives and related investments	215,876	—	—
Gain on reclassification of investments	1,095,976	—	—
Gain on sales of subsidiaries and investments, net of write-downs	444,927	119,119	111,824
Income before income taxes	2,440,079	705,089	659,000
Income taxes	(957,029)	(290,817)	(265,375)
Income before cumulative effect of change in accounting principle	1,483,050	414,272	393,625
Cumulative effect of change in accounting principle, net of tax (see Note 1)	(3,060)	—	—
Net Income	1,479,990	414,272	393,625
Preferred dividends, net of tax	(18,639)	(18,782)	(18,798)
Net income attributable to common shares	$1,461,351	$395,490	$374,827
Earnings per share (see Note 1)			
Basic:			
Before cumulative effect of change in accounting principle	$ 6.17	$ 1.63	$ 1.53
Cumulative effect of accounting change, net	(0.01)	—	—
Net income	$ 6.16	$ 1.63	$ 1.53
Diluted:			
Before cumulative effect of change in accounting principle	$ 5.62	$ 1.50	$ 1.40
Cumulative effect of accounting change, net	(0.01)	—	—
Net income	$ 5.61	$ 1.50	$ 1.40

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Adoption of New Accounting Pronouncement—The Company elected early adoption of FAS 133 as of the beginning of the 1999 second quarter. FAS 133 requires that all derivative instruments be recorded in the balance sheet at fair value. The provisions of FAS 133 affected the Company's accounting for its 8.0 million Exchangeable Subordinated Debentures due 2029 "PHONES"), its 4.6 million Debt Exchangeable for Common Stock securities ("DECS") (see Note 6) and its America Online collar for 2.0 million shares.

In April 1999, the Company issued 8.0 million PHONES for an aggregate principal amount of over $1.2 billion. The principal amount equaled the value of 16.0 million shares of AOL common stock at the closing price of $78.50 per share on April 7, 1999. The Company will continue to own the AOL stock.

In the first quarter of 1999, the Company entered into a one-year hedge transaction ("AOL collar") with respect to 2.0 million shares of its AOL common stock investment. The AOL collar was restructured in the third quarter of 1999. The collar locks in the value of these shares within the price range of $46-$53 per share and will settle in four equal installments of 500,000 shares in each of the four quarters of 2000. Since these transactions will settle in 2000, the value of these shares under the collar is classified as a short-term investment of $163 million in the balance sheet at Dec. 26, 1999.

Prior to the adoption of FAS 133, changes in the fair values of the Company's 16.0 million AOL shares and 5.5 million Mattel shares related to the PHONES and DECS, respectively, had been recorded in the accumulated other comprehensive income component of shareholders' equity in the Company's balance sheet, as these securities had been classified as available-for-sale. With the adoption of FAS 133, the 16.0 million shares of AOL common stock and the 5.5 million shares of Mattel common stock were reclassified to trading securities. As a result of this change in classification, the Company was required, under the provisions of FAS 115, "Accounting for Certain Investments in Debt and Equity Securities," to recognize pretax gains totaling approximately $1.1 billion in its second quarter 1999 statement of income, which added $2.55 to diluted earnings per share ("EPS"). These one-time, non-cash gains represented the unrealized market appreciation on these investments through the end of the 1999 first quarter.

Beginning in the second quarter of 1999, the Company records subsequent changes in the fair values of these investments in the statement of income.

Under the provisions of FAS 133, the initial values of the PHONES and the DECS were each split into a debt component and a derivative component. Changes in the fair values of the derivative component of the PHONES and DECS are recorded in the statement of income. Changes in the fair values of the related AOL and Mattel shares should at least partially offset changes in the fair values of the derivative component of the PHONES and the DECS, respectively. There may be periods with significant non-cash increases or decreases to the Company's net income pertaining to the PHONES, DECS and the related AOL and Mattel shares. The 2.0 million shares of AOL common stock related to the AOL collar are classified as available-for-sale securities, with the unrealized gain or loss on these shares reported in the accumulated other comprehensive income component of shareholders' equity. Changes in the time value of the AOL collar are recorded in the Company's statement of income.

In 1999, the change in fair value of the derivative component of the PHONES resulted in a pretax loss of $68 million, which was more than offset by a $299 million pretax gain resulting from the change in fair value of the related AOL trading shares since the beginning of the second quarter. The net change in the fair values of the derivative component of the PHONES and the related AOL shares resulted in a non-cash pretax gain of $231 million, which increased diluted EPS by $.53. The total changes in the fair values of all of the Company's derivatives, net of changes in the fair values of the related shares, resulted in a net pretax gain of $216 million, which increased diluted EPS by $.50.

The cumulative effect of adopting FAS 133 as of the beginning of the second quarter of 1999 resulted in a $3 million after-tax loss, or $.01 per diluted EPS. This cumulative effect resulted from adjusting the DECS and the AOL collar derivatives to their fair values as of March 28, 1999.

The carrying value of the Company's derivative instruments approximates fair value. The fair values of the PHONES and DECS are determined by reference to market values resulting from trading on a national securities exchange. The AOL collar's fair value is based on estimates using the Black-Scholes valuation model.

Note 15 (In Part): Comprehensive Income

Other comprehensive income includes foreign currency translation adjustments and unrealized gains and losses on marketable securities classified as available-for-sale. Approximately six million AOL shares are currently classified as available-for-sale. Prior to the adoption of FAS 133, changes in the fair value of the Company's 5.5 million Mattel shares, net of the change in the current maturity value of the Company's related DECS securities, and all of the Company's AOL shares were recorded in accumulated other comprehensive income, as the Mattel and AOL securities had been classified as available-for-sale. With the adoption of FAS 133 as of the beginning of the 1999 second quarter, 16.0 million of the AOL shares and all of the Mattel shares were reclassified to trading securities. As a result of this reclassification and the adoption of FAS 133, beginning in the 1999 second quarter, changes in the fair values of the 16.0 million AOL shares and 5.5 million Mattel shares, net of the changes in the fair values of the related derivative component of the PHONES and DECS, are recorded in the Company's statement of income.

Valuation of Pension Plan Assets

1.95

LUCENT TECHNOLOGIES INC. AND SUBSIDIARIES (SEP)

CONSOLIDATED STATEMENTS OF INCOME

(Dollars in millions, except per share amount)	1999	1998	1997
Income before accumulative effect of accounting change	$3,458	$1,035	$ 449
Cumulative effect of accounting change (net of income taxes of $842)	1,308	—	—
Net income	$4,766	$1,035	$ 449
Earnings per common share—basic:			
Income before cumulative effect of accounting change	$ 1.14	$ 0.35	$0.16
Cumulative effect of accounting change	0.43	—	—
Net income	$ 1.57	$ 0.35	$0.16
Earnings per common share—diluted:			
Income before cumulative effect of accounting change	$ 1.10	$ 0.34	$0.15
Cumulative effect of accounting change	0.42	—	—
Net income	$ 1.52	$ 0.34	$0.15

10 (In Part): Employee Benefit Plans

Pension and Postretirement Benefits (In Part)

Effective October 1, 1998, Lucent changed its method for calculating the market-related value of plan assets used in determining the expected return-on-asset component of annual net pension and postretirement benefit costs. Under the previous accounting method, the calculation of the market-related value of plan assets included only interest and dividends immediately, while all other realized and unrealized gains and losses were amortized on a straight-line basis over a five-year period. The new method used to calculate market-related value includes immediately an amount based on Lucent's historical asset returns and amortizes the difference between that amount and the actual return on a straight-line basis over a five-year period. The new method is preferable under Statement of Financial Accounting Standards No. 87 because it results in calculated plan asset values that are closer to current fair value, thereby lessening the accumulation of unrecognized gains and losses while still mitigating the effects of annual market value fluctuations.

The cumulative effect of this accounting change related to periods prior to fiscal year 1999 of $2,150 ($1,308 after-tax, or $0.43 and $0.42 per basic and diluted share, respectively) is a one-time, non-cash credit to fiscal 1999 earnings. This accounting change also resulted in a reduction in benefit costs in the year ended September 30, 1999 that increased income by $427 ($260 after-tax, or $0.09 and $0.08 per basic and diluted share, respectively) as compared with the previous accounting method. A comparison of pro forma amounts below shows the effects if the accounting change were applied retroactively:

	1998	1997
Pro forma net income	$1,276	$ 657
Earnings per share—basic	$ 0.43	$0.23
Earnings per share—diluted	$ 0.42	$0.22

1.96

MCCORMICK & COMPANY, INCORPORATED (NOV)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 (In Part): Special Charges and Discontinued Operations

In addition, the Company changed its actuarial method of calculating the market-related value of plan assets used in determining the expected return-on-asset component of annual pension expense. This modification resulted in a one-time special credit of $7.7 million ($4.8 million after-tax or $0.0 per share) recorded in the second quarter of 1999. Under the previous method, all realized and unrealized gains and losses were gradually included in the calculated market-related value of plan assets over a five-year period. Under the new method, the total expected investment return, which anticipates realized and unrealized gains and losses on plan assets, is included in the calculated market-related value of plan assets each year. Only the difference between total actual investment return, including realized and unrealized gains and losses, and the expected investment return is gradually included in the calculated market-related value of plan assets over a five-year period.

Under the new actuarial method, the calculated market-related value of plan assets more closely approximates fair value, while still mitigating the effect of annual market value fluctuations. It also reduces the growing difference between the fair value and calculated market-related value of plan assets that has resulted from the recent accumulation of unrecognized gains and losses. While this change better represents the amount of ongoing pension expense, the new method will not have a material impact on the Company's results of operations and financial condition.

The major components of the special charges (credits) and the remaining accrual balance as of November 30 1999 follow:

	Severance and personnel costs	Asset write-downs	Other exit costs	Actuarial method change	Total
1999					
Special charges (credits)	$ 7.9	$ 15.8	$ 3.0	$(7.7)	$ 19.0
Amounts utilized	(4.0)	(15.8)	(1.2)	7.7	(13.3)
	$ 3.9	$ —	$ 1.8	$ —	$ 5.7

1.97

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

CONSOLIDATED STATEMENTS OF INCOME

(In millions, except per share data)	1999	1998	1997
Income before cumulative effect of change in accounting principles	$126.6	$ 17.9	$133.5
Cumulative effect of change in accounting principles for pension assets, net of tax of $15.2	25.3	—	—
Net income	$151.9	$ 17.9	$133.5
Basic and diluted earnings per share			
Basic earnings per share			
Weighted-average common shares outstanding	107.3	106.5	106.7
Before cumulative effect of change in accounting principles	$ 1.16	$ 0.16	$ 1.24
Cumulative effect of change in accounting principles	0.24	—	—
Basic earnings per share	$ 1.40	$ 0.16	$ 1.24
Diluted earnings per share			
Adjusted weighted-average common shares outstanding	108.0	106.7	106.7
Before cumulative effect of change in accounting principles	$ 1.15	$ 0.16	$ 1.24
Cumulative effect of change in accounting principles	0.24	—	—
Diluted earnings per share	$ 1.39	$ 0.16	$ 1.24

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

Six (In Part): Pension Plans and Other Postretirement Benefits

Change in Accounting for Pension Assets

Effective July 1, 1998, the Company changed its method for calculating the market-related value of pension plan assets. This method is used in determining the return-on-asset component of annual pension expense ad the cumulative net unrecognized gain (loss) subject to amortization. The Company believes that the new method is more widely used in practice and is preferable because it results in pension plan asset values that more closely approximate fair value, while still mitigating the effect of annual market value fluctuations. In addition, the new method facilitates the global management of pension plans as it results in a consistent methodology for all plans.

Under the old method, realized and unrealized gains or losses on pension plan assets were amortized and recognized over a five-year period. Dividends and interest earned during the plan year were immediately recognized. Under the new method, the Company recognizes an expected return on pension plan assets and amortizes differences between actual and expected returns over a five-year period.

This change resulted in a non-cash benefit in 1999 of $40.5 ($25.3 after tax, or $0.24 per share). The benefit represents the cumulative effect of the change related to years prior to 1999. In addition, the Company realized $19.0 ($11.9 after tax, or $0.11 per share) in lower pension expense in 1999, compared with the previous accounting method. Had this change been applied retroactively, pension expense would have been reduced by $15.8 and $12.5 ($9.9 and $78 after tax, or $0.09 and $0.07 per share) in 1998 and 1997, respectively.

1.98

VENATOR GROUP, INC. (JAN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

20 (In Part): Retirement Plans and Other Benefits

In the fourth quarter of 1999, the Company changed the method for calculating the market-related value of plan assets for the U.S. qualified retirement plan, used in determining the return on plan assets component of net pension expense and the accumulated unrecognized net loss subject to amortization. Under the previous accounting method, equity assets were valued based on a five-year moving average of investment gains and losses. Under the new method, equities are valued based on either a five-year or a three-year moving average of investment gains and losses, whichever value is closer to market value in each plan year. Under both new and previous methods, non-equity assets are valued at market value, and only the accumulated net loss, which exceeds ten percent of the greater of the projected benefit obligation or the market-related value of plan assets is subject to amortization. The Company believes the new method is preferable because it results in calculated plan asset values that more closely approximate fair value, while still mitigating the impact of annual market-value fluctuations. This change resulted in a non-cash benefit in 1999 of approximately $14 million before-tax, or $0.06 per diluted share, representing the cumulative effect of the accounting change related to years prior to 1999. The change was accounted for as if it had occurred at the beginning of the first quarter of 1999. The impact of the change resulted in lower pension expense in 1999 of $4.5 million before-tax, or $0.02 per diluted share as follows: $0.8 million in each of the first and second quarters; $1.8 million in the third quarter and $1.1 million in the fourth quarter. Had this change been applied retroactively, pension expense would have been reduced by approximately $1 million and $2 million in 1998 and 1997, respectively.

Bankruptcy Code Reporting

1.99

GENEVA STEEL COMPANY (SEP)

NOTES TO FINANCIAL STATEMENTS

1 (In Part): Nature of Operations and Business Conditions

On February 1, 1999, the Company filed a voluntary petition for relief under Chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court for the District of Utah, Central Division. The filing was made necessary by a lack of sufficient liquidity. The Company's operating results for fiscal years 1998 and 1999 were severely affected by, among other things, the dramatic surge in steel imports beginning in 1998. As a consequence of record-high levels of low-priced steel imports and the resultant deteriorating market conditions, the Company's overall price realization and shipments declined precipitously. Decreased liquidity made it impossible for the Company to service its debt and fund ongoing operations. Therefore, the Company sought protection under Chapter 11 of the Bankruptcy Code. Prior to the bankruptcy filing, the Company did not make the $9 million interest payment due January 15, 1999 under the terms of the Company's 9½% senior notes due 2004. The Bankruptcy Code generally prohibits the Company from making payments on unsecured, pre-petition debt, including the 9½% senior notes due 2004 and the 11⅛% senior notes due 2001 (collectively, the "Senior Notes"), except pursuant to a confirmed plan of reorganization. The Company is in possession of its properties and assets and continues to manage its businesses as debtor-in-possession subject to the supervision of the Bankruptcy Court. The Company has a $125 million debtor-in-possession credit facility in place (see Note 3).

As of February 1, 1999, the Company discontinued accruing interest on the Senior Notes and dividends on its redeemable preferred stock. Contractual interest on the Senior Notes for the year ended September 30, 1999 was $33.1 million, which is $22.0 million in excess of recorded interest expense included in the accompanying financial statement. Contractual dividends on the redeemable preferred stock as of September 30, 1999, was approximately $36.9 million, which is $8.4 million in excess of dividends accrued in the accompanying balance sheet.

Pursuant to the provisions of the Bankruptcy Code, all actions to collect upon any of the Company's liabilities as of the petition date or to enforce pre-petition date contractual obligations were automatically stayed. Absent approval from the Bankruptcy Court, the Company is prohibited from paying pre-petition obligations. However, the Bankruptcy Court has approved payment of certain pre-petition liabilities such as employee wages and benefits and certain other pre-petition obligations. Additionally, the Bankruptcy Court has approved for the retention of legal and financial professionals. As debtor-in-possession, the Company has the right, subject to Bankruptcy Court approval and certain other conditions, to assume or reject any pre-petition executory contracts and unexpired leases. Parties affected by such rejections may file pre-petition claims with the Bankruptcy Court in accordance with bankruptcy procedures.

The Company is currently developing a plan of reorganization (the "Plan of Reorganization") through, among other things, discussions with the official creditor committees appointed in the Chapter 11 proceeding. The objective of the Plan or Reorganization is to restructure the Company's balance sheet to (i) significantly strengthen the Company's financial flexibility throughout the business cycle, (ii) fund required capital expenditures and working capital needs, and (iii) fulfill those obligations necessary to facilitate emergence from Chapter 11. In conjunction with the Plan of Reorganization, the Company intends to apply in January 2000 for a government loan guarantee under the Emergency Steel Loan Guarantee Program (the "Loan Guarantee Program"). The application will seek a government loan guarantee for a portion of the financing required to consummate the Plan of Reorganization with the remaining financing being provided through other means. In connection with preparing the loan guarantee application, the Company is in the final phase of selecting and negotiating terms with a major bank to serve as the primary lender under the Loan Guarantee Program. There can be no assurance that the Company will be accepted to participate in the Loan Guarantee Program or that, with or without a guarantee, the Company can obtain the necessary financing to consummate the Plan of Reorganization.

Although management expects to file the Plan of Reorganization, there can be no assurance at this time that a Plan of Reorganization will be proposed by the Company, approved or confirmed by the Bankruptcy Court, or that such plan will be consummated. The Bankruptcy Court has granted the Company's request to extend its exclusive right to file a Plan of Reorganization through February 28, 2000. While the Company intends to request further extensions of the exclusivity period if necessary, there can be no assurance that the Bankruptcy Court will grant such further extensions. If the exclusivity period were to expire or be terminated, other interested parties, such as creditors of the Company, would have the right to propose alternative plans of reorganization.

Although the Chapter 11 Bankruptcy filing raises substantial doubt about the Company's ability to continue as a going-concern, the accompanying financial statements have been prepared on a going-concern basis. This basis contemplates the continuity of operations, realization of assets, and discharge of liabilities in the ordinary course of business. The statements also present the assets of the Company at historical cost and the current intention that they will be realized as a going-concern and in the normal course of business. A plan of reorganization could materially change the amounts currently disclosed in the financial statements.

The accompanying financial statements do not present the amount which may ultimately be paid to settle liabilities and contingencies which may be allowed in the Chapter 11 Bankruptcy cases. Under Chapter 11 Bankruptcy, the right of, and ultimate payment by the Company to pre-petition creditors may be substantially altered. This could result in claims being paid in the Chapter 11 Bankruptcy proceedings at less (and possibly substantially less) than 100 percent of their face value. At this time, because of material uncertainties, pre-petition claims are carried at the Company's face value in the accompanying financial statements. Moreover, the interests of existing preferred and common shareholders could, among other things, be very substantially diluted or even eliminated. Further information about the financial impact of the Chapter 11 Bankruptcy filings is set forth in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations. Management expects that a Plan of Reorganization will be completed and ready to file with the bankruptcy court during the first calendar quarter of 2000. The Plan of Reorganization will be conditioned on the Company being approved for a guarantee under the Loan Guarantee Program. There can be no assurance as to the actual timing for the filing of the Plan of Reorganization or the approval thereof by the Bankruptcy Court, if at all.

As a result of favorable outcomes to various trade cases as well as improving market conditions in several foreign economies, market conditions for the Company's products have recently improved. Both the Company's order entry and price realization have improved significantly in recent months. The Company's shipment rate has increased from a low in February 1999 of 44,000 tons to 146,000 tons in November 1999. Similarly, overall price realization has increased by 5.7% during the same period, despite a product mix shift to lower-priced sheet. The timing and magnitude of the recent volume and pricing improvements are consistent with initial market recoveries following the success of previously-filed trade cases. The Company expects in the near term that both volume and pricing will continue to improve gradually.

2 (In Part): Summary of Significant Accounting Policies

Bankruptcy Accounting

Since the Chapter 11 bankruptcy filing, the Company has applied the provisions in Statement of Position ("SOP") 90-7 "Financial Reporting by Entities in Reorganization Under the Bankruptcy Code."

SOP 90-7 does not change the application of generally accepted accounting principles in the preparation of financial statements. However, it does require that the financial statements for periods including and subsequent to filing the Chapter 11 petition distinguish transactions and events that are directly associated with the reorganization from the ongoing operations of the business.

1.100

LACLEDE STEEL COMPANY AND SUBSIDIARIES (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Bankruptcy Proceedings

On November 30, 1998, a result of deterioration in steel demand and selling prices, recurring losses, capital deficiency and funding requirements of its defined benefit pension plans, Laclede Steel Company and subsidiaries (the "Company") filed voluntary petitions for reorganization under Chapter 11 of the United States Bankruptcy Code (the "Code"). The Company is operating as debtors-in-possession under the Code, which protects it from its creditors pending reorganization under the jurisdiction of the Bankruptcy Court. As a debtors-in-possession, the Company is authorized to operate its business but may not engage in transactions outside the ordinary course of business without approval of the Bankruptcy Court. A statutory creditors committee has been appointed in this Chapter 11 case. As part of the Chapter 11 reorganization process, the Company has attempted to notify all known or potential creditors of the Chapter 11 filing for the purpose of identifying all prepetition claims against the Company.

In the Chapter 11 case, substantially all of the liabilities as of the filing date are subject to settlement under a plan of reorganization. Generally, actions to enforce or otherwise effect repayment of all prepetition liabilities as well as all pending litigation against the Company are stayed while the Company continues its business operations as debtors-in-possession. Schedules have been filed by the Company with the Bankruptcy Court setting forth the assets and liabilities of the debtors as of the filing date as reflected in the Company's accounting records. Differences between amounts reflected in such schedules and claims filed by creditors will be investigated and amicably resolved or adjudicated before the Bankruptcy Court. The ultimate amount and settlement terms for such liabilities are subject to a plan of reorganization, and accordingly, are not presently determinable.

Under the Bankruptcy Code, the Company may elect to assume or reject real estate leases, employment contracts, personal property leases, service contracts and other executory prepetition contracts, subject to Bankruptcy Court review. The Company cannot presently determine or reasonably estimate the ultimate liability that may result from rejecting leases or from filing of claims for any rejected contracts, and no provisions have been made for these items.

The Company expects the Pension Benefit Guaranty Corporation ("PBGC") to assume its obligations under its defined benefit pension plans for its salaried and hourly employees, which would result in the PBGC becoming one of its largest unsecured creditors. The termination of these plans will be an integral part of the plan of reorganization. As of November 30, 1998, the Company had a significant unfunded obligation related to these pension plans. The Company has made no contributions to the pension plans since filing Chapter 11 on the basis that the Company believes prepetition pension obligations can only be paid with Bankruptcy Court approval or as part of a plan of reorganization. The disposition of the Company's postretirement medical obligations has not as yet been determined and these obligations have been included as liabilities subject to compromise. Pursuant to the provisions of the Bankruptcy Code, the Company continues to incur the cost of the postretirement medical plans. The Bankruptcy Court has approved the payment of certain prepetition liabilities such as employee wages and benefits. The Bankruptcy Court has also allowed for the retention of legal and financial professionals. These professional fees represent the majority of reorganization items recorded in the consolidated statements of operations in 1999 and, to the extent unpaid, are liabilities not subject to compromise.

At the time of filing Chapter 11, the Company's receivables, inventory, and certain plant and equipment were pledged as collateral under a Loan and Security Agreement with a bank group. Subsequent to the filing, with the approval of the Bankruptcy Court, the Company entered into an amended Loan and Security Agreement with

BankAmerica (the "DIP Facility"), which provides for borrowing up to $85 million. The DIP Facility provides for revolving credit based on eligible receivables and inventory similar to the previous Loan and Security Agreement. In addition, virtually all assets of the Company have been granted as collateral to the Loan and Security Agreement, except for certain assets of Laclede Chain Manufacturing Company. See Note 6 for further description.

The Company's consolidated financial statements have been prepared in accordance with the American Institute of Certified Public Accountants (AICPA) Statement of Position 90-7, "Financial Reporting by Entities in Reorganization Under the Bankruptcy Code." In addition the consolidated financial statements have been prepared using accounting principles applicable to a going concern, which contemplates the realization of assets and the payment of liabilities in the ordinary course of business. As a result of the Chapter 11 filing, such realization of assets and liquidation of liabilities is subject to uncertainty. The financial statements include reclassifications made to reflect the liabilities which have been deferred under the Chapter 11 proceedings as "Liabilities Subject to Compromise." Certain accounting and business practices have been adopted that are applicable to companies that are operating under Chapter 11.

The Company's goal is to file a plan of reorganization in early 2000 and have it confirmed by the Bankruptcy Court by the middle of 2000. The completion and acceptance of the plan of reorganization by the Company's creditors are an integral part of the Company's continued existence. While management believes the Company has made adequate provision for the liabilities to be incurred in connection with Chapter 11 claims, there can be no assurance as to the amount of the ultimate liabilities, the impact of such liabilities on a plan of reorganization or how such liabilities will be treated in a plan of reorganization. The Company's continued existence is also dependent on its ability to achieve future profitable operations, the assumption of the Company's obligations under its defined benefit plans by the PBGC, and continued compliance with all debt covenants under the DIP Facility.

Recovery of Goodwill

1.101

FORTUNE BRANDS, INC. AND SUBSIDIARIES (DEC)

CONSOLIDATED STATEMENT OF INCOME

(In millions)	1999	1998	1997
Net sales	$5,524.7	$5,240.9	$4,844.5
Cost of products sold	2,873.1	2,667.9	2,540.4
Excise taxes on spirits and wine	401.8	443.7	418.7
Advertising, selling, general and administrative expenses	1,542.6	1,401.5	1,301.6
Amortization of intangibles	85.5	108.2	104.2
Write-down of goodwill	1,126.0	—	—
Restructuring charges	136.8	—	209.1
Interest and related expenses	106.8	102.7	116.7
Other (income) expenses, net	(27.2)	5.0	14.1
Income (loss) from continuing operations before income taxes	(720.7)	511.9	139.7

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Significant Accounting Policies

Intangibles (In Part)

Goodwill is amortized on a straight line basis over its estimated useful life, principally over a forty year period, except for certain amounts related to businesses acquired prior to 1971, which are not being amortized because they have been determined to have continuing value over an indefinite period.

The Company evaluates the recoverability of goodwill by estimating the future discounted cash flows of the businesses to which the goodwill relates. The rate used in determining discounted cash flows is a rate corresponding to the Company's cost of capital. Estimated cash flows are then determined by disaggregating the Company's business segments to an operational and organizational level for which meaningful identifiable cash flows can be determined. When estimated future discounted cash flows are less than the carrying value of the net assets (tangible and identifiable intangibles) and related goodwill, impairment losses of goodwill are charged to operations. Impairment losses, limited to the carrying value of goodwill, represent the excess of the sum of the carrying value of the net assets (tangible and identifiable intangible) and goodwill over the discounted cash flows of the business being evaluated. In determining the estimated future cash flows, the Company considers current and projected future levels of income as well as business trends, prospects and market and economic conditions. Prior to April 1, 1999, the assessment of recoverability and measurement of impairment of goodwill was based on undiscounted cash flows.

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Change in accounting for goodwill Effective April 1, 1999, the Company elected to change its method for assessing recoverability of goodwill from one based on undiscounted cash flows to one based on discounted cash flows. The Company determined that using a discounted cash flow methodology is a preferable policy. The rate used in determining discounted cash flows is a rate corresponding to the Company's cost of capital. Management believes that fair value (i.e., discounted cash flow) is preferable because it is consistent with the basis used for investment decisions (acquisitions and capital projects) and takes into account the specific and detailed operating plans and strategies of each business. This change represents a change in accounting principle which is indistinguishable from a change in estimate, and accordingly, the effect of the change was recorded in the second quarter of 1999.

This change resulted in a non-cash write-down of goodwill of $1,126 million ($6.76 per share) in the second quarter of 1999. The write-downs by business segment were: golf products—$517.7 million; spirits and wine—$502.7 million; and office products—$105.6 million.

1.102

IMC GLOBAL INC. (DEC)

CONSOLIDATED STATEMENT OF OPERATIONS

(In millions)	1999	1998	1997
Net sales	$2,369.3	$2,383.1	$2,116.0
Cost of goods sold	1,826.6	1,684.3	1,541.1
Gross margins	542.7	698.8	574.9
Selling, general and administrative expenses	164.5	150.6	131.8
Goodwill write-down	521.2	—	—
Restructuring charges	175.2	176.1	—
Main Pass write-downs	—	—	183.7
Operating earnings (loss)	(318.2)	372.1	259.4
Interest expense	154.5	161.1	40.2
Other (income) expense, net	(6.9)	(5.9)	(5.4)
Earnings (loss) from continuing operations before minority interest	(465.8)	216.9	224.6

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

1 (In Part): Summary of Significant Accounting Policies

Property, Plant and Equipment/Other Assets (In Part)

Goodwill, representing the excess of purchase cost over the fair value of net assets of acquired companies, is generally amortized using the straight-line method over 40 years. At December 31, 1999 and 1998, goodwill, included in Other assets, totaled $535.9 million and $1,064.2 million, respectively. See Note 2, "Change in Accounting for Goodwill" and Note 6, "Acquisitions," for further detail regarding goodwill.

Using the methodology prescribed in SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," the Company reviews long-lived assets and the related intangible assets for impairment whenever events or changes in circumstances indicate the carrying amounts of such assets may not be recoverable. Once an indication of a potential impairment exists, recoverability of the respective assets is determined by comparing the forecasted undiscounted net cash flows of the operation to which the assets relate, to the carrying amount, including associated intangible assets, of such operation. If the operation is determined to be unable to recover the carrying amount of its assets, then intangible assets are written down first, followed by the other long-lived assets of the operation, to fair value. Fair value is determined based on discounted cash flows or appraised values, depending upon the nature of the assets.

2. Change in Accounting for Goodwill

Effective October 1, 1999, the Company elected to change its method for assessing the recoverability of goodwill (not associated with impaired assets) from one based on undiscounted cash flows to one based on discounted cash flows. The Company believes that using the discounted cash flow approach to assess the recoverability of goodwill is preferable because it is consistent with the methodology used by the Company to evaluate investment decisions (acquisitions and capital projects) and takes into account the specific and detailed operating plans and strategies and the timing of cash flows of each business. The discount rate used in determining discounted cash flows was a rate corresponding to the Company's weighted-average cost of capital. This change represents a change in accounting principle, which is indistinguishable from a change in estimate.

As a result of the change to a discounted cash flow methodology, the Company recorded a non-cash write-down of goodwill of $521.2 million, or $4.55 per share, in the fourth quarter of 1999. This charge represented the amount required to write-down the carrying amount of goodwill to the Company's estimate, as of October 1, 1999, of the estimated future discounted cash flows of the businesses to which the goodwill relates using the methodology described below.

Effective October 1, 1999, the Company's accounting policy for assessing the recoverability of goodwill is as follows:

The Company evaluates the recoverability of goodwill by estimating the future discounted cash flows of the businesses to which the goodwill relates. This evaluation is made whenever events or changes in circumstances indicate the carrying amount may not be recoverable. Estimated cash flows are determined by disaggregating the Company's business segments to an operational and organizational level for which meaningful identifiable cash flows can be determined. When estimated future discounted cash flows are less than the carrying amount of the net long-lived assets (tangible and identifiable intangible) and related goodwill, impairment losses of goodwill are charged to operations. Impairment losses, limited to the carrying amount of goodwill, represent the excess of the sum of the carrying amount of the net long-lived assets (tangible and identifiable intangible) and goodwill in excess of the discounted cash flows of the business being evaluated. In determining the estimated future cash flows, the Company considers current and projected future levels of income as well as business trends, prospects and market and economic conditions. Prior to October 1, 1999, the assessment of recoverability and measurement of impairment of goodwill was based on undiscounted cash flows.

Depreciation Method

1.103

BARNES GROUP INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Property, plant and equipment: Property, plant and equipment is stated at cost. Depreciation is recorded over estimated useful lives, ranging from twenty to fifty years for buildings and three to seventeen years for machinery and equipment. The straight-line method of depreciation was adopted for all property, plant and equipment placed into service after March 31, 1999. For property, plant and equipment placed into service prior to April 1, 1999, depreciation is provided using accelerated methods. The change in accounting principle was made to reflect improvements in the design and durability of machinery and equipment. Management believes that the straight-line method results in a better matching of revenues and costs, and the new method is prevalent in the industries in which the Company operates. Additionally, in 1999, the Company adopted AICPA Statement of Position 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use," which requires capitalization of certain costs incurred in the development of internal-use software. The change to straight-line depreciation and the adoption of the AICPA Statement of Position 98-1 did not have a material impact on the Company's financial position, results of operations or cash flows.

Business Process Reengineering Costs

1.104

TENNECO AUTOMOTIVE INC. AND CONSOLIDATED SUBSIDIARIES (DEC)

STATEMENTS OF INCOME (LOSS)

(Millions, except share and per share amounts)	1999	1998	1997
Income (loss) from continuing operations	$ (63)	$ 116	$234
Income (loss) from discontinued operations, net of income tax	(208)	139	127
Income (loss) before extraordinary loss	(271)	255	361
Extraordinary loss, net of income tax	(18)	—	—
Income (loss) before cumulative effect of changes in accounting principles	(289)	255	361
Cumulative effect of changes in accounting principles, net of income tax	(134)	—	(46)
Net income (loss)	$(423)	$ 255	$315
Earnings (loss) per share			
Average shares of common stock outstanding—			
Basic	33,480,686	33,701,115	34,052,946
Diluted	33,656,063	33,766,906	34,160,327
Basic earnings (loss) per share of common stock—			
Continuing operations	$ (1.87)	$3.45	$6.87
Discontinued operations	(6.23)	4.13	3.73
Extraordinary loss	(.55)	—	—
Cumulative effect of changes in accounting principles	(3.99)	—	(1.35)
	$(12.64)	$7.58	$9.25
Diluted earnings (loss) per share of common stock—			
Continuing operations	$(1.87)	$3.44	$6.85
Discontinued operations	(6.23)	4.12	3.72
Extraordinary loss	(.55)	—	—
Cumulative effect of changes in accounting principles	(3.99)	—	(1.35)
	$(12.64)	$7.56	$9.22

NOTES TO FINANCIAL STATEMENTS

1 (In Part): Summary of Accounting Policies

Changes in Accounting Principles (In Part)

As required by the FASB's Emerging Issues Task Force ("EITF") Issue 97-13, "Accounting for Costs Incurred in Connection with a Consulting Contract that Combines Business Process Reengineering and Information Technology Transformation," we recorded an after-tax charge of $46 million ($1.35 per diluted common share), net of a tax benefit of $28 million, in the fourth quarter of 1997. EITF 97-13 establishes the accounting treatment and an allocation methodology for certain consulting and other costs incurred in connection with information technology transformation efforts. This charge was reported as a cumulative effect of a change in accounting principle.

CONSOLIDATION POLICIES

1.105 *Accounting Research Bulletin No. 51 states in part:*

> 1. The purpose of consolidated statements is to present, primarily for the benefit of the shareholders and creditors of the parent company, the results of operations and the financial position of a parent company and its subsidiaries essential as if the group were a single company with one or more branches of 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.

1.106 Effective for financial statements for fiscal year ending after December 15, 1998, *Statement of Financial Accounting Standards No. 94* amends *ARB No. 51* by requiring the consolidation of subsidiaries having nonhomogeneous operations. Effective for financial statements for fiscal years beginning after December 15, 1997, *Statement of Financial Standards 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*. Consequently, with rare exception, the survey companies consolidate nonhomogenous operations. Table 1-9 shows the nature of nonhomogenous operations consolidated by the survey companies.

1.107 Examples of consolidation practice disclosures follow.

1.108

TABLE 1-9: NONHOMOGENEOUS OPERATIONS CONSOLIDATED

	Number of Companies			
	1999	**1998**	**1997**	**1996**
Credit	32	33	49	53
Insurance	13	19	21	21
Real Estate	5	4	5	7
Leasing	2	7	9	4
Banks	—	5	3	5

1.109

ABBOTT LABORATORIES AND SUBSIDIARIES (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Basis of Consolidation—The consolidated financial statements include the accounts of the parent company and subsidiaries, after elimination of intercompany transactions. The accounts of foreign subsidiaries are consolidated as of November 30, due to the time needed to consolidate these subsidiaries. No events occurred related to these foreign subsidiaries in December 1999, 1998 and 1997 that materially affected the financial position or results of operations.

Certain prior year equity security amounts have been reclassified from deferred charges and other assets to long-term investment securities to conform with the 1999 presentation.

1.110

BURNS INTERNATIONAL SERVICES CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Principles of Consolidation: The consolidated financial statements include all significant subsidiaries. Due to the May 29, 1998 sales of the electronic security and courier services units, the assets, liabilities, results of operational and cash flows of such units have been segregated and reported as discontinued operations for all periods presented. Previously reported results have been restated (see Note 4). The Company's 49% investment in Loomis, Fargo is accounted for under the equity method (see Note 3).

1.111

COHERENT, INC. AND SUBSIDIARIES (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of Coherent, Inc. and its majority owned subsidiaries (collectively, the Company or Coherent). All significant intercompany balances and transactions have been eliminated. Investments in business entities in which Coherent does not have control, but has the ability to exercise significant influence over operating and financial policies (generally 20-50% ownership), are accounted for by the equity method.

1.112

CONSOLIDATED PAPERS, INC. AND SUBSIDIARIES (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (In Part): Summary of Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of Consolidated Papers, Inc. and subsidiaries. Investments in companies in which ownership is at least 20%, but less than a majority of the voting stock, are accounted for using the equity method.

1.113

THE DIAL CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2 (In Part): Significant Accounting Policies

Principles of Consolidation (In Part): The accompanying consolidated financial statements include the accounts of The Dial Corporation and all majority-owned subsidiaries. We account for our investment in the Dial/Henkel LLC joint venture under the equity method of accounting. All material intercompany transactions and profits have been eliminated in consolidation.

1.114

HARLEY-DAVIDSON, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Principles of Consolidation and Basis of Presentation (In Part)—The consolidated financial statements include the accounts of Harley-Davidson, Inc. and all of its subsidiaries (the Company), including the accounts of the group of companies doing business as Harley-Davidson Motor Company (HDMC), Buell Motorcycle Company (BMC) and Harley-Davidson Financial Services, Inc. (HDFS), formerly known as Eaglemark Financial Services, Inc.

1.115

H.J. HEINZ COMPANY AND SUBSIDIARIES (APR)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Significant Accounting Policies

Principles of Consolidation: The consolidated financial statements include the accounts of the company and its subsidiaries. All intercompany accounts and transactions were eliminated. Certain prior-year amounts have been reclassified in order to conform with the 1999 presentation.

1.116

LYNCH CORPORATION AND SUBSIDIARIES (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Accounting and Reporting Policies

Principles of Consolidation: The consolidated financial statements include the accounts of Lynch Corporation (the "Company" or "Lynch") and entities in which it has majority voting control. All material intercompany transactions and accounts have been eliminated in consolidation. See Note 4 for details of the spin off of Lynch Interactive Corporation which occurred on September 1, 1999.

1.117

PHOTO CONTROL CORPORATION (DEC)

NOTES TO FINANCIAL STATEMENTS

Note 2 (In Part): Significant Accounting Policies

Consolidation—Effective January 1,1998 the wholly-owned subsidiaries, Norman Enterprises, Inc. and Nord Photo Engineering, Inc. were liquidated into the parent company, Photo Control Corporation. Prior to 1998, the financial statements include the accounts of the Company and its subsidiaries with all material inter-company transactions and account balances eliminated.

1.118

UNION CARBIDE CORPORATION AND SUBSIDIARIES (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Principles of Consolidation—The consolidated financial statements include the accounts of all significant subsidiaries. All significant intercompany transactions have been eliminated in consolidation. Investments in 20 percent- to 50 percent-owned partnerships and corporate investments (joint ventures) are reported under the equity method of accounting. Other investments are generally carried at cost.

The consolidated financial statements have been prepared in conformity with generally accepted accounting principles, which require the corporation to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

BUSINESS COMBINATIONS

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

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

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

1.121 Table 1-10 shows that in 1999 the survey companies reported 54 business combinations accounted for as a pooling of interests of which 11 such business combinations did not result in a restatement of prior year financial statements. Those companies not restating prior year financial statements for a pooling of interests usually commented that the reason for not doing so was immateriality.

1.122 Examples of business combination disclosures follow.

1.123

TABLE 1-10: BUSINESS COMBINATIONS

Poolings of interests	**1999**	**1998**	**1997**	**1996**
Prior year financial statements restated	43	23	20	17
Prior year financial statements not restated	11	4	18	15
Total	**54**	**27**	**38**	**32**
Purchase method	**343**	**317**	**278**	**256**

Pooling of Interests

1.124

APPLIED MATERIALS, INC. (OCT)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 14 (In Part): Acquisitions

On December 11, 1998, Applied Materials acquired Consilium, a supplier of integrated semiconductor and electronics manufacturing execution systems and services, in a stock-for-stock merger accounted for as a pooling of interests. Due to the immateriality of Consilium's historical financial position and results of operations in relation to those of Applied Materials, Applied Materials' prior period financial statements have not been restated. Applied Materials issued 1.7 million shares of its common stock to complete this transaction, and recorded $5 million of transaction costs as a one-time operating expense. The Consilium acquisition did not have a material effect on Applied Materials' financial condition or results of operations for fiscal 1999.

• • • • • •

If all of Applied Materials' fiscal 1999 acquisitions had occurred as of the beginning of fiscal 1998, pro forma net sales, pro forma income from continuing operations, excluding net one-time expenses, and pro forma income from continuing operations per diluted share, excluding net one-time expenses, for fiscal 1998 and 1999 would not have been materially different from the amounts reported.

1.125

HONEYWELL INTERNATIONAL INC. (DEC)

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

Note 2: AlliedSignal-Honeywell Merger

On December 1, 1999, AlliedSignal Inc. (AlliedSignal) and Honeywell Inc. (former Honeywell) completed a merger under an Agreement and Plan of Merger (Merger Agreement) dated as of June 4, 1999. Under the Merger Agreement, a wholly-owned subsidiary of AlliedSignal merged with and into the former Honeywell. As a result of the merger, the former Honeywell has become a wholly-owned subsidiary of AlliedSignal. At the effective time of the merger AlliedSignal was renamed Honeywell International Inc. (Honeywell).

The former Honeywell shareowners were entitled to receive 1.875 shares of Honeywell common stock for each share of the former Honeywell common stock with cash paid in lieu of any fractional shares. As a result, former Honeywell shareowners were entitled to receive approximately 241 million shares of Honeywell common stock valued at approximately $15 billion at the merger date. In addition, outstanding former Honeywell employee stock options were converted at the same exchange factor into options to purchase approximately 10 million shares of Honeywell common stock.

The merger qualified as a tax-free reorganization and was accounted for under the pooling-of-interests accounting method. Accordingly, Honeywell's consolidated financial statements have been restated for all periods prior to the merger to include the results of operations, financial position and cash flows of the former Honeywell as though it had always been a part of Honeywell.

There were no material transactions between AlliedSignal and the former Honeywell prior to the merger and there were no material adjustments to conform the accounting policies of the combining companies.

The net sales and net income previously reported by the separate companies and the combined amounts presented in the accompanying Consolidated Statement of Income are as follows:

	Nine Months Ended September 30, 1999 (unaudited)	Year Ended December 31, 1998	Year Ended December 31, 1997
Net sales			
AlliedSignal	$11,252	$15,128	$14,472
Former Honeywell	6,324	8,427	8,027
Combined	$17,576	$23,555	$22,499
Net income			
Allied Signal	$ 1,121	$ 1,331	$ 1,170
Former Honeywell	413	572	471
Combined	$ 1,534	$ 1,903	$ 1,641

As described in Note 4, fees and expenses related to the merger and costs to integrate the combined companies were expensed in the fourth quarter of 1999.

Purchase Method

1.126

DANA CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 18 (In Part): Acquisitions

In 1999, we acquired Innovative Manufacturing, Inc., a machining operation that supplies machined castings to our Outdoor Power Equipment Components Division. We also acquired the remaining interests not previously owned in Industrias Serva S.A. (30%), Dana Heavy Axle Mexico S.A. de C.V. (9%), Automotive Motion Technology Limited (49%) and Echlin Charger Mfg. Co. Pty. Ltd. (8%). These acquisitions have been accounted for as purchase and the results of operations and earnings previously allocated to minority owners have been included from the dates of acquisition. The sales and total assets were not material.

1.127

EATON CORPORATION (DEC)

FINANCIAL REVIEW
(All references to net income per Common Share assume dilution, unless otherwise indicated.)

Acquisitions of Businesses (In Part)

On April 9, 1999, the Company completed the acquisition of Aeroquip-Vickers, Inc. for $1.623 billion in cash. Aeroquip-Vickers, which had 1998 sales of $2.1 billion, manufactures the following products: all pressure ranges of hose, fittings, adapters, couplings and other fluid power connectors; hydraulic pumps, motors and cylinders; electronic and hydraulic controls; electric motors and drives; filtration products; fluid-evaluation products and services; and precision molded and extruded plastic products. The operating results of Aeroquip-Vickers are reported in Business Segment Information in Fluid Power and Other Components. Funds for the purchase were initially obtained through the issuance of commercial paper, which was partially refinanced through the issuance of $450 million of long-term notes and debentures and the sale of 1.625 million Common Shares for $147 million.

The acquisition was accounted for by the purchase method of accounting and, accordingly, the statements of consolidated income include the results of Aeroquip-Vickers beginning April 9, 1999. The assets acquired and liabilities assumed were recorded at estimated fair values as determined by the Company's management based on information currently available and on current assumptions as to future operations. The Company has obtained preliminary independent appraisals of the fair values of the acquired property, plant and equipment, and identified intangible assets, and their remaining useful lives. The Company is also completing the review and determination of the fair values of the other assets acquired and liabilities assumed. Accordingly, the allocation of the purchase price is subject to revision, which is not expected to be material, based on the final determination of appraised and other fair values. A summary of the assets acquired and liabilities assumed in the acquisition follows:

(Millions)	
Estimated fair values	
Assets acquired	$ 1,765
Liabilities assumed	(1,078)
Goodwill (amortized by the straight-line method over forty years)	936
Purchase price	1,623
Less cash acquired & liability for outstanding shares	(34)
Net cash paid	$ 1,589

As a result of the acquisition of Aeroquip-Vickers, Eaton incurred acquisition integration expenses for the incremental costs to exit and consolidate activities at Aeroquip-Vickers locations, to involuntarily terminate Aeroquip-Vickers employees, and for other costs to integrate operating locations and other activities of Aeroquip-Vickers with Eaton. Generally accepted accounting principles require that these acquisition integration expenses, which are not associated with the generation of future revenues and have no future economic benefit, be reflected as assumed liabilities in the allocation of the purchase price to the net assets acquired. On the other hand, these same principles require that acquisition integration expenses which are associated with the generation of future revenues and have future economic benefit, and those associated with integrating Eaton operations into Aeroquip-Vickers locations, must be recorded as expense. These expenses are discussed in the "Unusual Charges" footnote in the Financial Review. The components of the acquisition integration liabilities included in the purchase price allocation for Aeroquip-Vickers are as follows:

(Millions)	Original costs	Utilized	Balance remaining at December 31, 1999
Workforce reductions	$31	$(28)	$3
Other	1	(1)	0
	$32	$(29)	$3

The acquisition integration liabilities are based on the Company's current integration plan which focuses on three key areas of integration: 1) manufacturing process and supply chain rationalization, including plant closings, 2) elimination of redundant administrative overhead and support activities, and 3) restructuring and repositioning of the sales/marketing and research and development organizations to eliminate redundancies in these activities.

The workforce reductions represent the expected termination of 470 Aeroquip-Vickers employees, primarily administrative personnel. As of December 31, 1999, 460 have been terminated. The balance remaining at December 31, 1999 is expected to be utilized in the first quarter of 2000 and will be funded through cash flows from the combined operations.

Certain aspects of the integration plan will be refined as additional studies are completed, including the evaluation of capacity of existing and acquired facilities to accommodate new manufacturing and administrative processes and the appropriate positioning of the sales/marketing and research development organizations to best serve customer needs. Adjustments to the estimated acquisition integration liabilities based on these refinements will be included in the allocation of the purchase price of Aeroquip-Vickers, if the adjustment is determined within the purchase price allocation period. Adjustments that are determined after the end of the purchase price allocation period will be 1) recorded as a reduction of net income, if the ultimate amount of the liability exceeds the estimate, or 2) recorded as a reduction of goodwill, if the ultimate amount of the liability is below the estimate.

Unaudited pro forma results of operations for the year ended December 31, 1999 and 1998, as if Eaton and Aeroquip-Vickers had been combined as of the beginning of the year, follow. The pro forma results include estimates and assumptions which management believes are reasonable. However, pro forma results do not include any anticipated cost savings or other effects of the planned integration of Eaton and Aeroquip-Vickers, and are not necessarily indicative of the results which would have occurred if the business combination had been in effect on the dates indicated, or which may result in the future.

(Millions except for per share data)	Pro forma Year ended December 31 1999	1998
Net sales	$8,940	$8,775
Net income	605	352
Net income per common share		
assuming dilution	$ 8.20	$ 4.84
Basic	8.34	4.93

1.128

NACCO INDUSTRIES, INC. AND SUBSIDIARIES (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Tabular amounts in millions, except per share and percentage data)

Note 21 (In Part): Acquisitions

Acquisitions of Retail Dealerships: In 1998 NMHG announced and began implementation of a strategy to expand into the retail forklift distribution business. As a result, 100 percent of either the stock or substantially all of the assets of several independent Hyser and Yale retail dealerships were acquired in 1999 and 1998. In addition, two retail dealerships were acquired in 1997. The combined preliminary purchase prices of retail dealerships acquired during 1999 were approximately $62.4 million. The combined purchase prices of retail dealerships acquired during 1998 and 1997 were $16.6 million and $12.2 million, respectively. Funds for the purchases were provided by either borrowings advanced to NMHG Retail by NMHG Wholesale under existing NMHG Wholesale facilities or by internally generated cash flows.

These acquisitions were accounted for as purchases and, accordingly, the results of operations of the acquired businesses are included in the accompanying financial statements from their respective dates of acquisition. On a pro forma basis, as if the businesses had been acquired at the beginning of fiscal 1999 and 1998, respectively, revenue, net income and earnings per share would not differ materially from the amounts reported in the accompanying consolidated financial statements for 1999 and 1998. Goodwill has been recognized for the amount of the excess of the purchase price paid over the fair market value of the net assets acquired and is amortized on a straight-line basis over 40 years. Preliminary goodwill recognized in 1999 as a result of these acquisitions was $24.7 million. Goodwill recognized in 1998 and 1997 was $6.2 million and $4.1 million, respectively.

As a result of these acquisitions, certain liabilities were assumed as follows:

	1999	1998	1997
Noncash Investing Activities			
Fair value of assets acquired	$89.6	$63.7	$16.7
Cash paid for the net assets	(62.4)	(16.6)	(12.2)
Liabilities assumed	$27.2	$47.1	$ 4.5

1.129

PPG INDUSTRIES, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 (In Part): Acquisitions, Business Divestitures and Realignments

During the past three years, we have acquired a number of businesses, all of which were recorded using the purchase method of accounting. Accordingly, the results of operations of the acquired companies have been included in our consolidated results from their respective acquisition dates.

In October 1999, we acquired a majority interest in privately held powder coatings maker Bellaria S.p.A. In July 1999, we acquired the global automotive refinish, automotive and industrial coatings businesses of Imperial Chemical Industries PLC (the ICI business), except for the businesses in the Indian subcontinent, for approximately $677 million and aerospace coatings and sealants maker PRC-DeSoto International, Inc. (PRC-DeSoto) from Akzo Nobel N.V. (Akzo) for approximately $524 million. Although included as part of the original purchase price, the majority of the ICI businesses in Asia was not acquired until the fourth quarter of 1999 and the PRC-DeSoto and ICI businesses in France were not acquired until November 1999. We also acquired the U.S. architectural coatings business of Australian based Wattyl, Ltd. and we completed the acquisition of the German-based specialty coatings business of Imperial Chemical Industries PLC in July 1999. In February 1999, we acquired the commercial transport refinish coatings business of Sigma Coatings B.V., a subsidiary of Belgian refiner PetroFina S.A. Finally, in January 1999, we completed the acquisition of the remaining portion of the global packaging coatings business formerly owned by Courtaulds plc (Courtaulds) from Akzo and the purchase of certain leased assets associated with our 1998 acquisition of the technical coatings business of Orica Ltd. (Orica).

The preliminary purchase price allocations for the 1999 acquisitions are subject to adjustment in 2000 when finalized. In each of the 1999 acquisitions, the preliminary allocation resulted in an excess of purchase price over the fair value of net assets acquired being allocated to goodwill, which is being amortized on a straight-line basis over 40 years.

In connection with the acquisitions of PC-DeSoto and the ICI business, a portion of the purchase price for each acquisition was allocated to purchased in-process research and development (PRI&D) which totaled $21 million and $19 million, respectively. The amounts attributed to IPR&D were expensed at the dates of acquisition as the IPR&D projects had not reached technological feasibility nor had any alternative future use.

The IPR&D projects, which totaled more than 40, primarily related to developing improved environmentally compliant product offerings, such as high solids (low solvents) or waterborne products, were valued through the application of the income approach by independent valuation specialists. The income approach includes an analysis of the markets, projected net cash flows, and technical and commercial risks associated with achieving such cash flows. With respect to the IPR&D projects of PRC-DeSoto and the ICI business, the estimated cash flows were projected over periods ranging from ten to twenty years after the date of the acquisitions, and were discounted at rates ranging from 15% to 30% (the average discount rate utilized was approximately 20%).The discount rates were selected on a project-by-project basis and were based on the Company's weighted average cost of capital adjusted for the risks associated with the estimated growth, profitability, and technical and commercial risks of the acquired IPR&D projects. The nature of the efforts to develop the acquired IPR&D into commercially viable products consists principally of planning, designing and testing activities necessary to determine that the products can meet market expectations, including functionality, technical and performance requirements and specifications. The financial assumptions utilized in the valuation of the IPR&D are consistent with the acquired businesses' historical results, PPG's specific experience and expectations, and general industry levels. Anticipated cost savings and other synergies were not included in the valuation analysis of the IPR&D. The Company expects that the products incorporating the acquired technology will generally be completed and begin to generate cash flows over the three to twenty-four month period after the acquisitions. However, development of these technologies remains a significant risk due to the remaining effort to achieve technical viability, evolving customer markets, uncertain standards and performance specifications for new products, and significant competitive threats from numerous companies.

The valuation of the acquired IPR&D also gave consideration to the stage of completion of the projects at the time of the acquisition and the degree to which the projects relied on prior, existing technology. With respect to the stage of completion, the PRC-DeSoto and the ICI business IPR&D projects were, on average, approximately 46% and 56% complete, respectively, at the dates of acquisition. Similarly, the IPR&D projects' degree of leverage from the applicable developed technologies was approximately 33% for PRC-DeSoto and 36% for the ICI business.

We are currently in the process of refining plans, originally developed at the date of the acquisition, to integrate the operations of the ICI business and PRC-DeSoto that will likely result in certain severance costs. These costs, once determinable, will be accrued as part of the purchase price allocation and will result in an increase in goodwill.

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The following table reflects the results of our operations on a pro forma basis as if the 1999 acquisition had been completed on January 1, 1998, the 1998 acquisitions had been completed on January 1, 1997, and the 1997 acquisitions had been completed on January 1, 1997. Further, the pro forma results of operations do not include after-tax charges of $33 million for IPR&D and $15 million for the fair-market-value adjustment of acquired inventories sold, both of which are associated with the 1999 acquisitions of the ICI business and PRC-DeSoto. The following unaudited pro forma information also excludes the effects of synergies and cost reduction initiatives directly related to all acquisitions. These actions have already commenced and are expected to continue in the year 2000.

(Millions, except per share amounts)	1999	1998	1997
Net sales	$8,178	$8,626	$8,014
Earnings before interest, income taxes and minority interest	$1,191	$1,469	$1,313
Net income	$ 597	$ 788	$ 740
Earnings per common share	$ 3.44	$ 4.45	$ 4.12
Earnings per common share—assuming dilution	$ 3.40	$ 4.41	$ 4.08

The pro forma financial information is not necessarily indicative of the operating results that would have occurred had the acquisitions been consummated as of the dates indicated, nor are they necessarily indicative of future operating results.

Restructuring costs, primarily severance, recorded in the purchase price allocation were $47 million of which $29 million was paid in 1999. The remaining balance of $18 million is expected to be paid in 2000.

The preliminary allocation of the purchase price and estimating goodwill are summarized as follows:

(In millions)	
Cash purchase price	$ 6,692
Cash and cash equivalents	781
Accounts receivable	887
Inventory	537
Nets assets of businesses held for sale	872
Prepaid expenses	137
Current deferred income taxes	105
Property, plant and equipment	1,249
Intangible assets	504
Prepaid pension costs	2,385
Other assets	477
	7,934
Accounts payable	(701)
Other accruals	(1,097)
Debt	(877)
Long-term liabilities	(732)
Long-term deferred income taxes	(717)
	(4,124)
Minority interest	(28)
Purchased in-process research and development	85
Goodwill	$ 2,825

Goodwill is being amortized on a straight-line basis over 40 years. Identifiable intangible assets are being amortized on a straight-line basis over useful lives ranging from 5 to 30 years.

The following unaudited pro forma financial information for the years ended December 31, 1999 and 1998, assumes the LucasVarity acquisition occurred as of the beginning of the respective periods, after giving effect to certain adjustments, including the amortization of intangible assets, interest expense on acquisition debt, depreciation based on the adjustments to the fair market value of the property, plant and equipment acquired write-off of purchased in-process research and development, incremental pension income and related income tax effects. The pro forma results have been prepared for comparative purposes only and are not necessarily indicative of the results of operations that may occur in the future or that would have occurred had the acquisition of LucasVarity been affected on the dates indicated.

(In million except per share data) Years ended (unaudited)	1999	1998
Sales	$18,595	$18,964
Net earnings	624	641
Diluted earnings per share	5.05	5.15

1.130

TRW INC. AND SUBSIDIARIES (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Acquisitions (In Part)

LucasVarsity

On February 6, 1999, the Company commenced an offer for the entire issued share capital of LucasVarsity. On March 25, 1999, the offer was declared unconditional in all respects. On May 10, 1999, the Company compulsorily acquired all shares that had not been acquired in the offer, thereby closing the acquisition of Lucas Varsity.

LucasVarsity manufactures and supplies advanced technology systems, products and services in the automotive and aerospace industries. It is a major producer of braking systems, fuel injection systems, and electrical and electronic systems to the automotive industry and has a significant position in automotive aftermarket operations and services. LucasVarsity provides the aerospace industry with high integrity systems in engine controls, electrical power generation and management, flight controls and cargo handling, all backed by a worldwide customer support operation.

The aggregate cash purchase price and assumed net debt for LucasVarsity was approximately $6.8 billion. The transaction was accounted for as a purchase. Assets and liabilities have been recorded based on their respective fair values. The purchase price allocation resulted in an $85 million charge to earnings, with no income tax benefit, for the fair value of acquired in-process research and development that had not reached technological feasibility and had no future alternative use, $504 million for identifiable intangible assets including intellectual property and workforce, and incremental fair value adjustments of approximately $1.5 billion for prepaid pension cost, primarily from an overfunded pension plan, $200 million for the valuation of fixed rate debt and the write-up of inventory of $30 million and fixed assets of $143 million.

The fair value of acquired in-process research and development was determined by an independent valuation using the income approach under the proportional method. The following projects were included in the valuation: next generation caliper of $26 million, next generation anti-lock braking systems (ABS) of $23 million, aerospace engine controls of $18 million, electro hydraulic braking of $12 million and electrical parking brake of $6 million. The fair value of identifiable intangible assets was determined primarily using the income approach. A risk adjusted discount rate of 18 percent, representing the cost of capital and premium for the risk, was used to discount the projects' cash flows. Operating margins were assumed to be similar to historical margins of similar products. The size of the applicable market was verified for reasonableness with outside research sources. The projects were in various stages of completion, ranging from approximately 40 to 80 percent, as of the valuation date. The stage of completion for each project was estimated by evaluating the cost to complete, complexity of the technology and time to market. The projects are anticipated to be completed by 2002. The estimated cost to complete the projects was $65 million.

During 1999, certain pre-acquisition contingencies were adjusted. The preliminary allocation of the purchase price incorporates these items and may be adjusted through March 2000 based on changes to pre-acquisition contingencies, completion of TRW management's assessment of the recognition of liabilities in connection with the acquisition of LucasVarsity in accordance with EITF 95-3 and for the valuation of net assets of businesses held for sale based upon actual proceeds received from the sale of these businesses. Adjustments, if any, are not expected to have a material effect on the Company's results of operations or financial condition.

1.131

UNISYS CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3 (In Part): Acquisitions

During 1999, the company acquired the following companies: Datamec, a Brazilian application outsourcing company; Motay Electronics, a U.S.-based company that provides advanced automated burn-in systems and products to the semiconductor industry; and City Lifeline Systems Limited, a U.K.-based company that provides software and solutions for organizations trading in fixed income securities. These companies were acquired for an aggregate purchase price of approximately $60.0 million and were accounted for under the purchase method of accounting.

Formation of Jointly Owned Companies

1.132

AIR PRODUCTS AND CHEMICALS, INC. AND SUBSIDIARIES (SEP)

NOTES TO THE FINANCIAL STATEMENTS

17 (In Part): Acquisitions and Divestitures

Wacker-Chemie Joint Venture

On October 1, 1998, Air Products and Chemicals, Inc. and Wacker-Chemie GmbH formed two joint ventures to consolidate their respective positions in polymer emulsions and redispersible powder polymers businesses. The combined annual sales of the ventures were approximately $800 million in fiscal 1999. The ventures extend the Company's strategy to continue globalization of the chemicals segment by establishing manufacturing and support facilities in key regions.

The polymer emulsions joint venture, Air Products Polymers, L.P. (APP), is headquartered in the United States and has facilities in Germany, Mexico, Korea, and several locations in the United States. Air Products has a 65% interest in the venture and Wacker-Chemie has 35% interest. This venture is consolidated into Air Products' financial statements and the Wacker-Chemie interest accounted for as a minority interest. The accounting for this transaction as a business combination resulted in the partial sale of assets, with a gain of $34.9 million ($23.6 million after-tax, or $.11 per share).

The redispersible powders venture, Wacker Polymer Systems (WPS), is headquartered in Germany, with manufacturing facilities in Germany and the United States. Air Products has a 20% interest in this venture and reports the results by the equity accounting method.

Air Products' fiscal 1999 sales were approximately $110 million higher than would have occurred without the ventures. After the Wacker-Chemie minority interest eliminations, net income in the initial year of operation was approximately the same as before the ventures.

CONTINGENCIES

1.133 *Statement of Financial Accounting Standards No. 5* defines a contingency as "an existing condition, situation or set of circumstances involving uncertainty as to possible gain or loss to an enterprise that will ultimately be resolved when one or more future events occur or fail to occur." Paragraphs 8-16 of *SFAS No. 5* set forth standards of financial accounting and reporting for loss contingencies. Paragraph 17 of *SFAS No. 5* states the accounting and reporting standards for gain contingencies. Table 1-11 lists the loss and gain contingencies disclosed in the annual reports of the survey companies.

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

1.135

TABLE 1-11: CONTINGENCIES

	Number of Companies			
	1999	**1998**	**1997**	**1996**
Loss Contingencies				
Litigation	469	452	433	431
Environmental	261	266	286	296
Insurance	67	56	67	68
Government investigations	51	31	39	36
Possible tax assessments	45	54	52	53
Other—described	64	56	57	54
Gain Contingencies				
Operating loss carryforward	333	293	307	277
Tax credits and other tax credit carryforwards	86	N/C*	N/C*	N/C*
Alternative minimum tax carryforward	80	N/C*	N/C*	N/C*
Investment credit carryforward	49	34	42	32
Plaintiff litigation	27	39	44	40
Capital loss carryforward	25	N/C*	N/C*	N/C*
Other—described	5	12	12	12

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

LOSS CONTINGENCIES

Litigation

1.136

AK STEEL HOLDING CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars in millions)

13 (In Part): Legal, Environmental Matters and Contingencies

In January 1996, an action was filed in the Court of Common Pleas of Butler County, Ohio on behalf of four named plaintiffs who purport to represent a class of plaintiffs consisting of all hourly employees at the Company's Middletown Works and all hourly employees of independent contractors working at the facility since June 1992. The complaint has twice been amended to add additional named plaintiffs. The plaintiffs allege negligence and intentional tort and seek compensatory and punitive damages in an unspecified amount for alleged dangerous working conditions at the Company's Middletown Works. In March 1997, the Court granted plaintiffs' motion to certify a class. The Company's appeal of this decision to the Ohio Supreme Court was denied on July 29, 1998. On November 2, 1998, the Company filed motions in the trial court for an order vacating class certification and for partial summary judgment on the grounds of federal preemption. Both motions are pending. The Court of Common Pleas has set a trial date of June 2000.

On January 20, 1998, judgment against AK Steel in the amount of $6.5 was entered by the United States District

Court for the Southern District of Ohio, following a jury trial in a disability discrimination lawsuit brought by a former employee. On January 30, 1998, AK Steel moved for judgment in its favor as a matter of law, reduction of the damages and a new trial. Subsequent to December 31, 1999, the court reduced the jury verdict to $1.5. The Company subsequently filed a motion for relief from that judgment, which is pending.

1.137

AMPCO-PITTSBURGH CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 13: Litigation

The Corporation's subsidiary, Vulcan Inc. (Vulcan), is a 50% general partner in Valley-Vulcan Mold Company (Valley), a partnership, which filed under Chapter 11 of the U.S. Bankruptcy Code in 1990. Valley, in connection with its formation, assumed certain obligations of each of the partners, including Vulcan's obligation to pay an industrial revenue bond. A portion of the latter obligation, however, had been paid by the Corporation pursuant to a guaranty given at the time of Valley's formation, which guaranty was secured by all of Valley's assets. In 1991, the unsecured creditors committee brought an adversary proceeding against the Corporation and Vulcan, as well as others, seeking to set aside the Corporation's liens, to hold the Corporation and Vulcan liable for debts of Valley, and for return of certain funds received in connection with Valley's formation.

In April 1994, the Bankruptcy Court issued a favorable judgment denying all claims against the Corporation. In addition, the Court permitted the Corporation to recover $2,200,000 from the estate of Valley in connection with the Corporation's lien for the industrial revenue bond guaranty. Subsequently, the unsecured creditors committee appealed this judgement, however, in August 1999, the Bankruptcy Appellate Panel for the Sixth Circuit (BAP) affirmed the Court's decision in favor of the Corporation. The unsecured creditors committee has since appealed the BAP's decision. No reserve had been established for the outcome of this litigation based on the Corporation's belief that it had meritorious defenses. A bank letter of credit for the $2,200,000 received from the estate remains posted pending the outcome of the appeal.

In addition to the litigation noted above, the Corporation is from time to time subject to routine litigation incidental to its business. The Corporation believes that the results of the above noted litigation and other pending legal proceedings will not have a material adverse effect on the financial condition, results of operations or liquidity of the Corporation.

1.138

BECTON, DICKINSON AND COMPANY (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

13 (In Part): Commitments and Contingencies

Contingencies (In Part)

The Company, along with a number of other manufacturers, has been named as a defendant in approximately 300 product liability lawsuits related to natural rubber latex that have been filed in various state and Federal courts. Cases pending in Federal court are being coordinated under the matter In re Latex Gloves Products Liability Litigation (MDL Docket No. 1148) in Philadelphia, and analogous procedures have been implemented in the state courts of California, Pennsylvania, New Jersey and New York. Generally, these actions allege that medical personnel have suffered allergic reactions ranging from skin irritation to anapylaxis as a result of exposure to medical gloves containing natural rubber latex. In 1986, the Company acquired a business which manufactured, among other things, latex surgical gloves. In 1995, the Company divested this glove business. The Company is vigorously defending these lawsuits.

The Company, along with another manufacturer and several medical product distributors, has been named as a defendant in eleven product liability lawsuits relating to health care workers who allegedly sustained accidental needle sticks, but have not become infected with any disease. The case brought in California under the caption Chavez vs. Becton Dickinson (Case No. 722978, San Diego County Superior Court), filed on August 4, 1998 was dismissed in a judgment filed March 19, 1999 which has been appealed by plaintiffs. The case brought in Florida under the caption Delgado vs. Becton Dickinson et al. (Case No. 98-5608, Hillsborough County Circuit Court), filed on July 24, 1998 was voluntarily withdrawn by the plaintiffs on March 8, 1999. Cases have been filed on behalf of an unspecified number of health care workers in nine other states, seeking class action certification under the laws of these states. To date, no class has been certified in any of these cases. The nine remaining actions are pending in state court in Texas, under the caption Usrey vs. Becton Dickinson et al. (Case No. 342-173329-98, Tarrant County District Court), filed on April 9, 1998; in Federal court in Ohio, under the caption Grant vs. Becton Dickinson et al. (Case No. C2 98-844, Southern District of Ohio), filed on July 22, 1998; in state court in Illinois, under the caption McCaster vs. Becton Dickinson et al. (Case No. 98L09478, Cook County Circuit Court), filed on August 13, 1998; in state court in Oklahoma, under the caption Palmer vs. Becton Dickinson et al. (Case No. CJ-98-685, Sequoyah County District Court), filed on October 27, 1998; in state court in Alabama, under the caption Daniels vs. Becton Dickinson et al. (Case No. CV 1998 2757, Montgomery County Circuit Court), filed on October 30, 1998; in state court in South Carolina, under the caption Bales vs. Becton Dickinson et al. (Case No. 98-CP-40-4343, Richland County Court of Common Pleas), filed on November 25, 1998; in state court in Pennsylvania, under the caption Brown vs. Becton Dickinson et al. (Case No. 03474, Philadelphia County Court of Common Pleas), filed on November 27, 1998; in state court in New Jersey, under the caption Pollak, Swartley vs. Becton Dickinson et al. (Case No. L-9449-98, Camden County Superior Court), filed on December 7, 1998; and in state court in New York, under the caption Benner vs. Becton Dickinson et al. (Case No. 99-111372, Supreme Court of the State of New York), filed on June 1, 1999.

Generally, these remaining actions allege that health care workers have sustained needle sticks using hollow-bore needle devices manufactured by the Company and, as a result, require medical testing, counseling and/or treatment. Several actions additionally allege that the health care workers have sustained mental anguish. Plaintiffs seek money damages in all remaining actions.

In June 1999, a class certification hearing was held in the matter of Usrey vs. Becton Dickinson et al., which was first filed in Texas state court on April 9, 1998, under the caption Calvin vs. Becton Dickinson et al. The Court had advised the parties by letter received on October 27, 1999 that it believes that it is appropriate to address the issues in the case by way of a class action under Texas procedural law.

The Company continues to oppose class action certification in these cases and will continue vigorously to defend these lawsuits, including pursuing all appropriate rights of appeal.

The Company, along with another manufacturer, a group purchasing organization ("GPO") and three hospitals, has been named as a defendant in an antitrust action brought pursuant to the Texas Free Enterprise Act ("TFEA"). The action is pending in state court in Texas, under the caption Retractable Technologies Inc. vs. Becton Dickinson and Company et al. (Case No. 5333*JG98, Brazoria County District Court), filed on August 4, 1998. Plaintiff, a manufacturer of retractable syringes, alleges that the Company's contracts with GPOs exclude plaintiff from the market in syringes and blood collection products, in violation of the TFEA. Plaintiff also alleges that the Company has conspired with other manufacturers to maintain its market share in these products. Plaintiff seeks money damages. The pending action is in preliminary stages. The Company intends to mount a vigorous defense in this action.

The Company is also involved in other legal proceedings and claims which arise in the ordinary course of business, both as a plaintiff and a defendant.

In the opinion of the Company, the results of the above matters, individually and in the aggregate, are not expected to have a material effect on its results of operations, financial condition or cash flows.

1.139

BRUNSWICK CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6 (In Part): Commitments and Contingencies

Legal and Environmental (In Part). The Company is subject to certain legal and environmental proceedings and claims that have arisen in the ordinary course of its business.

On June 19, 1998, a jury awarded $133.2 million, after trebling, in damages to Independent Boat Builders, Inc., a buying group of boat manufacturers and 22 of its members, in a suit brought against the Company in December 1995. The lawsuit, *Concord Boat Corporation, et al. v. Brunswick Corporation (Concord),* was filed in the United States District Court for the Eastern District of Arkansas, and alleged that the Company unlawfully monopolized, unreasonably restrained trade in, and made acquisitions that substantially lessened competition in the market for sterndrive and inboard marine engines in the United States and Canada. Under the antitrust laws, the damage award was trebled, and plaintiffs were awarded attorneys' fees and interest on both the award and attorneys' fees. Under current law, any and all amounts paid by the Company will be deductible for tax purposes.

The Company filed an appeal contending the *Concord* verdict was erroneous as a matter of law, both as to liability and damages, and plaintiffs filed a cross appeal. Oral argument was heard by the appeals court in September 1999 and the Company is currently awaiting a ruling.

Following the *Concord* verdict, six additional suits were filed, including five class-action lawsuits seeking to rely on the allegations and findings of that verdict. The Company has reached agreements to settle or dismiss all of these lawsuits. As a result, the Company recorded a charge to operating earnings of $116.0 million in 1999. Payments relating to these settlements totaled $57.6 million in 1999, with the remainder expected to be paid through 2001. The settled lawsuits are described below.

On October 23, 1998, a suit was filed in the United States District Court for the District of Minnesota by two independent boat builders alleging antitrust violations by the Company in the sterndrive and inboard engine business, seeking to rely on both the liability and damage findings of the *Concord* litigation. In this suit, *KK Motors et al. v. Brunswick Corporation (KK Motors),* the named plaintiffs sought to represent a class of all allegedly similarly situated boat builders whose claims were not resolved in *Concord* or in other judicial proceedings.

On December 23, 1998, Volvo Penta of the Americas, Inc., the Company's principal competitor in the sale of sterndrive marine engines, filed suit in the United States District Court for the Eastern District of Virginia. That suit, *Volvo Penta of the Americas v. Brunswick Corporation (Volvo),* also invoked the antitrust allegations of the *Concord* action and sought injunctive relief and damages in an unspecified amount for an unspecified time period.

On February 10, 1999, a former dealer of the Company's boats filed suit in the United States District Court for the District of Minnesota, also seeking to rely on the liability findings of the *Concord* action. This suit, *Amo Marine Products, Inc. v. Brunswick Corporation (Amo),* sought class status purporting to represent a class of all marine dealers who purchased directly from the Company sterndrive or inboard engines or boats equipped with sterndrive or inboard engines during the period January 1, 1986, to June 30, 1998. On March 31, 1999, another suit, *Jack's Marina, Inc. v. Brunswick (Jack's Marina),* was filed in the same court seeking to represent the same putative class as *Amo.* On September 16, 1999, another suit, *Howard S. Cothran, d/b/a Sonny's Marine v. Brunswick Corporation (Cothran),* was filed in the United States District Court for the Southern District of Illinois seeking to represent the same putative class as *Amo.*

On February 16, 1999, a suit was filed in the Circuit Court of Washington County, Tennessee, by an individual claiming that the same conduct challenged in the *Concord* action violated various antitrust and consumer protection laws of 16 states and the District of Columbia. In that suit, *Couch v. Brunswick (Couch),* plaintiff sought to represent a class of all indirect purchasers of boats equipped with Brunswick sterndrive or inboard engines in these 17 jurisdictions. The plaintiff claimed damages in an unspecified amount during the period from 1986 to the filing of the complaint and also requested injunctive relief.

The settlement with the boat builders comprising the named class in *KK Motors* included a subgroup of boat builders, the American Boatbuilders Association (ABA). Under the terms of the agreement with the ABA, the Company has paid the ABA $35 million. If, as a result of the *Concord* appeal or in settlement, the Company ultimately makes a payment to the *Concord* plaintiffs in excess of $35 million, the Company will make an equal payment to the ABA, less $35 million already paid to the ABA. If the Company makes no payment to the *Concord* plaintiffs, or payment in an amount less than $35 million, the Company will not be required to make any additional payment to the ABA. In addition, as part of the *Volvo* settlement, the Company has entered into a long-term supply agreement to purchase diesel sterndrive and inboard engines from Volvo for use in certain models of boats manufactured by the Company. The *Couch* and *KK Motors* class-action settlements are subject to approval by the courts.

While there can be no assurance, the Company believes it is likely to prevail on the *Concord* appeal and obtain either a new trial or judgment in its favor. In addition, the Company is unable to predict the outcome of the *Concord* case, and accordingly, no expense for this case has been recorded. If the *Concord* judgment is sustained after all appeals, however, the additional amounts the Company would be required to pay to conclude all of the lawsuits described above would total, as of the date of the filing of the 1999 Annual Report on Form 10-K, approximately $262.0 million.

On October 26, 1999, a jury awarded Precor, a subsidiary of Illinois Tool Works, Inc., approximately $5.2 million in a patent infringement trial against Life Fitness, on the basis that certain Life Fitness treadmills willfully infringed a Precor design patent. Precor was also awarded up to $5.3 million in attorneys' fees and will be entitled to prejudgment interest on the damage award. The Company will appeal the verdict and the award of attorneys' fees. While there can be no assurance, the Company believes it is likely to prevail on the Precor appeal and obtain either a new trial or judgment in its favor. In addition, the Company is unable to predict the outcome of the Precor case, and accordingly, no expense for this case has been recorded.

1.140

GEORGIA GULF CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

15 (In Part): Commitments and Contingencies

Legal Proceedings—Georgia Gulf is a party to numerous individual and several class-action lawsuits filed against it, among other parties, arising out of an incident that occurred in September 1996 in which workers were exposed to a chemical substance on our premises in Plaquemine, Louisiana. The substance was later identified to be a form of mustard agent, a chemical which is not manufactured as part of our ordinary operations but instead occurred as a result of an unforeseen chemical reaction. All of the actions claim one or more forms of compensable damages, including past and future wages and past and future physical and emotional pain and suffering. The lawsuits were originally filed in Louisiana State Court in Iberville Parish.

Discovery has been occurring in these cases. We continue to develop information relating to the extent of damages suffered as well as evaluate the merit of such claims, defenses available and liability of other persons.

In September 1998, the plaintiffs filed amended petitions that added the additional allegations that Georgia Gulf had engaged in intentional conduct against the plaintiffs. These additional allegations raised a coverage issue under our general liability insurance policies. In December 1998, as required by the terms of the insurance policies, the insurers demanded arbitration to determine whether coverage is required for the alleged intentional conduct in addition to the coverage applicable to the other allegations of the case. The date for the arbitration has not yet been established.

As a result of the arbitration relating to the insurance issue, as permitted by federal statute, the insurers removed the cases to United States District Court in December 1998. By order entered March 2, 1999, the federal court refused the plaintiff's request to send the cases back to state court and retained federal jurisdiction.

We have settled the claims of all but 18 worker plaintiffs (and their collaterals) who had filed suit prior to removal. These settlements included the vast majority of those claimants believed to be the most seriously injured. The settled cases are in the final processes of being dismissed with prejudice. Negotiations regarding the remaining claims of the 18 worker plaintiffs are ongoing.

Following these settlements, Georgia Gulf has been sued by approximately 300 additional plaintiff workers (and their collaterals) who claim that they were injured as a result of the incident. Georgia Gulf believes that most, if not all, of these new plaintiffs have no valid basis to claim exposure and have filed suit only as a result of their knowledge of the previous settlements. We believe we have significant defenses to these new claims, including that most of the new plaintiffs were statutory employees who are barred from bringing tort claims against us, the claims are proscribed by the applicable statute of limitations and the plaintiffs have no injuries causally related to their claimed exposure. We intend to vigorously defend against these new claims.

Notwithstanding the foregoing, we are asserting and pursuing defenses to the claims. Based on the present status of the proceedings, we believe the liability ultimately imposed on us will not have a material effect on our financial position or on our results of operations.

In addition, we are subject to other claims and legal actions that may arise in the ordinary course of business. We believe that the ultimate liability, if any, with respect to these other claims and legal actions will not have a material effect on our financial position or on our results of operations.

1.141

HUNT CORPORATION AND SUBSIDIARIES (NOV)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

14 (In Part): Commitments and Contingencies

Contingencies (In Part):

The Company has been sued for patent infringement with respect to one of its minor products. After a jury trial, the U.S. District in the Western District of Wisconsin entered judgment against the Company in this matter and awarded damages to the plaintiffs in the amount of $3.3 million, plus interest and costs. The verdict has been appealed, and a decision of the Court of Appeals is expected within the relatively near future. The Company and its patent legal counsel believe that the verdict against the Company in the trial court was incorrect and that it will be reversed on appeal. Accordingly, the Company has not recorded any liability in its financial statements associated with this judgment. However, there can be no assurance that the Company will prevail in this matter. In the event of an unfavorable final judgment against the Company, management believes that it will not have a material impact on the Company's financial position, but it could have a material effect on quarterly or annual results of operations.

There are other contingent liabilities with respect to product warranties, legal proceedings and other matters occurring in the normal course of business. In the opinion of management, all such matters are adequately covered by insurance or by accruals, and if not so covered, are without merit or are of such kind, or involve such amounts, as would not have significant effect on the financial condition or results of operations of the Company, if disposed of unfavorably.

1.142

PHILIP MORRIS COMPANIES (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 15: Contingencies

Legal proceedings covering a wide range of matters are pending or threatened in various United States and foreign jurisdictions against the Company, its subsidiaries and affiliates, including PM Inc., the Company's domestic tobacco subsidiary, and Philip Morris International Inc. ("PMI"), the Company's international tobacco subsidiary, and their respective indemnities. Various types of claims are raised in these proceedings, including product liability, consumer protection, antitrust, tax, patent infringement, employment matters, claims for contribution and claims of competitors and distributors.

Overview of Tobacco-Related Litigation

Types and Number of Cases: Pending claims related to tobacco products generally fall within the following categories: (i) smoking and health cases alleging personal injury brought on behalf of individual plaintiffs, (ii) smoking and health cases primarily alleging personal injury and purporting to be brought on behalf of a class of individual plaintiffs, (iii) health care cost recovery cases brought by governmental (both domestic and foreign) and non-governmental plaintiffs seeking reimbursement for health care expenditures allegedly caused by cigarette smoking and/or disgorgement of profits, and (iv) other tobacco-related litigation, including suits by former asbestos manufacturers seeking contribution or reimbursement for amounts expended in connection with the defense and payment of asbestos claims that were allegedly caused in whole or in part by cigarette smoking. Damages claimed in some of the smoking and health class actions, health care cost recovery cases and asbestos contribution cases range into the billions of dollars. Plaintiffs' theories of recovery and the defenses raised in the smoking and health and health care cost recovery cases are discussed below.

As of December 31, 1999, there were approximately 380 smoking and health cases filed and served on behalf of individual plaintiffs in the United States against PM Inc. and, in some cases, the Company, compared with approximately 510 such cases on December 31, 1998, and approximately 375 such cases on December 31, 1997. Approximately 13 of the individual cases involve allegations of various personal injuries allegedly related to exposure to environmental tobacco smoke ("ETS"). In January 2000, approximately 300 additional individual cases were filed in Florida by current and former flight attendants claiming personal injuries allegedly related to ETS. The flight attendants were members of an ETS smoking and health class action which was settled in 1998. The terms of the court-approved settlement in that case allowed class members to file individual lawsuits seeking compensatory damages, but prohibited them from seeking punitive damages.

In addition, as of December 31, 1999, there were approximately 50 smoking and health putative class actions pending in the United States against PM Inc. and, in some cases, the Company (including eight that involve allegations of various personal injuries related to exposure to ETS), compared with approximately 60 such cases on December 31, 1998, and approximately 50 such cases on December 31, 1997. Many of these actions purport to constitute statewide class actions and were filed after May 1996 when the United States Court of Appeals for the Fifth Circuit, in the *Castano* case, reversed a federal district court's certification of a purported nationwide class action on behalf of persons who were allegedly "addicted" to tobacco products.

As of December 31, 1999, there were approximately 60 health care cost recovery actions pending in the United States (excluding the cases covered by the 1998 Master Settlement Agreement discussed below), compared with approximately 95 health care cost recovery cases pending on December 31, 1998, and 105 cases on December 31, 1997.

There are also a number of tobacco-related actions pending outside the United States against PMI and its affiliates and subsidiaries, including approximately 55 smoking and health cases initiated by one or more individuals (Argentina (38), Brazil (2), Canada (1), Germany (3), Hong Kong (1), Ireland (1), Italy (1), Japan (1), the Philippines (1), Poland (2), Scotland (1), Spain (1) and Turkey (2)), compared with approximately 27 such cases on December 31, 1998. In addition, there are 10 smoking and health putative class actions pending outside the United States (Australia (2), Brazil (3), Canada (3), Israel (1) and Nigeria (1)), compared with six in December 1998. In addition, during the past two years, health care cost recovery actions have been brought in Israel, the Marshall Islands, British Columbia, Canada and France (by a local agency of the French social security health insurance system) and, in the United States, by Bolivia, Guatemala (dismissed, as discussed below), Panama, Nicaragua, Thailand (voluntarily dismissed), Ukraine, Venezuela and the States of Goias and Rio de Janeiro, Brazil.

Federal Government's Lawsuit: In September 1999, the U.S. government filed a lawsuit in the U.S. District Court for the District of Columbia against various cigarette manufacturers and others, including the Company and PM Inc., asserting claims under three federal statutes, the Medical Care Recovery Act, the Medicare Secondary Payer provisions of the Social Security Act, and the Racketeer Influenced and Corrupt Organizations Act ("RICO"). The lawsuit seeks to recover an unspecified amount of health care costs for tobacco-related illnesses allegedly caused by defendants' fraudulent and tortuous conduct and paid for by the government under various federal health care programs, including Medicare, military and veterans' health benefits programs and the Federal Employees Health Benefits Program. The complaint alleges that such costs total more than $20 billion annually. It also seeks various types of equitable and declaratory relief, including disgorgement, an injunction prohibiting certain actions by the defendants, and a declaration that the defendants are liable for the federal government's future costs of providing health care resulting from defendants' alleged past tortuous and wrongful conduct. In December 1999, the Company and PM Inc. filed a motion to dismiss this lawsuit on numerous grounds, including that the statutes invoked by the government do not provide a basis for the relief sought. The Company and PM Inc. believe that they have a number of valid defenses to the lawsuit and will vigorously defend it.

Industry Trial Results: There have been several jury verdicts in tobacco-related litigation during the past three years. In July 1999, a Louisiana jury returned a verdict in favor of defendants in an individual smoking and health case against other cigarette manufacturers. Also in July 1999, the jury in the *Engle* smoking and health class action pending in Florida returned a verdict against PM Inc. and several other tobacco companies in "Phase One" of the trial, which concerned certain issues determined by the trial court to be "common" to the causes of action of the plaintiff class. Liability and damages in relation to any individual class member were not decided in Phase One (see *"Engle Trial,"* below, for a more detailed discussion of the Phase One verdict and certain other developments in this case). In June 1999, a Mississippi jury returned a verdict in favor of defendants, including PM Inc., in an action brought on behalf of an individual who died allegedly as a result of exposure to ETS. In May 1999, a Missouri jury returned a verdict in favor of defendant in an individual smoking and health case against another cigarette manufacturer. Also in May 1999, a Tennessee jury returned a verdict in favor of defendants, including PM Inc., in two of three individual smoking and health cases consolidated for trial. In the third case (not involving PM Inc.), the jury found liability against defendants and apportioned fault equally between plaintiff and defendants. Under Tennessee's system of modified comparative fault, because the jury found plaintiff's fault equal to that of defendants, recovery was not permitted.

In March 1999, an Oregon jury awarded $800,000 in actual damages, $21,500 in medical expenses and $79.5 million in punitive damages against PM Inc. In February 1999, a California jury awarded $1.5 million in compensatory damages and $50 million in punitive damages against PM Inc. The punitive damaged awards in the Oregon and California actions have been reduced to $32 million and $25 million, respectively. PM Inc. is appealing the verdicts and the damage awards in these cases.

In March 1999, a jury returned a verdict in favor of defendants, including PM Inc., on all counts in a union health care cost recovery action brought on behalf of approximately 114 employer-employee trust funds in Ohio.

Previously, juries had returned verdicts for defendants in three individual smoking and health cases and in one individual ETS smoking and health case. In January 1999, a Florida court set aside a jury award totaling approximately $1 million in a smoking and health case against another United States cigarette manufacturer and ordered a new trial in the case. In June 1998, a Florida appeals court reversed a $750,000 jury verdict awarded in August 1996 against another United States cigarette manufacturer, and the Florida Supreme Court has heard oral arguments on this ruling. In 1997, a court in Brazil awarded plaintiffs in a smoking and health case the Brazilian currency equivalent of $81,000, attorneys' fees and a monthly annuity for 35 years equal to two-thirds of the deceased smoker's last monthly salary. In March 1999, an appeals court reversed the trial court's award and dismissed the case. Neither the Company nor its affiliates were parties to that action.

In December 1999, a French court in an action brought on behalf of a deceased smoker, found that another cigarette manufacturer had a duty to warn him about risks associated with smoking prior to 1976, when the French government required warning labels on cigarette packs, and failed to do so. The court did not determine causation or liability, which shall be considered in future proceedings. Neither the Company nor its affiliates are parties to this action.

Engle Trial: Trial in this Florida smoking and health class action case began in July 1998. The plaintiff class seeks compensatory and punitive damages, each in excess of $100 billion, as well as attorneys' fees and court costs. The class consists of all Florida residents and citizens, and their survivors, "who have suffered, presently suffer or have died from diseases and medical conditions caused by their addiction to cigarettes that contain nicotine."

On July 7, 1999, the jury returned a verdict against defendants in Phase One of the three-phase trial plan. The Phase One verdict concerned certain issues determined by the trial court to be "common" to the causes of action of the plaintiff class. Among other things, the jury found that smoking cigarettes causes 20 diseases or medical conditions, that cigarettes are addictive or dependence-producing, defective and unreasonably dangerous, that defendants made materially false statements with the intention of misleading smokers, that defendants concealed or omitted material information concerning the health effects and/or the addictive nature of smoking cigarettes and agreed to misrepresent and conceal the health effects and/or the addictive nature of smoking cigarettes, and that defendants were negligent and engaged in extreme and outrageous conduct or acted with reckless disregard with the intent to inflict emotional distress. The jury also found that defendants' conduct "rose to a level that would permit a potential award or entitlement to punitive damages."

Liability and damages in relation to any individual class member were not decided in Phase One. Phase Two of the trial commenced on November 1, 1999. During this phase, the claims of three of the named plaintiffs are being adjudicated in a consolidated trial before the same jury that returned the verdict in Phase One. Under the trial plan, the jury in Phase Two will determine issues of specific causation, reliance, affirmative defenses, and other individual-specific issues related to the claims of the named plaintiffs and their entitlement to damages, if any.

Phase Three of the trial plan would address other class members' claims, including issues of specific causation, reliance, affirmative defenses and other individual-specific issues regarding entitlement to damages, in individual trials before separate juries.

By order dated July 30, 1999, and supplemented on August 2, 1999 (together, the "order"), the trial judge amended the trial plan in respect of the manner of determining punitive damages, if any. The order provides that the jury in Phase Two will determine punitive damages, if any, on a dollar-amount basis for the entire qualified class. By order of September 3, 1999, the Third District Court of Appeal quashed the July 30, 1999 and August 2, 1999 orders of the trial judge and stated that both compensatory and punitive damages must be tried on an individual as opposed to class-wide basis. On September 17, 1999, the Third District Court of Appeal, on its own motion, vacated its September 3 order, and, on October 20, 1999, ruled that defendants could not challenge the trial plan for determining punitive damages at this stage of the proceedings; the ruling expressly declined to address the merits of whether a class-wide determination of punitive damages is permissible but deferred the court's review of that issue for any appropriate subsequent appeal. Defendants sought review by the Florida Supreme Court of the Third District Court of Appeal's ruling. In December 1999, the Florida Supreme Court denied defendants' petition for review, noting that it did so without prejudicing defendants' rights to raise the same issues in subsequent appeals.

It is unclear how the trial court's order will be implemented. The order provides that the punitive damage amount, if any, should be standard as to each class member and acknowledges that the actual size of the class will not be known until the last case has withstood appeal, i.e., the punitive damage amount, if any, determined for the entire qualified class, would be divided equally among those plaintiffs who are ultimately successful. The order does not address whether defendants would be required to pay the punitive damage award, if any, prior to a determination of claims of all class members, a process that could take years to conclude. PM Inc. and the Company do not believe that an adverse class-wide punitive damage award in Phase Two would permit entry of a judgment at that time that would require the posting of a bond to stay its execution pending appeal or that any party would be entitled to execute on such a judgment in the absence of a bond. However, in a worst case scenario, it is possible that a judgment for punitive damages could be entered in an amount not capable of being bonded, resulting in an execution of the judgment before it could be set aside on appeal. PM Inc. and the Company believe that such a result would be unconstitutional and would also violate Florida laws. PM Inc. and the Company will take all appropriate steps to seek to prevent this worst case scenario from occurring and believe these efforts should be successful.

In other developments, in August 1999, the trial judge denied a motion filed by PM Inc. and other defendants to disqualify the judge. The motion asserted, among other things, that the trial judge was required to disqualify himself because he has a serious medical condition of a type that the plaintiffs claim, and the jury has now found, is caused by smoking, making him financially interested in the result of the case and, under plaintiffs' theory of the case, a potential member of the plaintiff class. The Third District Court of Appeal denied defendants' petition to disqualify the trial judge. The defendants filed motions seeking reconsideration of this decision and to supplement the record with the deposition testimony of an expert witness. The Third District Court of Appeal denied defendants' motions.

PM Inc. and the Company remain of the view that the *Engle* case should not have been certified as a class action. That certification is inconsistent with the overwhelming majority of federal and state court decisions that have held that mass smoking and health claims are inappropriate for class treatment. PM Inc. intends to challenge the class certification, as well as numerous other reversible errors that it believes occurred during the Phase One trial, at the earliest time that an appeal of these issues is permissible under Florida law. In any event, PM Inc. believes it would be able to raise these issues in an appeal following any verdict in favor of an individual named or absent class member plaintiff. PM Inc. and the Company believe that such an appeal should prevail.

Upcoming Trial Dates: In addition to the *Engle* trial, trial in an individual smoking and health case in which PM Inc. is a defendant commenced in California in January 2000. Additional cases against PM Inc. and, in some cases, the Company as well, are scheduled for trial through the end of

2000. These cases include five health care cost recovery actions that are scheduled for trial in May (New York), June (New York), October (the Marshall Islands and California) and December (Minnesota); three asbestos contribution cases (discussed below) that are scheduled for trial in New York in April, September and October; two cases under the California Business and Professions Code (discussed below) that are scheduled for trial in June (California); and approximately 11 other individual smoking and health cases that are scheduled for trial in March (Massachusetts), May (New York), June (Iowa and Puerto Rico), July (New Jersey), August (Iowa), October (Iowa, Louisiana, New Hampshire and South Carolina) and November (Alabama). Cases against other tobacco companies are also scheduled for trial during this period. Trial dates, however, are subject to change.

Litigation Settlements: In November 1998, PM Inc. and certain other United States tobacco product manufacturers entered into the Master Settlement Agreement (the "MSA") with 46 states, the District of Columbia, the Commonwealth of Puerto Rico, Guam, the United States Virgin Islands, American Samoa and the Northern Marianas to settle asserted and unasserted health care cost recovery and other claims. PM Inc. and certain other United States tobacco product manufacturers had previously settled similar claims brought by Mississippi, Florida, Texas and Minnesota (together with the MSA, the "State Settlement Agreements") and an ETS smoking and health class action brought on behalf of airline flight attendants. The State Settlement Agreements and certain ancillary agreements are filed as exhibits to various of the Company's reports filed with the Securities and Exchange Commission, and such agreements and the ETS settlement are discussed in detail therein.

The settlement agreements require that the domestic tobacco industry make substantial annual payments in the following amounts (excluding future annual payments contemplated by the agreement with tobacco growers discussed below), subject to adjustment for several factors, including inflation, market share and industry volume: 2000, $9.2 billion; 2001, $9.9 billion; 2002, $11.3 billion; 2003, $10.9 billion; 2004 through 2007, $8.4 billion; and, thereafter, $9.4 billion. In addition, the domestic tobacco industry is required to pay settling plaintiffs' attorneys' fees, subject to an annual cap of $500 million, as well as additional amounts as follows: 2000, $416 million; and 2001 through 2002, $250 million. These payment obligations are the several and not joint obligations of each settling defendant. For the year ended December 31, 1998, PM Inc. recorded settlement charges of $3.081 billion, which represented its share of up-front payments required under the settlement agreements. For periods subsequent to December 31, 1998, PM Inc.'s portion of ongoing adjusted payments and legal fees is based on its share of domestic cigarette shipments in the year preceding that in which the payment is due. Accordingly, PM Inc. records its portions of ongoing settlement payments as part of cost of sales as product is shipped.

The State Settlement Agreements also include provisions relating to advertising and marketing restrictions, public disclosure of certain industry documents, limitations on challenges to certain tobacco control and underage use laws, restrictions on lobbying activities and other provisions.

The MSA has been initially approved by trial courts in all settling jurisdictions. If a jurisdiction does not obtain "final judicial approval" (i.e., trial court approval and expiration of the time for review or appeal of such approval) of the MSA by December 31, 2001, then, unless the settling defendants and the relevant jurisdiction agree otherwise, the agreement will be terminated with respect to such jurisdiction. As of December 31, 1999, 46 jurisdictions had obtained final judicial approval of the MSA.

As part of the MSA, the settling defendants committed to work cooperatively with the tobacco-growing states to address concerns about the potential adverse economic impact of the MSA on tobacco growers and quota-holders. To that end, four of the major domestic tobacco product manufacturers, including PM Inc., and the grower states, have established a trust fund to provide aid to tobacco growers and quota holders. The trust will be funded by these four manufacturers over 12 years with payments, prior to application of various adjustments, scheduled to total $5.15 billion. PM Inc. has charged $300 million of payments into the trust against 1998 operating companies income. Future industry payments (in 2000, $280 million; 2001, $400 million; 2002 through 2008, $500 million; 2009 and 2010, $295 million) are subject to adjustments for several factors, including inflation, United States cigarette volume and certain other contingent events, and, in general, are to be allocated based on each manufacturer's relative market share. PM Inc. records its portion of these payments as part of the cost of sales as product is shipped.

In 1999, the State Settlement Agreements materially adversely affected the volumes of PM Inc. and the Company believes that the State Settlement Agreements may materially adversely affect the business, volume, results of operations, cash flows or financial position of PM Inc. and the Company in future periods. The degree of the adverse impact will depend, among other things, on the rates of decline in United States cigarette sales in the premium and discount segments, PM Inc.'s share of the domestic premium and discount cigarette segments, and the effect of any resulting cost advantage of manufacturers not subject to the MSA and the other State Settlement Agreements. Manufacturers representing almost all domestic shipments in 1998 have agreed to become subject to the terms of the MSA.

Certain litigation has arisen out of the State Settlement Agreements, including the actions described below.

In December 1998, a putative class action was filed against PM Inc. and certain other domestic tobacco manufacturers on behalf of a class consisting of citizens of the United States who consume tobacco products manufactured by defendants. One count of the complaint alleged that defendants conspired to raise the prices of their tobacco products in order to pay the costs of the MSA in violation of federal antitrust laws. The other two counts alleged that the actions of defendants amount to an unconstitutional deprivation of property without due process of law and an unlawful burdening of interstate trade. The complaint sought unspecified damages (to be trebled under the antitrust count), injunctive and declaratory relief, costs and attorneys' fees. In April 1999, the court granted defendants' motions for summary judgment, and plaintiffs have appealed.

In February 1999, a putative class action was filed on behalf of tobacco consumers in the United States against the States of California and Utah, other public entity defendants, certain domestic tobacco manufacturers, including PM Inc., and others, challenging the MSA. Plaintiffs are seeking, among other things, an order (i) prohibiting the states from collecting any monies under the MSA, (ii) restraining the domestic tobacco manufacturers from further collection of price increases related to the MSA and compelling them to reimburse to plaintiffs all monies paid by plaintiffs in the form of price increases related to the MSA, and (iii) declaring the MSA "unfair, discriminatory, unconstitutional and unenforceable." In January 2000, the court granted defendants' motion to dismiss the complaint.

In April 1999, a putative class action was filed on behalf of all firms that directly buy cigarettes in the United States from defendant tobacco manufacturers. The complaint alleges violation of antitrust law, based in part on the MSA. Plaintiffs seek treble damages computed as three times the difference between current prices an the price plaintiffs would have paid for cigarettes in the absence of an alleged conspiracy to restrain and monopolize trade in the domestic cigarette market, together with attorneys' fees. Plaintiffs also seek injunctive relief against certain aspects of the MSA and against PM Inc.'s acquisition of the U.S. rights to manufacture and market three cigarette trademarks, *L&M, Lark* and *Chesterfield.*

In June 1999, a putative class action was filed on behalf of certain native American tribes against PM Inc. and other cigarette manufacturers challenging the MSA. The complaint alleged that defendants, by entering into the MSA, violated certain constitutional and civil rights of the tribes. The complaint was dismissed by the trial court, and the tribes have appealed.

In August 1999, five companies that import cigarettes or that are involved in the re-importation of cigarettes into U.S. markets filed suit seeking to invalidate the MSA and the 1998 Texas State Settlement Agreement on various grounds, including violation of antitrust laws. Plaintiffs also seek monetary relief, including treble damages in an unspecified amount and disgorgement of profits.

In August 1999, after New York obtained final judicial approval of the MSA, four alleged smokers in New York sought leave to intervene in litigation concerning the MSA, alleging violations of antitrust laws and seeking injunctive relief, including invalidating the settlements. The trial court denied the motion as untimely, and they have appealed.

A description of the smoking and health litigation, health care cost recovery litigation and certain other proceedings pending against the Company and/or its subsidiaries and affiliates follows.

Smoking and Health Litigation

Plaintiffs' allegations of liability in smoking and health cases are based on various theories of recovery, including negligence, gross negligence, strict liability, fraud, misrepresentation, design defect, failure to warn, breach of express and implied warranties, breach of special duty, conspiracy, concert of action, violations of deceptive trade practice laws and consumer protection statutes, and claims under the federal and state RICO statutes. In certain of these cases, plaintiffs claim that cigarette smoking exacerbated the injuries caused by their exposure to asbestos. Plaintiffs in the smoking and health actions seek various forms of relief, including compensatory and punitive damages, treble/multiple damages and other statutory damages and penalties, creation of medical monitoring and smoking cessation funds, disgorgement of profits, and injunctive and equitable relief. Defenses raised in these cases include lack of proximate cause, assumption of the risk, comparative fault and/or contributory negligence, statutes of limitations and preemption by the Federal Cigarette Labeling and Advertising Act.

In May 1996, the Untied States Court of Appeals for the Fifth Circuit held in the *Castano* case that a class consisting of all "addicted" smokers nationwide did not meet the standards and requirements of the federal rules governing class actions. Since this class decertification, lawyers for plaintiffs have filed numerous putative smoking and health class action suits in various state and federal courts. In general, these cases purport to be brought on behalf of residents of a particular state or states (although a few cases purport to be nationwide in scope) and raise "addiction" claims similar to those raised in the *Castano* case and, in many cases, claims of physical injury as well. As of December 31, 1999, smoking and health putative class actions were pending in Alabama, Arizona, California, the District of Columbia, Hawaii, Illinois, Indiana, Iowa, Louisiana, Maryland, Massachusetts, Missouri, Nevada, New Jersey, New Mexico, New York, North Carolina, Ohio, Oklahoma, Pennsylvania, South Carolina, Tennessee, Texas, Utah and West Virginia, as well as in Australia, Brazil, Canada, Israel and Nigeria. Class certification has been denied or reversed by courts in 19 smoking and health class actions involving PM Inc. in Arkansas, the District of Columbia, Illinois, Kansas, Louisiana, Michigan, Minnesota, New Jersey (6), New York (2), Ohio, Pennsylvania, Puerto Rico, and Wisconsin, while classes remain certified in three cases in Florida, Louisiana and Maryland. A number of these class certification decisions are on appeal. In October 1999, the State of New York's highest court affirmed without dissent the decertification and dismissal of a class action suit. In May 1999, the United States Supreme Court declined to review the decision of the United States Court of Appeals for the Third Circuit affirming a lower court's decertification of a class. Class certification motions are pending in a number of the putative smoking and health class actions. As mentioned above, one ETS smoking and health class action was settled in 1997.

Health Care Cost Recovery Litigation

In certain of the pending proceedings, domestic and foreign governmental entities and non-governmental plaintiffs, including union health and welfare funds ("unions"), native American tribes, insurers and self-insurers, taxpayers and others, are seeking reimbursement of health care cost expenditures allegedly caused by tobacco products and, in some cases, of future expenditures and damages as well. Certain of these cases purport to be brought on behalf of a class of plaintiffs and, in some cases, the class was certified by the court. In one health care cost recovery case, private citizens seek recovery of alleged tobacco-related health care expenditures incurred by the federal Medicare program. In another, Blue Cross subscribers seek reimbursement of increased medical insurance premiums allegedly caused by tobacco products. In the native American cases, claims are also asserted for alleged lost productivity of tribal government employees. Other relief sought by some but not all plaintiffs includes punitive damages, treble/multiple damages and other statutory damages and penalties, injunctions prohibiting alleged marketing and sales to minors, disclosure of research, disgorgement of profits, funding of anti-smoking programs, disclosure of nicotine yields, and payment of attorney and expert witness fees.

The claims asserted in these health care cost recovery actions include the equitable claim that the tobacco industry was "unjustly enriched" by plaintiffs' payment of health care costs allegedly attributable to smoking, the equitable claim of indemnity, common law claims of negligence, strict liability, breach of express and implied warranty, violation of a voluntary undertaking or special duty, fraud, negligent misrepresentation, conspiracy, public nuisance, claims under federal and state statutes governing consumer fraud, antitrust, deceptive trade practices and false advertising, and claims under federal and state RICO statutes.

Defenses raised include lack of proximate cause, remoteness of injury, failure to state a valid claim, lack of benefit, adequate remedy at law, "unclean hands" (namely, that plaintiffs cannot obtain equitable relief because they participated in, and benefited from, the sale of cigarettes), lack of antitrust injury, federal preemption, lack of statutory authority to bring suit and statute of limitations. In addition, defendants argue that they should be entitled to "set off" any alleged damages to the extent the plaintiff benefits economically from the sale of cigarettes through the receipt of excise taxes or otherwise. Defendants also argue that these cases are improper because plaintiffs must proceed under principles of subrogation and assignment. Under traditional theories of recovery, a payor of medical costs (such as an insurer) can seek recovery of health care costs from a third party solely by "standing in the shoes" of the injured party. Defendants argue that plaintiffs should be required to bring any actions as subrogees of individual health care recipients and should be subject to all defenses available against the injured party.

Excluding the cases covered by the MSA, as of December 31, 1999, there were approximately 60 health care cost recovery cases pending in the United States against PM Inc. and, in some cases, the Company, of which approximately 40 were filed by union trust funds. As discussed above under "Federal Government's Lawsuit," the U.S. government filed a health care cost recovery action in September 1999 against various cigarette manufacturers and others, including the Company and PM Inc., asserting claims under three federal statutes. Health care cost recovery actions have also been brought in Israel, the Marshall Islands, British Columbia, Canada and France and, in the United States, by Bolivia, Guatemala, Panama, Nicaragua, Thailand (voluntarily dismissed), Ukraine, Venezuela and the States of Goias and Rio de Janeiro, Brazil. The actions brought by Bolivia, Guatemala, Nicaragua, Ukraine, Venezuela and the State of Goias, Brazil, have been consolidated for pre-trial purposes and transferred to the United States District Court for the District of Columbia. Other foreign entities and others have stated that they are considering filing health care cost recovery actions.

Five federal appeals courts have issued rulings in health care cost recovery actions that were favorable to the tobacco industry. The United States Courts of Appeals for the Second, Third, Fifth, Seventh and Ninth Circuits, relying primarily on grounds that the plaintiffs' claims were too remote, have affirmed dismissals of, or reversed trail courts that had refused to dismiss, such actions. In addition, in January 2000, the United States Supreme Court denied plaintiffs' petitions for writs of certiorari in the cases decided by the Court of Appeals for the Second, Third and Ninth Circuits, effectively refusing to allow plaintiffs' appeals.

Although there have been some decisions to the contrary, to date, most lower courts that have decided motions in these cases have dismissed all or most of the claims against the industry in December 1999, in the first ruling on a motion to dismiss a health care cost recovery case brought in the United States by a foreign governmental plaintiff, the United States District Court for the District of Columbia dismissed a lawsuit filed by Guatemala, ruling that the claimed injuries were too remote. In March 1999, in the only union case to go to trial thus far, the jury returned a verdict in favor of defendants on all counts. Plaintiffs' motion for a new trial has been denied. In December 1999, the federal district court in the District of Columbia denied defendants' motion to dismiss a suit filed by union and welfare trust funds seeking reimbursement of health care expenditures allegedly caused by tobacco products. Defendants are seeking to appeal this decision.

Certain Other Tobacco-Related Litigation

Asbestos Contribution Cases: As of December 31, 1999, 11 suits had been filed by former asbestos manufacturers, asbestos manufacturers' personal injury settlement trusts and an insurance company against domestic tobacco manufacturers, including PM Inc. and others. Nine of these cases are pending. These cases seek, among other things, contribution or reimbursement for amounts expended in connection with the defense and payment of asbestos claims that were allegedly caused in whole or in part by cigarette smoking. Plaintiffs in most of these cases also seek punitive damages. The aggregate amounts claimed in these cases range into the billions of dollars. On November 2, 1999, one of these cases was dismissed by the federal district court in the Eastern District of New York although the case was subsequently refiled. Trials in these cases are scheduled to begin in New York in April, September and October 2000.

Marlboro Light/Ultra Light and Virginia Slims Light Cases: As of December 31, 1999, there were nine putative class actions pending against PM Inc. and the Company, in Arizona, Florida, Massachusetts, New Jersey, Ohio, Pennsylvania, Tennessee, and Washington, D.C., on behalf of individuals who purchased and consumed *Marlboro Lights* and, in one case, *Marlboro Ultra Lights,* and, in another case, *Virginia Slims Lights,* as well. These cases allege, in connection with the use of the term "Lights" and/or "Ultra Lights," among other things, deceptive and unfair trade practices and unjust enrichment, and seek injunctive and equitable relief, including restitution.

Retail Leaders Case: Three domestic tobacco manufacturers have filed suit against PM Inc. seeking to enjoin the PM Inc. "Retail Leaders" program that became available to retailers in October 1998. The complaint alleges that this retail merchandising program is exclusionary, creates an unreasonable restraint of trade and constitutes unlawful monopolization. In addition to an injunction, plaintiffs seek unspecified treble damages, attorneys' fees, costs and interest. In June 1999, the court issued a preliminary injunction enjoining PM Inc. from prohibiting retail outlets that participate in the program at one of the four levels from installing competitive permanent signage in any section of the "industry fixture" that displays or holds packages of cigarettes manufactured by a firm other than PM Inc., and requiring those outlets to allocate a percentage of cigarette-related permanent signage to PM Inc. greater than PM Inc.'s market share, or prohibiting retail outlets from advertising or conducting promotional programs of cigarette manufacturers other than PM Inc. The preliminary injunction applies only to certain accounts and does not affect any other aspect or level of the Retail Leaders program.

Vending Machine Case: Plaintiffs, who began their case as a purported nationwide class of cigarette vending machine operators, allege that PM Inc. has violated the Robinson-Patman Act in connection with its promotional and merchandising programs available to retail stores and not available to cigarette vending machine operators. Plaintiffs request actual damages, treble damages, injunctive relief, attorneys' fees and costs, and other unspecified relief. In June 1999, the court denied plaintiffs' motion for a preliminary injunction. Plaintiffs have withdrawn their request for class action status. The claims of ten plaintiffs are set for trial in November 2000; the claims of remaining plaintiffs have been stayed pending disposition of those claims scheduled for trial.

Cases Under the California Business and Professions Code: In July 1998, two suits were filed in California courts alleging that domestic cigarette manufacturers, including PM Inc. and others, have violated a California statute known as "Proposition 65" by not informing the public of the alleged risks of ETS to nonsmokers. Plaintiffs also allege violations of California's Business and Professions Code regarding unfair and fraudulent business practices. Plaintiffs seek statutory penalties, injunctions barring the sale of cigarettes or requiring issuance of appropriate warnings, restitution, disgorgement of profits and other relief. The defendants' motions to dismiss were denied in both of these cases. In October 1999, plaintiffs' motion for a preliminary injunction was also denied. In January 2000, defendants' motion for summary judgment was granted in part, and plaintiffs' "Proposition 65" claim was dismissed. Trial on the remaining claims in these cases is scheduled to begin in June 2000.

Certain Other Actions

National Cheese Exchange Cases: Since 1996, seven putative class actions have been filed alleging that Kraft Foods, Inc., and others engaged in a conspiracy to fix and depress the prices of bulk cheese and milk through their trading activity on the National Cheese Exchange. Plaintiffs seek injunctive and equitable relief and treble damages. Two of the actions were voluntarily dismissed by plaintiffs after class certification was denied. Two other actions were dismissed in 1998 after Kraft's motions to dismiss were granted, and plaintiffs are appealing those dismissals. The remaining three cases were consolidated in state court in Wisconsin, and in November 1999, the court granted Kraft's motion for summary judgment. Plaintiffs have appealed.

Italian Tax Matters: One hundred eight-eighty tax assessments alleging the nonpayment of taxes in Italy (value-added taxes for the years 1988 to 1995 and income taxes for the years 1987 to 1995) have been served upon certain affiliates of the Company. The aggregate amount of alleged unpaid taxes assessed to date is the Italian lira equivalent of $2.4 billion. In addition, the Italian lira equivalent of $3.4 billion in interest and penalties has been assessed. The Company anticipates that value-added and income tax assessments may also be received with respect to subsequent years. All of the assessments are being vigorously contested. To date, the Italian administrative tax court in Milan has overturned 149 of the assessments. The decisions to overturn 73 assessments have been appealed by the tax authorities. In a separate proceeding in Naples, in October 1997, a court dismissed charges of criminal association against certain present and former officers and directors of affiliates of the Company, but permitted charges of tax evasion to remain pending. In February 1998, the tax evasion charges were dismissed by the criminal court in Naples following a determination that jurisdiction was not proper, and the case file was transmitted to the public prosecutor in Milan, who is investigating the matter and will determine whether to bring charges, in which case a preliminary investigations judge will make a new finding as to whether there should be a trial on these charges. The Company, its affiliates and the officers and directors who are subject to the proceedings believe they have complied with applicable Italian tax laws and are vigorously contesting the pending assessments and proceedings.

It is not possible to predict the outcome of the litigation pending against the Company and its subsidiaries. Litigation is subject to many uncertainties. Two individual smoking and health cases in which PM Inc. is a defendant have been decided unfavorably at the trial court level and are in the process of being appealed, and an unfavorable verdict has been returned in the first phase of the *Engle* smoking and health class action trial underway in Florida. It is possible that additional cases could be decided unfavorably and that there could be further adverse developments in the *Engle* case. An unfavorable outcome or settlement of a pending smoking and health or health care cost recovery case could encourage the commencement of additional similar litigation. There have also been a number of adverse legislative, regulatory, political and other developments concerning cigarette smoking and the tobacco industry that have received widespread media attention. These developments may negatively affect the perception of potential triers of fact with respect to the tobacco industry, possibly to the detriment of certain pending litigation, and may prompt the commencement of additional similar litigation.

Management is unable to make a meaningful estimate of the amount or range of loss that could result from an unfavorable outcome of pending litigation. The present legislative and litigation environment is substantially uncertain, and it is possible that the Company's business, volume, results of operations, cash flows or financial position could be materially affected by an unfavorable outcome or settlement of certain pending litigation or by the enactment of federal or state tobacco legislation. The Company and each of its subsidiaries named as a defendant believe, and each has been so advised by counsel handling the respective cases, that it has a number of valid defenses to all litigation pending against it. All such cases are, and will continue to be, vigorously defended. However, the Company and its subsidiaries may enter into discussions in an attempt to settle particular cases if they believe it is in the best interests of the Company's stockholders to do so.

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SYBASE, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 11: Litigation

Following the Company's announcements on January 2, 1998 and January 21, 1998 regarding its preliminary results of operations for the quarter and year ended December 31, 1997, several class action lawsuits were filed against the Company and certain of its officers and directors in the United States District Court, Northern District of California ("Northern California District Court"). The complaints are similar and allege violations of federal and state securities laws and request unspecified monetary damages. A consolidated, amended class action complaint was served in June 1998 and named Sybase KK, the Company's Japanese subsidiary, and Yoshi Ogawa, the Company's former Japan country manager, as additional defendants. Plaintiffs filed a second amended complaint in November 1999. The parties are currently engaged in settlement negotiations.

On January 27, 1998, a purported shareholder derivative action was filed in the Superior Court of the State of California, County of Alameda ("Alameda County Superior Court"). The complaint alleges that certain of the Company's present and former officers and/or directors breached fiduciary duties owed to the Company in connection with the underlying circumstances alleged in the securities class action complaints described above. Sybase is a nominal defendant in the action and no damages are sought from it. The Company filed a demurrer to the complaint and the Court ruled against issuing a demurrer. Two similar derivative actions were also filed in Alameda County Superior Court, and the three derivative actions have now been consolidated. Pretrial discovery has begun in those actions. On April 15, 1998, a derivative complaint was filed in the Northern California District Court. A second similar derivative complaint was also filed in the same court. These cases were dismissed by the Plaintiffs. In addition, a similar complaint was field in the Chancery Court in Delaware. The parties have agreed to stay the Delaware case in light of the California action.

Management believes that the claims contained in the actions described above are without merit and the Company intends to defend against the claims vigorously. In the opinion of management, resolution of this litigation is not expected to have a material adverse effect on the financial position of the Company. However, depending on the amount and timing, an unfavorable resolution of these matters could materially affect the Company's future operations or cash flows in a particular period.

Following the Company's announcement on April 3, 1995 of its preliminary results of operations for the quarter ended March 31, 1995, several class action lawsuits were filed against the Company and certain of its officers in the Northern California District Court. The complaints are similar and allege violations of federal and state securities laws and request unspecified monetary damages. A consolidated amended class action complaint was served in August 1995. On March 25, 1996, the Court denied Sybase's motion to dismiss the amended complaint in its entirety and granted the defendants' motion to dismiss certain individual defendants. The Company filed a motion for summary judgment. Prior to the judge ruling on the summary judgment, the parties agreed in April 1999 to settle the case for $14.8 million, with Sybase responsible for $1.5 million of such amount plus its accumulated legal expenses. The Company's insurers are responsible for the balance. Sybase and the insurers paid the settlement amount into an escrow account maintained by Sybase's outside attorneys pending approval of the settlement by the Court. After settlement was reached, the court ruled in favor of Sybase on the summary judgment motion and dismissed the case. The plaintiffs appealed, and the Ninth Circuit Court of Appeals vacated the judgment which dismissed the case, remanding the matter to the trial court for a hearing on the settlement agreement. The settlement amount of $1.5 million, and the related legal expenses were accrued by the Company during 1998. The settlement amount was still held in escrow as of December 31, 1999.

The Company is also a party to various legal disputes and proceedings arising from the ordinary course of business. In the opinion of management, resolution of those matters is not expected to have a material adverse effect on the consolidated financial position of the Company. However, depending on the amount and timing of such resolution, an unfavorable resolution of some or all of these matters could materially affect the Company's future results of operations or cash flows in a particular period. The Company believes it has adequately accrued for these matters at December 31, 1999.

1.144

WAXMAN INDUSTRIES, INC. AND SUBSIDIARIES (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

12. Contingencies

The Company is subject to various legal proceedings and claims that arise in the ordinary course of business. In the opinion of management, the amount of any ultimate liability with respect to these actions will not materially affect the Company's consolidated financial statements or results of operations.

1.145

ZENITH ELECTRONICS CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note Eighteen: Contingencies

There is a range of possible outcomes for all legal matters in which the company is involved. With the exception of the matter discussed below, the company does not believe any of the other legal matters if adversely decided, are reasonably likely to have a material adverse effect on the company. The company's belief is based on the amounts involved and the types of litigation.

In June 1998, Funai Electric Co., Ltd., a licensee of the company's tuner patents, filed suit against the company seeking a declaratory judgment that the company's tuner patents were invalid and unenforceable, or that the plaintiff's use of certain technologies in its current products did not infringe on the company's tuner patents. The complaint seeks the return of previously paid royalties. The plaintiffs also sought a preliminary injunction precluding the company from terminating its licensing agreement and allowing it to pay future royalties into an escrow. The court has denied the plaintiff's request for a temporary restraining order against the company and has also denied plaintiff's motion for a preliminary injunction. The case was filed in the U.S. District Court in Los Angeles and is currently in the discovery stage.

Environmental Matters

1.146

AGWAY INC. AND CONSOLIDATED SUBSIDIARIES (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Thousands of dollars)

11 (In Part): Commitments and Contingencies

Environmental

Agway and its subsidiaries are subject to various laws and governmental regulations concerning environmental matters. We expect to be required to expend funds to participate in the remediation of certain sites, including sites where we have been designated by the Environmental Protection Agency (EPA) as a potentially responsible party (PRP) under the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA) and at sites with underground fuel storage tanks. We will also incur other expenses associated with environmental compliance.

At June 30, 1999, Agway is designated as a PRP under CERCLA or as a third party to the original PRPs in several Superfund sites. The liability under CERCLA is joint and several, meaning that we could be required to pay in excess of our pro rata share of remediation costs. Agway's understanding of the financial strength of other PRPs at these Superfund sites has been considered, where appropriate, in the determination of our estimated liability.

We continually monitor our operations with respect to potential environmental issues, including changes in legally mandated standards and remediation technologies. Agway's recorded liability reflects those specific issues where remediation activities are currently deemed to be probable and where the cost of remediation is estimable. Estimates of the extent of our degree of responsibility of a particular site and the method and ultimate cost of remediation require a number of assumptions for which the ultimate outcome may differ from current estimates. However, we believe that past experience provides a reasonable basis for estimating our liability. As additional information becomes available, estimates are adjusted as necessary. While we do not anticipate that any such adjustment would be material to our financial statements, it is reasonably possible that the result of ongoing and/or future environmental studies or other factors could alter this expectation and require the recording of additional liabilities. The extent or amount of such events, if any, cannot be estimated at this time. The settlement of the reserves established will cause future cash outlays over approximately five years based upon current estimates, and it is not expected that such outlays will materially impact Agway's liquidity position.

As part of its long-term environmental protection program, Agway spent approximately $100 in 1999 on capital projects related principally to the removal of underground storage tanks. Agway expects to have approximate expenses in the amount of $400 in 2000.

1.147

ALLEGHENY TECHNOLOGIES INCORPORATED AND SUBSIDIARIES (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Environmental

Costs that mitigate or prevent future environmental contamination or extend the life, increase the capacity or improve the safety or efficiency of property utilized in current operations are capitalized. Other costs that relate to current operations or an existing condition caused by past operations are expensed. Environmental liabilities are recorded when the Company's liability is probable and the costs are reasonably estimable, but generally not later than the completion of the feasibility study or the Company's recommendation of a remedy or commitment to an appropriate plan of action. The accruals are reviewed periodically and, as investigations and remediations proceed, adjustments are made as necessary. Accruals for losses from environmental remediation obligations do not consider the effects of inflation, and anticipated expenditures are not discounted to their present value. The accruals are not reduced by possible recoveries from insurance carriers or other third parties, but do reflect anticipated allocations among potentially responsible parties at federal Superfund sites or similar state-managed sites and an assessment of the likelihood that such parties will fulfill their obligations at such sites. The measurement of environmental liabilities by the Company is based on currently available facts, present laws and regulations, and current technology. Such estimates take into consideration the Company's prior experience in site investigation and remediation, the data concerning cleanup costs available from other companies and regulatory authorities, and the professional judgment of the Company's environmental experts in consultation with outside environmental specialists, when necessary.

Note 15 (In Part): Commitments and Contingencies

The Company is subject to various domestic and international environmental laws and regulations which require that it investigate and remediate the effects of the release or disposal of materials at sites associated with past and present operations, including sites at which the Company has been identified as a potentially responsible party under the federal Superfund laws and comparable state laws. The Company is currently involved in the investigation and remediation of a number of sites under these laws.

In accordance with the Company's accounting policy disclosed in Note 1, environmental liabilities are recorded when the Company's liability is probable and the costs are reasonably estimable. In many cases, however, investigations are not yet at a stage where the Company has been able to determine whether it is liable or, if liability is probable, to reasonably estimate the loss or range of loss, or certain components thereof. Estimates of the Company's liability are further subject to uncertainties regarding the nature and extent of site contamination, the range of remediation alternatives available, evolving remediation standards, imprecise engineering evaluations and estimates of appropriate cleanup technology, methodology and cost, the extent of corrective actions that may be required, and the number and financial condition of other potentially responsible parties, as well as the extent of their responsibility for the remediation. Accordingly, as investigation and remediation of these sites proceeds, it is likely that adjustments in the Company's accruals will be necessary to reflect new information. The amounts of any such adjustments could have a material adverse effect on the Company's results of operations in a given period, but the amounts, and the possible range of loss in excess of the amounts accrued, are not reasonably estimable. Based on currently available information, however, management does not believe that future environmental costs in excess of those accrued with respect to sites with which the Company has been identified are likely to have a material adverse effect on the Company's financial condition or results of operation. The resolution in any reporting period of one or more of these matters could have a material adverse effect on the Company's results of operations for that period. In addition, there can be no assurance that additional future developments, administrative actions or liabilities relating to environmental matters will not have a material adverse effect on the Company's financial condition or results of operations.

At December 31, 1999, the Company's reserves for environmental remediation obligations totaled approximately $58.1 million, of which approximately $15.6 million were included in other current liabilities. The reserve includes estimated probable future costs of $22.8 million for federal Superfund and comparable state-managed sites; $3.9 million for formerly owned or operated sites for which the Company has remediation or indemnification obligations; $18.4 million for owned or controlled sites at which Company operations have been discontinued; and $13.0 million for sites utilized by the Company in its ongoing operations. The Company is evaluating whether it may be able to recover a portion of future costs for environmental liabilities from its insurance carriers and from third parties other than participating potentially responsible parties.

The timing of expenditures depends on a number of factors that vary by site, including the nature and extent of contamination, the number of potentially responsible parties, the timing of regulatory approvals, the complexity of the investigation and remediation, and the standards for remediation. The Company expects that it will expend present accruals over many years, and will complete remediation of all sites with which it has been identified in up to thirty years.

1.148

ALLIANT TECHSYSTEMS INC. (MAR)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Amounts in thousands unless otherwise indicated)

16. Environmental Remediation Liabilities

The Company is subject to various local and national laws relating to protection of the environment and is in various stages of investigation or remediation of potential, alleged, or acknowledged contamination. In March 1997, the Company adopted the provisions of SOP 96-1 "Environmental Remediation Liabilities," which required a change in, and provided clarification to, the manner in which companies measure and recognize costs associated with environmental remediation liabilities. Under the provisions of the SOP, all future anticipated ongoing monitoring and maintenance costs associated with known remediation sites are required to be accrued. Such costs were previously expensed as incurred. The Company's adoption of the provisions of the SOP resulted in a non-cash charge of $17.4 million in the fourth quarter of fiscal 1997. The charge was classified in cost of sales in the Company's consolidated income statement for the fourth quarter ending March 31, 1997.

At March 31, 1999, the accrued liability for environmental remediation of $31.9 million represents management's best estimate of the present value of the probable and reasonably estimable costs related to the Company's known remediation obligations. It is expected that a significant portion of the Company's environmental costs will be reimbursed to the Company. As collection of those reimbursements is estimated to be probable, the Company has recorded a receivable of $10.5 million, representing the present value of those reimbursements at March 31, 1999. Such receivable primarily represents the expected reimbursement of costs associated with the Aerospace operations acquired from Hercules in March 1995

(Aerospace acquisition), whereby the Company generally assumed responsibility for environmental compliance at Aerospace facilities. It is expected that much of the compliance and remediation costs associated with these facilities will be reimbursable under U.S. Government contracts, and that those environmental remediation costs not covered through such contracts will be covered by Hercules under various indemnification agreements, subject to the Company having appropriately notified Hercules of issues identified prior to the expiration of the stipulated notification periods (March 2000 or March 2005, depending on site ownership). The Company's accrual for environmental remediation liabilities and the associated receivable for reimbursement thereof, have been discounted to reflect the present value of the expected future cash flows, using a discount rate, net of estimated inflation, of approximately 4.5 percent. The following is a summary of the Company's amounts recorded for environmental remediation at March 31, 1999:

	Accrued Environmental Liability	Environmental Costs—Reimbursement Receivable
Amounts (Payable)/Receivable	$(41,227)	$14,238
Unamortized Discount	9,351	(3,706)
Present Value of Amounts (Payable)/Receivable	$(31,876)	$10,532

At March 31, 1999, the aggregate undiscounted amounts payable for environmental remediation costs, net of expected reimbursements, are estimated to be $3.3, $5.3, $2.1, $1.5, and $4.4 million for the fiscal years ending March 31, 2000, 2001, 2002, 2003, and 2004, respectively; estimated amounts payable thereafter total $10.3 million. Amounts payable/receivable in periods beyond fiscal 2000 have been classified as non-current on the Company's March 31, 1999 balance sheet. At March 31, 1999, the estimated discounted range of reasonably possible environmental remediation costs is between $32 and $46 million. The Company does not anticipate that resolution of the environmental contingencies in excess of amounts accrued, net of recoveries, will materially affect future operating results.

1.149

ALPHA INDUSTRIES, INC. AND SUBSIDIARIES (MAR)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 8 (In Part): Commitments and Contingencies

The Company has been identified by federal and state environmental agencies of its potential liability with respect to the Spectron, Inc. Superfund site in Elkton, Maryland. Several hundred other companies have also been notified about their potential liability regarding this site. The Company continues to deny that it has any responsibility with respect to this site other than as a de minimis party. Management is of the opinion that the outcome of the aforementioned environmental matter will not have a material effect on the Company's operations or financial position.

1.150

BADGER METER, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

B (In Part): Contingencies

The Company is subject to contingencies relative to environmental laws and regulations. Currently the Company is in the process of resolving issues relative to two landfill sites. Also, the Company is in the process of settling a suit alleging violation of Proposition 65, California's environmental regulation. The Company does not believe the ultimate resolution of these claims will have a material adverse effect on the Company's financial position or results of operations. Provision has been made for all known settlement costs.

1.151

ECOLAB INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

13. Environmental Compliance Costs

The Company and certain subsidiaries are party to various environmental actions that have arisen in the ordinary course of business. These include possible obligations to investigate and mitigate the effects on the environment of the disposal or release of certain chemical substances at various sites, such as Superfund sites and other operating or closed facilities. The effect of these actions on the Company's financial position, results of operations and cash flows to date has not been significant. The Company is currently participating in environmental assessments and remediation at a number of locations and environmental liabilities have been accrued reflecting management's best estimate of future costs. Potential insurance reimbursements are not anticipated in the Company's accruals for environmental liabilities. While the final resolution of these contingencies could result in expenses different than current accruals, and therefore have an impact on the Company's consolidated financial results in a future reporting period, management believes the ultimate outcome will not have a significant effect on the Company's consolidated results of operations, financial position or liquidity.

1.152

FERRO CORPORATION AND SUBSIDIARIES (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8 (In Part): Contingent Liabilities

In 1994, the Company's Keil Chemical Division (Keil), located in Hammond, Indiana, settled an enforcement proceeding brought by the Indiana Department of Environmental Management (IDEM) concerning air emissions from Keil's Pyro-Chek® process. The settlement was in the form of an Agreed Order with IDEM. The Agreed Order confirmed the Company's plans to install additional controls and imposed certain aggregate limitations on air emissions from the Pyro-Chek® production process while the Company applied for and obtained a construction and operating permit for the existing air source. The control equipment was installed, but the Company has had a continuing disagreement with the agency over whether it has been in compliance with the Agreed Order, including which methods should be used to demonstrate compliance.

In November 1998, IDEM filed suit in Indiana state court seeking to shut down Keil's operation of the Pyro-Chek® process. At a hearing held on December 4, 1998, the court denied IDEM's request for a preliminary injunction, and later dismissed the claim for a permanent injunction on grounds that the dispute arising out of the Agreed Order should be addressed before the Indiana Office of Environmental Adjudication. The day before this hearing, IDEM denied Kiel's application for a permit for air emissions for the Pyro-Chek® process. The Company appealed IDEM's denial of Keil's permit application to the Indiana Office of Environmental Adjudication.

On December 29, 1998, IDEM wrote to the Company alleging that because Keil is in violation of the Agreed Order, operation of the Pyro-Chek® process is prohibited, and that the Company will be subject to fines of up to $25,000 for each day of continued operation. The Company filed a petition for review before the Indiana Office of Environmental Adjudication seeking to confirm that operation of the Pyro-Chek® process has been and remains in compliance with the Agreed Order. On February 24, 1999, IDEM withdrew its December 29, 1998 letter alleging that Keil was in violation of the Agreed Order and that the Pyro-Chek® process is prohibited. On March 15, 1999, the Company's petition for review was dismissed without objection.

On May 4, 1999, and December 16, 1999, the United States Environmental Protection Agency (U.S. EPA) issued "Notices of Violation" (NOVs) alleging that Keil violated various requirements of the Clean Air Act and related State laws in modifying and operating the Pyro-Chek® process. The Company has met with the U.S. EPA and entered into negotiations intended to resolve the issues raised in the NOVs. If the matter cannot be resolved through negotiation, and the United States pursues and recovers the maximum potential penalties on all of its claims, it could have a material adverse effect on the Company. However, the Company believes that it will resolve this matter in a manner that will not have a material adverse effect.

1.153

FORT JAMES CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

13 (In Part): Commitments and Contingent Liabilities

Litigation and Environmental Matters (In Part)

Like its competitors, Fort James is subject to extensive regulation by various federal, state, provincial, and local agencies concerning compliance with environmental control statutes and regulations. These regulations impose limitations, including effluent and emission limitations, on the discharge of materials into the environment, as well as require the Company to obtain and operate in compliance with conditions of permits and other governmental authorizations. Future regulations could materially increase the Company's capital requirements and certain operating expenses in future years.

In 1998, the U.S. Environmental Protection Agency ("EPA") regulations affecting pulp and paper industry discharges of wastewater and gaseous emissions, commonly referred to as the "cluster rules," became effective. These rules require changes in the pulping and bleaching processes presently used in some U.S. pulp mills, including several of Fort James' mills. The majority of the investment required to comply with these regulations is due by 2001, with the possibility of a one-year extension for parts of the program. In fiscal 2000 and 2001, the Company expects to invest a total of approximately $40 million as part of its compliance program.

Fort James, along with others, has been identified as a potentially responsible party ("PRP") at EPA designated Superfund sites and is involved in other remedial investigations and actions under federal and state laws. These sites include the lower Fox River in Wisconsin, where the Company and six other companies have been identified as PRPs for contamination of the river by hazardous substances. Various state and federal agencies and tribal entities are seeking sediment restoration and natural resources damages. In February 1999, the Wisconsin Department of Natural Resources released for public comment a draft remedial investigation/feasibility study of the Fox River. While the draft study did not advocate any specific restoration alternatives, it included estimated total costs ranging from zero for 'no action' to approximately $720 million, depending on the alternative or combination of alternatives selected. The final restoration alternative and the Company's share of the related costs are unknown at this time. The Company, along with other PRPs, is also participating in the funding of a remedial investigation/feasibility study of contamination of the Kalamazoo River located in Michigan. Management does not anticipate selection of a remedy prior to 2002.

It is the Company's policy to accrue remediation costs on an undiscounted basis when it is probable that such costs will be incurred and when a range of loss can be reasonably estimated. Fort James' accrued environmental liabilities, including remediation and landfill closure costs, totaled $65.6 million as of December 26, 1999 and $54.1 million as of December 27, 1998. The Company periodically reviews the status of all significant existing or potential environmental issues and adjusts its accruals as necessary.

The accruals do not reflect any possible future insurance recoveries. Estimates of costs for future remediation are necessarily imprecise due to, among other things, the identification of presently unknown remediation sites and the allocation of costs among PRPs. The Company believes that its share of the costs of cleanup for its current remediation sites will not have a material adverse effect on its consolidated financial position but could have a material effect on consolidated results of operations in a given year. As is the case with most manufacturing and many other entities, there can be no assurance that the Company will not be named as a PRP at additional sites in the future or that the costs associated with such additional sites would not be material.

1.154

SPARTON CORPORATION AND SUBSIDIARIES (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

10 (In Part): Commitments and Contingencies

One of Sparton's facilities, located in New Mexico, has been the subject of ongoing investigations conducted with the Environmental Protection Agency (EPA) under the Resource Conservation and Recovery Act (RCRA). This EPA compliance issue is related to continuing operations, but involves a largely idled facility. The investigation began in the early 1980s and involved a review of on-site and off-site environmental impacts. In 1988, an administrative order on consent (AOC) was executed with the EPA related to further investigation and proposing a means of dealing with quantified impacts.

The remedial investigation called for in the AOC has been completed and approved. In May 1996, Sparton submitted to the EPA a final corrective measure study, based on the results of its investigations, as required in the AOC. In June 1996, the EPA issued its final decision selecting a corrective action at the site, different from what Sparton had proposed. The EPA estimated that the present value cost of its remedies would range from between $15,000,000 and $26,400,000 based on a thirty- (30) year time frame. In Sparton's judgment, the remedies proposed by the EPA are either unnecessary or technically impracticable. Sparton vigorously challenged the EPA's remedy selection and filed suit in Federal District Court in Dallas asserting that the EPA's decision on remedy selection violated the AOC.

In September 1996, the EPA issued an initial administrative order under RCRA ordering Sparton to undertake additional testing to justify the implementation of the remedy selected by the agency in June 1996, and then to implement that remedy. Sparton vigorously contested that order administratively, but on February 10, 1998, the EPA issued a Final Administrative Order that in all material respects followed the initial administrative order issued in September 1996. Sparton has refused to implement those portions of that order that it believes are unjustified.

In February 1997, three lawsuits were filed against Sparton in Federal District Court in Albuquerque, one by the United States on behalf of the EPA, the second by the State of New Mexico and the third by the City of Albuquerque and the County of Bernalillo. All three actions allege that the impacts to soil and groundwater associated with Sparton's Coors Road facility present an imminent and substantial threat to human health or the environment. Through these lawsuits, the plaintiffs seek to compel Sparton to undertake additional testing and to implement the same remedy selected by the EPA in June 1996, now incorporated in the Final Administrative Order, and referred to in the preceding paragraph. In March 1997, the plaintiffs in these three lawsuits filed a motion for preliminary injunction and in July 1997, the action in Dallas was transferred to Federal District Court in Albuquerque and consolidated with the three lawsuits filed in February 1997.

A pretrial schedule has been established for the consolidated actions, but no trial date set. Limited discovery, involving interrogatories and requests for production, has been undertaken by the plaintiffs. The plaintiffs have sought to amend their lawsuit to compel Sparton to implement the Final Administrative Order, and seeking civil penalties for alleged noncompliance. Sparton has opposed this request and no decision has been made by the court on the plaintiffs' request to amend.

In March 1998, a hearing was held on the plaintiffs' request for a preliminary injunction. After two days of testimony, the federal district judge indicated he had tentatively concluded he might issue a preliminary injunction. The parties subsequently entered into settlement discussions that culminated in an agreed workplan for the installation of certain off-site monitoring, observation and containment wells, in exchange for plaintiffs' withdrawing their request for a preliminary injunction. An order withdrawing that request and approving this off-site workplan was signed on July 7, 1998.

At the current time, all litigation has been stayed to allow the parties to continue settlement discussions. The most recent stay expired on August 9, 1999, but the parties have agreed to extend it to at least September 9, 1999. It is anticipated that implementation of the three workplans discussed below will relieve the Company of its obligations under the February 10, 1998 Final Administrative Order. As a result of these developments, the Company has updated its cost estimates. It is believed the initial cost of the corrective measures called for in these plans will not be materially different from the cost estimates the Company has previously accrued. There is no assurance that additional corrective measures, involving increased expenditures, may not be required.

The proposed workplans provide for the installation of an off-site containment well (already completed and operating), an on-site containment well and an enhancement to an on-site soil vapor extraction system. The purpose of the containment wells is to restrict further migration of impacted groundwater. The soil vapor extraction system removes solvents in the on-site soil above the groundwater. The installation and operation of the two containment wells and the enhanced soil vapor extraction system are dependent upon various permits, licenses and approvals from regulatory agencies and third parties. It is anticipated that these remediation activities will operate for a period of time during which the Company and the regulatory agencies will analyze their effectiveness. The Company believes that it will take at least three to five years before the effectiveness of the groundwater extraction wells can be established. Until then, in the Company's judgment, no definitive conclusion can be reached on whether additional remediation activities may be required.

At June 30, 1999, Sparton has accrued $1,426,000 as its estimate of the future undiscounted minimum obligation with respect to this matter. This reflects the minimum range of the amount Sparton expects to incur over the next four years. The period of accrual was reduced from five to four years to reflect what is now believed will be the initial period for testing the effectiveness of the remediation plan as discussed and described below. Details of the activity beyond this period will be dependent upon the effectiveness of the workplans being currently negotiated and not yet implemented. This amount includes equipment and operating and maintenance costs. In many cases, new technologies become available over time, which result in modified costs for environmental remediation. The Company's estimate of cost is based on the existing methodology and excludes legal and related consulting costs. The estimate includes the minimum range of activity expected to occur in the next four years including on-site and off-site pump and treat containment systems, a soil vapor extraction program and continued on-site/off-site monitoring. Beyond four years, while additional expenditures are probable, Sparton does not believe such expenditures are reasonably estimable based on available information. Factors causing the uncertainty include, but are not limited to, effectiveness of the currently proposed programs to achieve targeted results and decisions made by regulating agencies regarding future proposals and reports of Sparton. Sparton routinely refines and revises the estimate of its environmental efforts as additional information becomes available.

Uncertainties associated with environmental remediation contingencies are pervasive and often result in wide ranges of reasonably possible estimates. Estimates developed in the early stages of remediation can vary significantly. Normally, a finite estimate of cost does not become fixed and determinable at a specific point in time. Rather, the costs associated with environmental remediation become estimable over a continuum of events and activities that help to frame and define a liability. Amounts charged to operations, principally legal and consulting, for fiscal years 1999 and 1998 were $1,756,000 and $1,821,000, respectively. It is reasonably possible that Sparton's recorded estimate of this liability may change. If a remedy is imposed on Sparton, other than as described in the proposed workplans, the ultimate cleanup costs would increase significantly. There is no assurance that additional costs greater than the amount accrued will not be incurred or that changes in environmental laws or their interpretation will not require that additional amounts be spent.

On June 17, 1998, Sparton Corporation and Sparton Technology, Inc. filed a complaint in the Circuit Court of Cook County, Illinois, against Lumbermens Mutual Casualty Company and American Manufacturers Mutual Insurance Company demanding reimbursement of expenses incurred in connection with its remediation efforts at the Coors Road facility based on various primary and excess comprehensive general liability policies in effect between 1959 and 1975.

On February 11, 1998, Sparton Technology, Inc. commenced litigation in the United States Court of Federal Claims alleging that the Department of Energy (DOE), acting through its contractors, Sandia Corporation and Allied Signal, Inc., is liable for reimbursement of Sparton's costs incurred in defending against and complying with Federal and state regulatory requirements. The DOE prescribed certain mandatory performance requirements that were then imposed upon Sparton through its agreements with Sandia Corporation and Allied Signal, Inc. On February 9, 1999 the Court of Federal Claims dismissed Sparton's complaint based on its determination that an agency relationship did not exist between Sandia Corporation and Allied Signal, Inc. and the United States for purposes of reimbursing costs incurred during litigation. Sparton believes that the court erred in its decision and filed its notice of appeal on April 9, 1999. Briefing has begun but is not yet complete.

Sparton Technology, Inc. filed a complaint on September 21, 1998, against Allied Signal, Inc. in U.S. District Court in Kansas City seeking to recover costs incurred to investigate and remediate impacts to the environment at its Coors Road facility. In July 1999, the court allowed the Company to amend its complaint to add Sandia Corporation and the DOE as defendants. Limited discovery has been completed. This case is currently scheduled for trial in the spring of 2000.

At this time, the Company is unable to predict the amount of recovery, if any, that may result from the pursuit of these before-mentioned three claims.

1.155

ULTRAMAR DIAMOND SHAMROCK CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 14: Environmental Matters

The Company's operations are subject to environmental laws and regulations adopted by various governmental authorities in the jurisdictions in which the Company operates. Accordingly, the Company has adopted policies, practices and procedures in the areas of pollution control, product safety, occupational health and the production, handling, storage, use and disposal of hazardous materials to prevent material environmental or other damage, and to limit the financial liability which could result from such events. However, some risk of environmental or other damage is inherent in the business of the Company, as it is with other companies engaged in similar businesses.

The Company has been designated as a potentially responsible party by the U.S. Environmental Protection Agency (the EPA) under the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, and by certain states under applicable state laws, with respect to the cleanup of hazardous substances at several sites. In each instance, other potentially responsible parties also have been so designated. The Company has accrued liabilities for environmental remediation obligations at these sites, as well as estimated site restoration costs to be incurred in the future.

The balances of and changes in accruals for environmental matters which are principally included in other long-term liabilities consisted of the following:

(In millions)	1999	1998	1997
Balance at beginning of year	$219.4	$213.9	$151.4
Purchase price allocation for Total	—	39.7	80.0
Additions to accrual	4.1	—	1.3
Reductions from accrual	(20.6)	—	—
Payments	(31.9)	(34.2)	(18.8)
Balance at end of year	$171.0	$219.4	$213.9

During 1999, based on the annual review of environmental liabilities, it was determined that certain liabilities were overstated as the required cleanup obligation was less than originally estimated. Accordingly, environmental liabilities were reduced by $20.6 million.

The accruals noted above represent the Company's best estimate of the costs which will be incurred over an extended period for restoration and environmental remediation at various sites. These liabilities have not been reduced by possible recoveries from third parties and projected cash expenditures have not been discounted. Environmental exposures are difficult to assess and estimate due to unknown factors such as the magnitude of possible contamination, the timing and extent of remediation, the determination of the Company's liability in proportion to other parties, improvements in cleanup technologies and the extent to which environmental laws and regulations may change in the future. Although environmental costs may have a significant impact on results of operations for any single period, the Company believes that such costs will not have a material adverse effect on the Company's financial position.

Insurance Coverage/Self-Insurance

1.156

DOVER CORPORATION AND SUBSIDIARIES (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

I. Self Insurance

The Company is generally self-insured for losses and liabilities related primarily to workers' compensation, health and welfare claims, business interruption resulting from certain events and comprehensive general, product and vehicle liability. Losses are accrued based upon the Company's estimates of the aggregate liability for claims incurred using certain actuarial assumptions followed in the insurance industry and based on Company experience.

1.157

REPUBLIC SERVICES, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

10 (In Part): Commitments and Contingencies

Liability Insurance

The Company carries general liability, vehicle liability, employment practices liability, pollution liability, directors and officers liability, workers compensation and employer's liability coverage, as well as umbrella liability policies to provide excess coverage over the underlying limits contained in these primary policies. The Company also carries property insurance.

The Company's insurance programs for worker's compensation, general liability, vehicle liability and employee related health care benefits are effectively self-insured. Claims in excess of self-insurance levels are fully insured. Accruals are based on claims filed and estimates of claims incurred but not reported.

The Company's liabilities for unpaid and incurred but not reported claims at December 31, 1999 was $38.4 million under its current risk management program and are included in other current and other liabilities in the accompanying Consolidated Balance Sheets. While the ultimate amount of claims incurred are dependent on future developments, in management's opinion, recorded reserves are adequate to cover the future payment of claims. However, it is reasonably possible that recorded reserves may not be adequate to cover the future payment of claims. Adjustments, if any, to estimates recorded resulting from ultimate claim payments will be reflected in operations in the periods in which such adjustments are known.

Governmental Investigations

1.158

AMERICA ONLINE, INC. (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 11 (In Part): Commitments and Contingencies

The Department of Labor ("DOL") is investigating the applicability of the Fair Labor Standards Act ("FLSA") to the Company's Community Leader program. The Company believes the Community Leader program reflects industry practices, that the Community Leaders are volunteers, not employees, and that the Company's actions comply with the law. The Company is cooperating with the DOL, but is unable to predict the outcome of the DOL's investigation. Former volunteers have sued the Company on behalf of an alleged class consisting of current and former volunteers, alleging violations of the FLSA and comparable state statutes. The Company believes the claims have no merit and intends to defend them vigorously. The Company cannot predict the outcome of the claims or whether other former or current volunteers will file additional actions.

The costs and other effects of pending or future litigation, governmental investigations, legal and administrative cases and proceedings (whether civil or criminal) settlements, judgments and investigations, claims and changes in those matters (including those matters described above) and developments or assertions by or against the Company relating to intellectual property rights and intellectual property licenses, could have a material adverse effect on the Company's business, financial condition and operating results. Management believes, however, that the ultimate outcome of all pending litigation should not have a material adverse effect on the Company's financial position and results of operations.

1.159

UNITED TECHNOLOGIES CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

14 (In Part): Commitments and Contingent Liabilities

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

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

Possible Tax Assessments

1.160

BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES (NOV)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

N (In Part): Contingencies

Legislation has phased out interest deductions on certain policy loans related to Company owned life insurance (COLI) as of January 1, 1999. The Company has recorded cumulative reductions to income tax expense of approximately $8 million as the result of COLI interest deductions through 1998. The Internal Revenue Service (IRS), on a national level, has pursued an adverse position regarding the deductibility of COLI policy loan interest for years prior to January 1, 1999. In 1999, the IRS received a favorable Tax Court ruling on one taxpayer regarding the non-deductibility of COLI loan interest. Management understands that this ruling and the adverse position taken by the IRS will be subjected to extensive challenges in court. In the event that the IRS prevails, the outcome could result in potential income tax and interest payments which could be material to the Company's future results of operations.

1.161

LSI LOGIC CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 10 (In Part): Income Taxes

The IRS is currently auditing the Company's federal income tax returns for fiscal years 1991 through 1996. The Company received a notice of proposed tax deficiency for the years 1991 and 1992 and filed an appeal with the IRS on March 26, 1997 in response to that IRS notice. Final proposed adjustments have not been received for these years. Management believes the ultimate outcome of the IRS audits will not have a material adverse impact on the Company's financial position or results of operations.

1.162

POLARIS INDUSTRIES INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 8 (In Part): Commitments and Contingencies

Income tax audit: Revenue Canada has assessed Polaris approximately $16.0 million in taxes, penalties and interest for the period January 1, 1992 through December 31, 1994 resulting from an income tax audit for that period. Revenue Canada has asserted that Polaris overcharged its Canadian subsidiary for various goods and services during the audit period primarily through improper intercompany transfer pricing policies. Polaris disagrees with the assessment and is vigorously contesting it.

Repurchase Agreement

1.163

CHAMPION ENTERPRISES, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 10 (In Part): Contingent Liabilities

It is customary practice for companies in the manufactured housing industry to enter into repurchase agreements with lending institutions which provide wholesale floor plan financing to retailers. A majority of the Company's manufacturing sales are made pursuant to these agreements, which generally provide for repurchase of the Company's products from the lending institutions during a limited period for the balance due them in the event of repossession upon a retailer's default. The contingent liabilities under these agreements are spread over many retailers and financial institutions, and are reduced by the resale value of the homes which are required to be repurchased or repossessed. Estimated losses are provided for currently. The maximum potential repurchase obligation was approximately $630 million at January 1, 2000, before any resale value of the homes. The estimated loss potential on these obligations consists of remarketing costs and unrecoverable discounts on the repurchased homes.

During the third quarter of 1999, the Company's former largest independent retailer filed a Chapter 11 bankruptcy petition. The Company was obligated under agreements with various floor plan lenders to repurchase approximately $70 million of homes. A pretax charge of $33.6 million ($20.5 million after tax or $0.42 per diluted share) was recorded for losses expected to be incurred in connection with the liquidation of the repurchased homes, including remarketing expenses, unrecoverable discounts and other costs. During 1999 cash costs of $6 million and non-cash costs of $17 million were charged against this reserve. The remaining costs will be paid in 2000. Repurchase losses, other than this bankruptcy, were $2.9 million in 1999 and not significant in 1998 and 1997.

Contract Performance

1.164

ELECTRONIC DATA SYSTEMS AND CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 15 (In Part): Contingencies

In the normal course of business, the Company provides IT consulting and processing services to its clients under contracts that sometimes require the Company to comply with certain project-related performance criteria, including project deadlines, defined IT system deliverables or level-of-effort measurements. Under certain contracts, the Company could be required to purchase project-related IT processing assets of its clients totaling $449.8 million if the Company does not comply with such criteria. The Company believes that it is in compliance with the performance provisions of these contracts and that the ultimate liability, if any, incurred under these contracts will not have a material adverse effect on the Company's consolidated results of operations or financial position.

Consigned Inventory Liability

1.165

COLLINS INDUSTRIES, INC. AND SUBSIDIARIES (OCT)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6 (In Part): Commitments and Contingencies

(f) Chassis Contingent Liabilities—The Company obtains certain vehicle chassis from two automotive manufacturers under agreements that do not transfer the vehicle's certificate of origin to the Company and, accordingly, the Company accounts for the chassis as consigned inventory. Chassis are typically converted and delivered to customers within 90 days.

Foreign Subsidiary Administrative Proceeding

1.166

COLGATE-PALMOLIVE COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

14 (In Part): Commitments and Contingencies

On September 8, 1998, one of the Company's Brazilian subsidiaries, Kolynos do Brasil Ltda. ("Kolynos"), received notice of an administrative proceeding from the Central Bank of Brazil. The notice primarily takes issue with certain filings made with the Central Bank in connection with financing arrangements related to the acquisition of Kolynos in January 1995. The Central Bank seeks to impose fines prescribed by statute, and it, in no way, challenges or seeks to unwind the acquisition. Management believes, based on the opinion of its Brazilian legal counsel, that the filings challenged by the Central Bank fully complied with Brazilian law and that the issues raised in the notice are without merit.

While it is possible that the Company's cash flows and results of operations in particular quarterly or annual periods could be affected by the one-time impacts of the resolution of the above contingencies, it is the opinion of management that the ultimate disposition of these matters, to the extent not previously provided for, will not have a material impact on the Company's financial condition or ongoing cash flows and results of operations.

GAIN CONTINGENCIES

Plaintiff Litigation

1.167

HERCULES INCORPORATED (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

24 (In Part): Commitments and Contingencies

Environmental (In Part)

In 1992, Hercules brought suit against its insurance carriers for past and future costs for cleanup of certain environmental sites *(Hercules Incorporated v. The Aetna Casualty & Surety Company, et al., Del. Super.*, C.A. No. 92C-10-105 and 90C-FE-195-CV (consolidated)). In April 1998, the trial regarding insurance recovery for the Jacksonville, Arkansas site (see discussion below) was completed. The jury returned a "Special Verdict Form" with findings that, in conjunction with the Court's other opinions, were used by the Court to enter a judgment in August 1999. The judgment determined the amount of Hercules' recovery for past cleanup-expenditures and stated that Hercules is entitled to similar coverage for costs incurred since September 30, 1997, and in the future. Hercules has not included any insurance recovery in the estimated range of costs above. Since entry of the Court's August 1999 order, Hercules has entered into settlement agreements with several of its insurance carriers and has recovered certain settlement monies. The terms of those settlements and amounts recovered are confidential.

1.168

LABARGE, INC. (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

17 (In Part): Litigation and Contingencies

On October 16, 1998, the Company filed a Petition for Specific Performance and Declaratory Judgment in the Circuit Court for St. Louis County, Missouri, seeking a resolution of LaBarge's right to develop and manufacture a new laser product and determination of the number of Laser Lancet devices TransMedica International, Inc. is obligated to purchase from LaBarge under an exclusive manufacturing agreement between the two companies. On June 3, 1999, the Company amended its suit to include payment of TransMedica's delinquent $2.0 million note receivable that was due June 2, 1999.

In May 1999, TransMedica filed a counterclaim against LaBarge seeking dismissal of LaBarge's petition, damages in an indeterminate amount, punitive damages, costs and attorney's fees relating to several counts alleging breach of contract, warranty and fiduciary duty by LaBarge and a declaration that a small laser device developed by a third party is not subject to TransMedica's agreement with LaBarge.TransMedica also filed a separate action against LaBarge in the Circuit Court in Little Rock, Arkansas, containing the same counts and seeking the same relief as in its counterclaim. The Arkansas proceeding has been stayed pending resolution of the St. Louis County proceeding. LaBarge intends to vigorously pursue its petition against TransMedica and to defend against TransMedica's claims and counterclaims.

At this time, it is too early to determine what, if any, recovery or liability LaBarge might have as a result of this suit. The Company has reserved 100% of the value of its TransMedica assets and recorded a loss of $4.6 million in fiscal 1999 as a result.

1.169

LOCKHEED MARTIN CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 16 (In Part): Commitments and Contingencies

Waste remediation contract—In 1994, the Corporation was awarded a $180 million fixed price contract by the U.S. Department of Energy (DOE) for the Phase II design, construction and limited test of remediation facilities, and the Phase III full remediation of waste found in Pit 9, located on the Idaho National Engineering and Environmental Laboratory reservation. The Corporation incurred significant unanticipated costs and scheduling issues due to complex technical and contractual matters which threatened the viability of the overall Pit 9 program. Based on an investigation by management to identify and quantify the overall effect of these matters, the Corporation submitted a request for equitable adjustment (REA) to the DOE on March 31, 1997 that sought, among other things, the recovery of a portion of unanticipated costs incurred by the Corporation and the restructuring of the contract to provide for a more equitable sharing of the risks associated with the Pit 9 project. The Corporation has been unsuccessful in reaching any agreements with the DOE on cost recovery or other contract restructuring matters.

On June 1, 1998, the DOE, through Lockheed Martin Idaho Technologies Company (LMITCO), its management contractor, terminated the Pit 9 contract for default. On that same date, the Corporation filed a lawsuit against the DOE in the U.S. Court of Federal Claims in Washington, D.C., challenging and seeking to overturn the default termination. In addition, on July 21, 1998, the Corporation withdrew the REA previously submitted to the DOE and replaced it with a certified REA. The certified REA is similar in substances to the REA previously submitted, but its certification, based upon more detailed factual and contractual analysis, raises its status to that of a formal claim. On August 11, 1998, LMITCO, at the DOE's direction, filed suit against the Corporation in U.S. District Court in Boise, Idaho, seeking, among other things, recovery of approximately $54 million previously paid by LMITCO to the Corporation under the Pit 9 contract. The Corporation is defending this action while continuing to pursue its certified REA. Discovery has been ongoing since August 2, 1999. On October 1, 1999, the U.S.

Court of Federal Claims stayed the DOE's motion to dismiss the Corporation's lawsuit, finding that the Court has jurisdiction. The Court ordered discovery to commence and gave leave to the DOE to convert its motion to dismiss to a motion for summary judgment if supported by discovery. The Corporation continues to assert its position in the litigation while continuing its efforts to resolve the dispute through non-litigation means.

1.170

NORTEK, INC. AND SUBSIDIARIES (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8 (In Part): Commitments and Contingencies

The subsidiary has engaged in coverage litigation with certain insurers and has settled coverage claims with several of the insurers. The Company believes that the remaining coverage disputes will be resolved on a satisfactory basis and additional coverage will be available. In reaching this belief, the Company analyzed insurance coverage and the status of the coverage litigation, considered the history of settlements with primary and excess insurers and consulted with counsel.

The Company has recorded liabilities of approximately $11,048,000 at December 31, 1999 for the estimated costs to resolve these outstanding matters. The Company has also recorded receivables at December 31, 1999 of approximately $9,803,000 for the estimated recoveries which are deemed probable of collection related to insurance litigation matters discussed above.

Compensation Award

1.171

TEXACO INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 15 (In Part): Other Financial Information, Commitments and Contingencies

Pending Award

In July 1999, the Governing Council of the United Nations Compensation Commission (UNCC) approved an award to Saudi Arabian Texaco Inc. (SAT), a wholly-owned subsidiary of Texaco Inc., of about $505 million, plus unspecified interest, for damages sustained as a result of Iraq's invasion of Kuwait in 1990. Payments to SAT are subject to income tax in Saudi Arabia at an applicable tax rate of 85%. SAT is party to a concession agreement with the Kingdom of Saudi Arabia covering the Partitioned Neutral Zone in Southern Kuwait and Northern Saudi Arabia.

The UNCC funds compensation awards by retaining 30% of Iraqi oil sales revenue under an agreement with Iraq. We do not know when we will receive this award since the timing of payments by the UNCC depends on several factors, including the total amount of all compensation awards, the ability of Iraq to produce and sell oil, the price of Iraqi oil and the duration of UN trade sanctions on Iraq. This award will be recognized in income when collection is assured.

Contingent Receivables

1.172

SCOTT TECHNOLOGIES, INC. AND SUBSIDIARIES (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(3) (In Part): Discontinued Operations

Prior Divestitures (In Part)

Proceeds and other consideration from divestitures which will be paid to the Company upon fulfillment of contractual provisions, the passage of time or the occurrence of future events have been recorded as deferred divestiture proceeds classified as non-current assets. Deferred divestiture proceeds consist of cash due to the Company from future tax benefits under a tax sharing agreement with an unaffiliated public company, Rawlings Sporting Goods Company, Inc., a note receivable from the purchaser of the Taylor Instruments business and other items.

Deferred divestiture proceeds include management's best estimates of the amounts expected to be realized on the collection of deferred proceeds and sale of residual assets related to discontinued operations. The amounts the Company will ultimately realize could differ materially from the amounts recorded. The Company has a reserve of $17.1 million at December 31, 1999 and $12.5 million at December 31, 1998 against these assets, which is presented as a deduction from deferred divestiture proceeds.

RISKS AND UNCERTAINTIES

1.173 *Statement of Position 94-6,* issued by the Accounting Standards Division of the American Institute of Certified Public Accountants, requires reporting entities to disclose information about the nature of their operations, the use of estimates in preparing financial statements, certain significant estimates, and vulnerabilities due to certain concentrations. 580 survey companies disclosed the use of estimates in preparing financial statements. Of these disclosures, 574 were made as part of the summary of significant accounting policies.

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

Nature of Operations

1.175

GRIEF BROS. CORPORATION AND SUBSIDIARY COMPANIES (OCT)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

The Business

Grief Bros. Corporation and its subsidiaries (the "Company") principally manufacture industrial shipping containers and container board and corrugated products which it sells to customers in many industries primarily in the United States, Canada and Mexico. The Company has over 80 operating locations in the United States, Canada and Mexico. In addition, the Company owns timber properties which are harvested and regenerated in the United States and Canada.

Due to the variety of its products, the Company has many customers buying different types of its products and, due to the scope of the Company's sales, no one customer is considered principal in the total operation of the Company.

Because the Company supplies a cross section of industries, such as chemicals, food products, petroleum products, pharmaceuticals and metal products, and must make spot deliveries on a day-to-day basis as its products are required by its customers, the Company does not operate on a backlog to any significant extent and maintains only limited levels of finished goods. Many customers place their orders weekly for delivery during the week.

The Company's raw materials are principally pulpwood, waste paper for recycling, paper, steel and resins.

The approximate number of persons employed during the year was 5,100.

1.176

MEREDITH CORPORATION AND SUBSIDIARIES (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

A. Nature of Operations

Meredith Corporation is a diversified media company primarily focused on the home and family marketplace, the Company's principal businesses are magazine publishing and television broadcasting. Operating profits of the publishing and broadcasting segments were 62 percent and 38 percent, respectively, of total operating profit before unallocated corporate expense in fiscal 1999. Magazine operations accounted for approximately 90 percent of the revenues and operating profit of the publishing segment, which also includes book publishing, brand licensing, residential real estate franchising, integrated marketing and other related operations. The residential real estate operations were sold in July 1998. *Better Homes and Gardens* is the most significant trademark to the publishing segment and is used extensively in its operations. The Company's television broadcasting operations include 12 network-affiliated television stations. Meredith's operations are diversified geographically within the United States, and the Company has a broad customer base.

Advertising and magazine circulation revenues accounted for 59 percent and 26 percent, respectively, of the Company's revenues in fiscal 1999. Revenues and operating results can be affected by changes in the demand for advertising and/or consumer demand for the Company's products. National and local economic conditions largely affect the overall industry levels of advertising revenues. Magazine circulation revenues are generally affected by national and/or regional economic conditions and competition from other forms of media.

1.177

NORTHROP GRUMMAN CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (In Part)

Nature of Operations

Northrop Grumman is a major producer of military and commercial aircraft subassemblies and defense electronics and is the prime contractor on the U.S. Air Force B-2 Stealth Bomber. The Company operates within the broadly defined aerospace industry. The majority of the Company's products and services are ultimately sold to the U.S. Government and the Company is therefore affected by, among other things, the federal budget process.

The Company's three reportable segments are its three operating units: Integrated Systems and Aerostructures (ISA), Electronic Sensors and Systems (ESS), and Logicon, the Company's information technology sector. Included in the Management's Discussion and Analysis section of this report are general descriptions of the Company's principal products and services under the titles Integrated Systems and Aerostructures Segment, Electronic Sensors and Systems Segment, and Logicon Segment (see pages 9 through 13) and segment data in the table titled Results of Operations by Segment and Major Customer (see pages 14 and 15), which are considered to be an integral part of these financial statements. Only these portions of Management's Discussion and Analysis are incorporated by reference into these financial statements.

Sales to the U.S. Government (including foreign military sales) are reported within each segment and in total in the Selected Financial Data. The Company does not conduct a significant volume of activity through foreign operations or in foreign currencies. Intersegment sales are transacted at cost incurred with no profit added. Management principally uses operating margin as the measure to evaluate segment profitability. The Company does not allocate federal income tax expense, pension income, the deferred portion of state income tax expense, interest income, or interest expense to segments. General corporate assets include cash and cash equivalents, corporate office furnishings and equipment, other unallocable property, investments in affiliates, prepaid retiree benefits cost, intangible pension asset, benefit trust fund assets, deferred tax assets and certain assets available for sale.

1.178

PREMIUMWEAR, INC. AND SUBSIDIARIES (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Nature of Operations

PremiumWear, Inc. (the "Company") designs, sources and markets knit and woven shirts and other apparel to the promotional products/advertising specialty industry and to golf pro and resort shops utilizing its Page & Tuttle® brand and other licensed brands. In addition, the Company derives commission income by representing products of other companies to the promotional products/advertising specialty industry. Over 95% of all sales are to customers in the United States. The Company's products are assembled or manufactured primarily in Central America, South America and the Far East.

1.179

SMURFIT-STONE CONTAINER CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Significant Accounting Policies

Nature of Operations: The Company's major operations are in paper products, recycled and renewable fiber resources, and consumer and specialty packaging. In February 1999, the Company announced its intention to divest its newsprint subsidiary, and accordingly, its newsprint segment is accounted for as a discontinued operation (see Note 13). The Company's paperboard mills procure virgin and recycled fiber and produce paperboard for conversion into corrugated containers, folding cartons, industrial bags and industrial packaging at Company-owned facilities and third-party converting operations. Paper product customers represent a diverse range of industries including paperboard and paperboard packaging, wholesale trade, retailing and agri-business. Recycling operations collect or broker wastepaper for sale to Company-owned and third-party paper mills. Specialty packaging produces labels and flexible packaging for use in industrial, medical and consumer product applications. Customers and operations are principally located in the United States. Credit is extended to customers based on an evaluation of their financial condition.

Use of Estimates

1.180

AMERICAN STANDARD COMPANIES INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2 (In Part): Accounting Policies

Use of Estimates—The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. The most significant estimates included in the preparation of the financial statements are related to postretirement benefits, income taxes, warranties and asset lives.

1.181

CBS CORPORATION (DEC)

NOTES TO THE FINANCIAL STATEMENTS

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

The preparation of the consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. On an ongoing basis, management reviews its estimates, including those related to litigation, environmental liabilities, program rights, Internet investments, contracts, pensions, income taxes, and Discontinued Operations, based on currently available information. Changes in facts and circumstances may result in revised estimates.

1.182

PLASMA-THERM, INC. AND SUBSIDIARY (NOV)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Use of Estimates in Financial Statements

In preparing financial statements in conformity with generally accepted accounting principles, management makes estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. One such estimate is the estimated fair value of the Company's products used on various research and development projects. While actual results could differ from those estimates, management does not expect the variances, if any, to have a material effect on the financial statements.

1.183

STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Use of Estimates

In conformity with generally accepted accounting principles, management of the Company has made a number of estimates and assumptions relating to the reporting of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities to prepare these consolidated financial statements. Some of the more significant estimates include allowances for doubtful accounts, inventory valuation reserve, depreciation and amortization of long-lived assets, deferred tax asset valuation allowance and sales return allowances. Actual results could differ from those estimates.

Significant Estimates

1.184

COLUMBIA/HCA HEALTHCARE CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (In Part): Accounting Policies

Professional Liability Insurance Claims (In Part)

A substantial portion of the Company's professional liability risks is insured through a wholly-owned insurance subsidiary of the Company, which is funded annually. Allowances for professional liability risks were $1.5 billion and $1.4 billion at December 31, 1999 and 1998, respectively. Provisions for losses related to professional liability risks are based upon actuarially determined estimates. Loss and loss expense allowances represent the estimated ultimate net cost of all reported and unreported losses incurred through the respective balance sheet dates. The allowances for unpaid losses and loss expenses are estimated using individual case-basis valuations and statistical analyses. Those estimates are subject to the effects of trends in loss severity and frequency. Although considerable variability is inherent in such estimates, management believes that the allowances for losses and loss expenses are adequate. The estimates are continually reviewed and adjusted as necessary, as experience develops or new information becomes known and such adjustments are included in current operating results.

1.185

HECLA MINING COMPANY AND SUBSIDIARIES (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

E. (In Part): Properties, Plants and Equipment—Management of Hecla reviews the net carrying value of all facilities, including idle facilities, on a periodic basis. Hecla estimates the net realizable value of each property based on the estimated undiscounted future cash flows that will be generated from operations at each property, the estimated salvage value of the surface plant and equipment and the value associated with property interests. These estimates of undiscounted future cash flows are dependent upon estimates of metal to be recovered from proven and probable ore reserves and, where appropriate, from the continuity of existing, developed orebodies, future production costs and future metals prices over the estimated remaining mine life. If undiscounted cash flows are less than the carrying value of a property, an impairment loss is recognized based upon the estimated expected future net cash flows from the property discounted at an interest rate commensurate with the risk involved.

Management's estimates of metals prices, recoverable proven and probable ore reserves, and operating, capital and reclamation costs are subject to risks and uncertainties of change affecting the recoverability of Hecla's investment in various projects. Although management has made its best estimate of these factors based on current conditions and information, it is reasonably possible that changes could occur in the near term which could adversely affect management's estimate of net cash flows expected to be generated from its operating properties and the need for asset impairment write-downs.

Management's calculations of proven and probable ore reserves are based on engineering and geological estimates including minerals prices and operating costs. Changes in the geological and engineering interpretation of various orebodies, minerals prices and operating costs may change Hecla's estimates of proven and probable ore reserves. It is reasonably possible that certain of Hecla's estimates of proven and probable ore reserves will change in the near term resulting in a change to amortization and reclamation accrual rates in future reporting periods.

G. Reclamation of Mining Areas—All of Hecla's operations are subject to reclamation and closure requirements. Minimum standards for mine reclamation have been established by various governmental agencies which affect certain operations of Hecla. A reserve for mine reclamation costs has been established for restoring certain abandoned and currently disturbed mining areas based upon estimates of cost to comply with existing reclamation standards. Mine reclamation costs for operating properties are accrued using the unit-of-production method and charged to cost of sales and other direct production costs.

The estimated amount of metals or minerals to be recovered from a mine site is based on internal and external geological data and is reviewed by management on a periodic basis. Changes in such estimated amounts which affect reclamation cost accrual rates are accounted for prospectively from the date of the change unless they indicate there is a current impairment of an asset's carrying value and a decision is made to permanently close the property, in which case they are recognized currently and charged to provision for closed operations and environmental matters. It is reasonably possible that Hecla's estimate of its ultimate accrual for reclamation costs will change in the near term due to possible changes in laws and regulations, and interpretations thereof, and changes in cost estimates.

H. Remediation of Mining Areas—Hecla accrues costs associated with environmental remediation obligations when it is probable that such costs will be incurred and they are reasonably estimable. Accruals for estimated losses from environmental remediation obligations generally are recognized no later than completion of the remedial feasibility study and are charged to provision for closed operations and environmental matters. Costs of future expenditures for environmental remediation are not discounted to their present value. Such costs are based on management's current estimate of amounts that are expected to be incurred when the remediation work is performed within current laws and regulations. Recoveries of environmental remediation costs from other parties are recorded as assets when their receipt is deemed probable.

It is reasonably possible that, due to uncertainties associated with defining the nature and extent of environmental contamination, application of laws and regulations by regulatory authorities, and changes in remediation technology, the ultimate cost of remediation could change in the future. Hecla periodically reviews its accrued liabilities for such remediation costs as evidence becomes available indicating that its remediation liability has potentially changed.

Note 5: Environmental and Reclamation Adjustments

In 1999, Hecla recorded charges totaling $27.3 million for future environmental and reclamation expenditures at the Grouse Creek property and the Bunker Hill Superfund site. The Grouse Creek mine has been on a care-and-maintenance status since the second quarter of 1997 following completion of mining in the Sunbeam pit. The accrual adjustment at Grouse Creek is based upon anticipated changes to the closure plan developed in the third quarter of 1999, including increased dewatering requirements and other expenditures. The changes to the reclamation plan at Grouse Creek were necessitated principally by the need to dewater the tailings impoundment rather than reclaim it as a wetland as originally planned. Hecla is currently working with federal and state agencies on the development of an effective plan for dewatering the tailings impoundment. At the Bunker Hill Superfund site, estimated future costs were increased based upon results of sampling activities completed through 1999 and current cost estimates to remediate residential yards and commercial properties. Although Hecla has updated its current cost estimates for the Grouse Creek and Bunker Hill sites, Hecla will continue to reassess its obligations as new information is developed. Depending on the results of any reassessment, it is reasonably possible that Hecla's estimate of its obligations may change in the near term.

Note 8 (In Part): Commitments and Contingencies

Contingencies (In Part)

Bunker Hill Superfund Site—In 1994, Hecla, as a potentially responsible party under the Comprehensive Environmental Response, Compensation, and Liability Act of 1980 (CERCLA), entered into a consent decree with the Environmental Protection Agency (EPA) and the state of Idaho, concerning environmental remediation obligations at the Bunker Hill Superfund site located at Kellogg, Idaho. The consent decree settled Hecla's response-cost liability under CERCLA at the Bunker Hill site. As of December 31, 1999, Hecla has estimated and accrued an allowance for liability for remedial activity costs at the Bunker Hill site of $7.5 million. These estimated expenditures are anticipated to be made over the next three to five years. Although Hecla believes the allowance is adequate based upon current estimates of aggregate costs, Hecla will reassess its obligations under the consent decree as new information is developed. Depending on the results of any reassessment, it is reasonably possible that Hecla's estimate of its obligations may change in the near term.

1.186

HERCULES INCORPORATED (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

15. Purchased In-process Research and Development

Purchased in-process research and development (IPR&D) represents the value assigned in a purchase business combination to research and development projects of the acquired business that were commenced but not yet completed at the date of the acquisition, and which, if unsuccessful, have no alternative future use in research and development activities or otherwise. Amounts assigned to purchased IPR&D must be charged to expense at the date of consummation of the purchase business combination. Accordingly, the company charged approximately $130 million to expense during 1998 for IPR&D related to the BetzDearborn acquisition (see Note 1).

The IPR&D projects were principally included in the water treatment and paper process divisions of the acquired business. The former Water Management Group (WMG) provided specialty water and process treatment programs for boiler, cooling, influent, and effluent applications to markets such as refining, chemical, paper, electric utility, food, industrial, commercial and institutional establishments. Overall, the products are used to control corrosion, scale, deposit formation, and microbiological growth, conserve energy and improve efficiency. Additionally, the former Paper Process Group (PPG) brought to market custom-engineered programs for the process-related problems associated with paper production. These problems include deposition, corrosion, microbiological fouling, foam control, deinking and felt conditioning.

Due to the uniqueness of each of the projects, the costs and effort required were estimated based on the information available at the date of acquisition. However, there is a risk that certain projects may not be completed successfully for a variety of reasons, including change in strategies, inability to develop a cost-efficient treatment, and changes in market demand or customer requirements.

The IPR&D valuation charge was measured by the stage of completion method, primarily calculated by dividing the costs incurred to the date of acquisition by the total estimated costs. These percentages were applied to the results of project-by-project discounted cash flow models that estimated the present value of residual cash flows deemed attributable solely to the underlying IPR&D.

The projected revenues, costs, and margins in the cash flow forecasts were consistent with projections by management based on available historical data. The revenue projections were based on an opportunity analysis for each project, which takes into account market and competitive conditions, potential customers, and strategic goals. The weighted-average cost of capital for the overall business was estimated at 11% and the risk-adjusted discount rate used in the IPR&D project valuation model was 13%.

24 (In Part): Commitments and Contingencies

Environmental (In Part)

Hercules has been identified as a potentially responsible party (PRP) by U.S. federal and state authorities, or by private parties seeking contribution, for the cost of environmental investigation and/or cleanup at numerous sites. The estimated range of the reasonably possible share of costs for the investigation and cleanup is between $60 million and $230 million. The actual costs will depend upon numerous factors, including the number of parties found responsible at each environmental site and their ability to pay; the actual methods of remediation; outcomes of negotiations with regulatory authorities; outcomes of litigation; changes in environmental laws and regulations; technological developments; and the years of remedial activity required, which could range from 0 to 30 years.

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At December 31, 1999, the accrued liability of $60 million for environmental remediation represents management's best estimate of the probable and reasonably estimable costs related to environmental remediation. The extent of liability is evaluated quarterly. The measurement of the liability is evaluated based on currently available information, including the process of remedial investigations at each site and the current status of negotiations with regulatory authorities regarding the method and extent of apportionment of costs among other PRPs. Hercules does not anticipate that its financial condition will be materially affected by environmental remediation costs in excess of amounts accrued, although quarterly or annual operating results could be materially affected.

1.187

PRIMEDIA INC. AND SUBSIDIARIES (DEC)

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

12 (In Part): Income Taxes

Deferred income taxes reflect the net tax effects of (a) temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes, and (b) operating loss carryforwards. The tax effects of significant items comprising the Company's net deferred income tax assets are as follows:

	1999		
	Federal	State	Total
Deferred Income Tax Assets:			
Difference between book and tax basis of inventory	$ 555	$ 163	$ 718
Difference between book and tax basis of accrued expenses and other	21,687	6,354	28,041
Difference between book and tax basis of other intangible assets	51,029	14,949	65,978
Operating loss carryforwards	226,405	47,153	273,558
Alternative minimum tax credit carryforwards	1,356	—	1,356
Total	301,032	68,619	369,651
Deferred Income Tax Liabilities:			
Difference between book and tax basis of other intangible assets	55,665	16,307	71,972
Difference between book and tax basis of property and equipment	16,577	4,856	21,433
Unrealized gain on investments	30,209	2,669	32,878
Other	12,508	3,664	16,172
Total	114,959	27,496	142,455
Net deferred income tax assets	186,073	41,123	227,196
Less: Valuation allowances	30,391	20,605	50,996
Net	$155,682	$20,518	$176,200

At December 31, 1999, 1998 and 1997, management of the Company reviewed recent operating results and projected future operating results. At the end of each of the respective years, management determined that a portion of the net deferred income tax assets would likely be realized. The amounts of the net deferred income tax assets were not adjusted in 1999, 1998 and 1997. The amount of the net deferred tax asset considered realizable, however, could be reduced in the near term if estimates of future taxable income during the carryforward period are reduced. There was a net decrease in the valuation allowances of $78,668 in 1999 and a net increase of $11,432 in 1998.

1.188

RITE AID CORPORATION AND SUBSIDIARIES (FEB)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3 (In Part): Acquisitions

On January 22, 1999, the company completed its acquisition of PCS Health Systems, Inc. (PCS), a pharmacy benefits management subsidiary of Eli Lilly and Company for $1,500,000,000 which was financed with commercial paper. The results of operations for PCS have been included in these consolidated financial statements since the date of acquisition. The PCS acquisition is being accounted for using the purchase method of accounting for business combinations. The company has recorded the assets and liabilities of PCS at the date of acquisition at their estimated fair values. The excess of the cost of PCS over the estimated fair value of the recorded assets and liabilities has been recorded as goodwill. Based upon the company's preliminary purchase price allocation, goodwill of approximately $1,636,488,000 was recorded in the company's consolidated balance sheet. Although these amounts are subject to change based upon any appraisals and/or evaluations performed subsequently, the final purchase price allocation is not expected to materially differ from those recorded in the February 27, 1999 consolidated balance sheet. As a result of appraisals and/or evaluations to be performed, a portion of the purchase price may be allocated to other intangible assets which may have a shorter useful life than goodwill. The company has determined that the estimated useful life of the goodwill recorded with the PCS acquisition is primarily indeterminate and likely exceeds 40 years. This estimate is based upon a review of the anticipated future cash flows and other factors when the company considered the cost it was willing to incur for the purchase of PCS. Additionally, management has found no persuasive evidence that any material portion of these intangible assets will be depleted in less than 40 years. Accordingly, the company will amortize goodwill over the maximum allowable period of 40 years.

There is a risk that the determination that the PCS goodwill will benefit the company for no less than 40 years will prove to have been incorrect and that the company will be amortizing this goodwill over too long a period. If the company has done this, earnings reports for the periods immediately following the acquisition will be overstated, and, in later years, the company will be burdened with a continuing charge against earnings without a corresponding benefit to income. If the company determines in a later year that it is no longer receiving the benefit of this goodwill, the company may have to write off the remaining goodwill in that year, resulting in a reduction in earnings for that fiscal year. The company can give no assurance that its determination will prove to be correct.

1.189

WASTE MANAGEMENT, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Business and Financial Statements

Use of estimates—The preparation of the financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts for certain revenues and expenses during the reporting period. Specifically with regard to landfill accounting, the Company uses engineering and accounting estimates when projecting future development and final closure and post-closure costs, forecasting various engineering specifications (including the prediction of waste settlement), and future operational plans and waste volumes. Actual results could differ materially from those estimates.

3 (In Part): Summary of Significant Accounting Policies

Landfill accounting—Capitalizable landfill site costs are recorded at cost. Recorded costs, net of recorded amortization, are added to estimated projected costs to determine the amount to be amortized over the remaining estimated useful life of a site. Amortization is recorded on a units of consumption basis, typically applying cost as a rate per ton. Landfill site costs are amortized to expected net realizable value upon final closure of a landfill.

The difference between the present value of a landfill's estimated total final closure and post-closure costs and amounts accrued to date is accrued prospectively on a units of consumption basis, typically by applying a rates per ton over the remaining capacity of the landfill. The present value of final closure and post-closure costs are accrued for each landfill once the site discontinues operations.

The remaining capacity of a landfill is determined by the unutilized permitted airspace and expansion airspace when the success of obtaining such expansion permit is considered probable.

Effective as of the third quarter of 1999, the Company applied a newly defined, more stringent set of criteria for evaluating the probability of obtaining an expansion permit to landfill airspace at existing sites, which are as follows:

- Personnel are actively working to obtain land use, local and state approvals for an expansion of an existing landfill;
- At the time the expansion is added to the permitted site life, it is probable that the approvals will be received within the normal application and processing time periods for approvals in the jurisdiction in which the landfill is located;
- The respective landfill owners or the Company has a legal right to use or obtain land to be included in the expansion plan;
- There are no significant known technical, legal, community, business, or political restrictions or issues that could impair the success of such expansion;

- Financial analysis has been completed, and the results demonstrate that the expansion has a positive financial and operational impact; and
- Airspace and related costs, including additional final closure and post-closure costs, have been estimated based on conceptual design.

Additionally, to include airspace from an expansion effort, the expansion permit application must generally be expected to be submitted within one year, and the expansion permit must be expected to be received within two to five years. Exceptions to these criteria must be approved through a landfill-specific approval process that includes an approval from the Company's Chief Financial Officer and prompt review by the Audit Committee of the Board of Directors. Such exceptions are generally due to permit application processes beyond the one-year limit, which in most cases, are due to state-specific permitting procedures. Generally, the Company has been successful in receiving approvals for expansions pursued; however, there can be no assurance that the Company will be successful in obtaining landfill expansions in the future.

As disposal volumes are affected by seasonality and competitive factors, airspace amortization varies between fiscal quarters due to changes in volumes of waste disposal at the Company's landfills. Airspace amortization is also affected by changes in engineering costs and estimates.

7 (In Part): Environmental Liabilities

The Company has material financial commitments for the costs associated with its future obligations for final closure, which is the closure of the landfill and the capping of the final uncapped areas of a landfill or the costs required by regulation associated with existing operations at a hazardous waste treatment, storage or disposal facility which are subject to the Toxic Substances Control Act ("TSCA") or Subtitle C of the Resource Conservation and Recovery Act ("RCRA"), and post-closure maintenance of those facilities. Estimates for final closure and post-closure costs are developed using input from the Company's engineers and accountants and are reviewed by management, typically at least once per year. The estimates are based on the Company's interpretation of current requirements and proposed regulatory changes. For landfills, the present value of final closure and post-closure liabilities are accrued using the calculated rate per ton and charged to expense as airspace is consumed such that the present value of total estimated final closure and post-closure cost will be accrued for each landfill at the time the site discontinues accepting waste and is closed. In the United States, the final closure and post-closure requirements are established under the standards of the United States Environmental Protection Agency's Subtitle C and D regulations, as implemented and applied on a state-by-state basis. Such costs may increase in the future as a result of legislation or regulation. Final closure and post-closure accruals consider estimates for the final cap and cover for the site, methane gas control, leachate management and groundwater monitoring, and other operational, and maintenance costs to be incurred after the site discontinues accepting waste, which is generally expected to be for a period of up to thirty years after final site closure. For purchased disposal sites, the Company assesses and records a present value-based final closure and post-closure liability at the time the Company assumes closure responsibility based upon the estimated final closure and post-closure costs and the percentage of airspace utilized as of such date. Thereafter, the difference between the final closure and post-closure liability recorded at the time of acquisition and the present value of total estimated final closure and post-closure costs to be incurred is accrued using the calculated rate and charged to expense as airspace is consumed. Such costs for foreign landfills are estimated based on compliance with local laws, regulations and customs. For other facilities, final closure and post-closure costs are determined in consideration of regulatory requirements.

The Company has also established procedures to evaluate its potential remedial liabilities at closed sites which it owns or operates, or to which it transported waste, including 84 sites listed on the Superfund National Priorities List ("NPL") as of December 31, 1999. The majority of situations involving NPL sites relate to allegations that subsidiaries of the Company (or their predecessors) transported waste to the facilities in question, often prior to the acquisition of such subsidiaries by the Company. The Company routinely reviews and evaluates sites that require remediation, including NPL sites, giving consideration to the nature (e.g., owner, operator, transporter, or generator), and the extent (e.g., amount and nature of waste hauled to the location, number of years of site operation by the Company, or other relevant factors) of the Company's alleged connection with the site, the accuracy and strength of evidence connecting the Company to the location, the number, connection and financial ability of other named and unnamed potentially responsible parties ("PRPs"), and the nature and estimated cost of the likely remedy. Cost estimates are based on management's judgment and experience in remediating such sites for the Company as well as for unrelated parties, information available from regulatory agencies as to costs of remediation, and the number, financial resources and relative degree of responsibility of other PRPs who are jointly and severally liable for remediation of a specific site, as well as the typical allocation of costs among PRPs. These estimates are sometimes a range of possible outcomes. In such cases, the Company provides for the amount within the range which constitutes its best estimate. If no amount within the range appears to be a better estimate than any other amount, then the Company provides for the minimum amount within the range in accordance with SFAS No. 5, *Accounting for Contingencies.* The Company believes that it is "reasonably possible," as that term is defined in SFAS No. 5 ("more than remote but less than likely"), that its potential liability, at the high end of such ranges, would be approximately $190.0 million higher, on a discounted basis in the aggregate than the estimate that has been recorded in the consolidated financial statements as of December 31, 1999.

Estimates of the extent of the Company's degree of responsibility for remediation of a particular site and the method and ultimate cost of remediation require a number of assumptions and are inherently difficult, and the ultimate outcome may differ from current estimates. However, the Company believes that its extensive experience in the environmental services business, as well as its involvement with a large number of sites, provides a reasonable basis for estimating its aggregate liability. As additional information becomes available, estimates are adjusted as necessary. While the Company does not anticipate that any such adjustment would be material to its financial statements, it is reasonably possible that technological, regulatory or enforcement developments, the results of environmental studies, the non-existence or inability of other PRPs to contribute to the settlements of such liabilities, or other factors could necessitate the recording of additional liabilities which could be material.

As part of its ongoing operations, the Company reviews its reserve requirements for remediation and other environmental matters based on an analysis of, among other things, the regulatory context surrounding landfills and remaining airspace capacity in light of changes to operational efficiencies. Accordingly, revisions to remediation reserve requirements may result in upward or downward adjustments to income from operations in any given period. Adjustments for final closure and post-closure estimates are accounted for prospectively over the remaining capacity of the landfill.

Where the Company believes that both the amount of a particular environmental liability and the timing of the payments are reliably determinable, the cost in current dollars is inflated (2% at December 31, 1999 and 1998) until expected time of payment and then discounted to present value (5.5% at December 31, 1999 and 1998). The accretion of the interest related to the discounted environmental liabilities is included in the annual calculation of the landfill's final closure and post-closure cost per ton and is charged to operating expense as landfill airspace is consumed. The portion of the Company's recorded environmental liabilities that is not inflated or discounted was approximately $370.6 million and $492.3 million at December 31, 1999 and 1998, respectively. Had the Company not discounted any portion of its liability, the amount recorded would have been increased by approximately $342.9 million at December 31, 1999.

The Company's liabilities for final closure, post-closure and environmental remediation costs are as follows (in thousands):

	1999	1998
Current portion, included in accrued liabilities	$ 140,101	$ 150,592
Non-current portion	837,407	1,040,747
Total recorded	977,508	$1,191,339
Amount to be provided including discount of $342,900 related to recorded amounts	1,657,578	
Expected aggregate environmental liabilities based on current cost	$2,635,086	

Anticipated payments (based on current costs) of environmental liabilities at December 31, 1999, are as follows (in thousands):

2000	$ 140,101
2001	64,599
2002	61,248
2003	55,313
2004	40,468
Thereafter	2,273,357
Total	$2,635,086

Vulnerability Due to Certain Concentrations

1.190

AMKOR TECHNOLOGY, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Significant Customers

The Company has a number of major customers in North America, Asia and Europe. The Company's largest customer, Texas Instruments, Inc. ("TI"), accounted for 16.5% of net revenues in 1999. Revenues for services provided to TI prior to 1999 were less than 10%. In addition, the Company's second largest customer, Intel Corporation, accounted for approximately 23.4%, 20.6% and 14.1% of net revenues in 1997, 1998 and 1999, respectively. The Company's five largest customers collectively accounted for 40.1%, 41.6%, and 43.6% of net revenues in 1997, 1998, and 1999, respectively. The Company anticipates that significant customer concentration will continue for the foreseeable future, although the companies which constitute the Company's largest customers may change.

Risks and Uncertainties

The Company's future results of operations involve a number of risks and uncertainties. Factors that could affect the Company's future operating results and cause actual results to vary materially from historical results include, but are not limited to, dependence on highly cyclical nature of both the semiconductor and the personal computer industries, competitive pricing and declines in average selling prices, dependence on the Company's relationship with ASI (see Note 3), reliance on a small group of principal customers, timing and volume of orders relative to the Company's production capacity, availability of manufacturing capacity and fluctuations in manufacturing yields, availability of financing, competition, dependence on international operations and sales, dependence on raw material and equipment suppliers, exchange rate fluctuations, dependence on key personnel, difficulties in managing growth, enforcement of intellectual property rights, environmental regulations and the results of ASI on an equity method of accounting basis.

1.191

APPLE COMPUTER, INC. (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 8 (In Part): Commitments and Contingencies

Concentrations in the Available Sources of Supply of Materials and Product

Although certain components essential to the Company's business are generally available from multiple sources, other key components (including microprocessors and application-specific integrated circuits, or "ASICs") are currently obtained by the Company from single or limited sources. If the supply of a key single-sourced component to the Company were to be delayed or curtailed or in the event a key manufacturing vendor delays shipments of completed products to the Company, the Company's ability to ship related products in desired quantities and in a timely manner could be adversely affected. The Company's business and financial performance could also be adversely affected depending on the time required to obtain sufficient quantities from the original source, or to identify and obtain sufficient quantities from an alternative source. In addition, the Company uses some components that are not common to the rest of the personal computer industry. Continued availability of these components may be affected if producers were to decide to concentrate on the production of common components instead of components customized to meet the Company's requirements. Finally, significant portions of the Company's CPUs, logic boards, and assembled products are now manufactured by outsourcing partners. Although the Company works closely with its outsourcing partners on manufacturing schedules and levels, the Company's operating results could be adversely affected if its outsourcing partners were unable to meet their production obligations.

1.192

DETROIT DIESEL CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

13 (In Part): Commitments, Contingencies and Concentrations

The Company believes it has adequate sources for the supply of raw materials and components for its manufacturing requirements. The Company's suppliers are located primarily in North America and Western Europe. The Company has a policy of strengthening its supplier relationships by concentrating its purchases for particular parts over a limited number of suppliers in order to maintain quality and cost control and to increase the suppliers' commitment to the Company. The Company relies upon, and expects to continue to rely upon, several single source suppliers for critical components.

1.193

EXIDE CORPORATION AND SUBSIDIARIES (MAR)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (In thousands, except share and per-share data)

1 (In Part): Summary of Significant Accounting Policies

Seasonality and Weather

The automotive aftermarket is seasonal as retail sales of replacement batteries are generally higher in the fall and winter. Accordingly, demand for the Company's automotive batteries is generally highest in the fall and early winter (the Company's second and third fiscal quarters) as retailers build inventories in anticipation of the winter season. European sales are concentrated in the fourth calendar quarter (the Company's third fiscal quarter) due to the shipment of batteries for the winter season and the practice of many industrial battery customers (particularly governmental and quasi-governmental entities) of deferring purchasing decisions until the end of the calendar year. Demand for automotive batteries is significantly affected by weather conditions. Unusually cold winters or hot summers accelerate battery failure and increase demand for automotive replacement batteries. Mild winters and cool summers have the opposite effect.

1.194

HUMANA INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

10 (In Part): Commitments and Contingencies

Government and Other Contracts

The Company's Medicare HMO contracts with the federal government are renewed for a one-year term each December 31, unless terminated 90 days prior thereto. Legislative proposals are being considered which may revise the Medicare program's current support of the use of managed health care for Medicare beneficiaries and future reimbursement rates thereunder. Management is unable to predict the outcome of these proposals or the impact they may have on the Company's financial position, results of operations or cash flows. The Company's Medicaid contracts are generally annual contracts with various states except for the two-year contract with the Health Insurance Administration in Puerto Rico. Additionally, the Company's TRICARE contract is a one-year contract renewable on July 1, 2000, for one additional year. The loss of these contracts or significant changes in these programs as a result of legislative action, including reductions in payments or increases in benefits without corresponding increases in payments, would have a material adverse effect on the revenues, profitability and business prospects of the Company. In addition, the Company continually contracts and seeks to renew contracts with providers at rates designed to ensure adequate profitability. To the extent the Company is unable to obtain such rates, its financial position, results of operations and cash flows could be adversely impacted.

1.195

L. B. FOSTER COMPANY AND SUBSIDIARIES (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 18: Risks and Uncertainties

The Company's future operating results may be affected by a number of factors. The Company is dependent upon a number of major suppliers. If a supplier had operational problems or ceased making material available to the Company, operations could be adversely affected.

Revenues from piling products declined following the closure of Bethlehem's structural mill in April 1997, and continue to be at reduced levels, as the majority of the Company's sheet piling inventory has been liquidated since the closure. The Company has become Chaparral Steel's exclusive North American distributor of steel sheet piling and "H" bearing pile. Shipments of "H" bearing pile began very late in the third quarter of 1999 from Chaparral's new Petersburg, VA facility while current mill projections are to begin initial test rollings of Z-shaped sheet piling during the second quarter of 2000. The Company does not expect production of Z-shaped sheet piling in meaningful quantities until the third quarter of 2000.

The rail segment of the business depends on one source for fulfilling certain trackwork contracts. At December 31, 1999, the Company has committed to this supplier $9,700,000 including inventory progress payments, a note receivable, equipment, and other receivables, principally interest charges on inventory progress payments. If, for any reason, this supplier is unable to perform, the Company could experience a negative short-term effect on earnings.

The Company's CXT subsidiary and Allegheny Rail Products division are dependent on one customer for a significant portion of their business. In addition, a substantial portion of the Company's operations are heavily dependent on governmental funding of infrastructure projects. Significant changes in the level of government funding of these projects could have a favorable or unfavorable impact on the operating results of the Company. Additionally, governmental actions concerning taxation, tariffs, the environment or other matters could impact the operating results of the Company. The Company's operating results may also be affected by adverse weather conditions.

1.196

MICRON TECHNOLOGY, INC. (AUG)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Significant Accounting Policies (In Part)

Certain concentrations and estimates (in part): Approximately 81% of the Company's sales of semiconductor memory products are to the PC or peripheral markets. Certain components used by the Company in manufacturing of PC systems are purchased from a limited number of suppliers.

1.197

NEWMONT MINING CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (In Part): The Company

Operations

The Company's sales result from operations in the United States, Mexico, Peru, Uzbekistan and Indonesia. Gold mining requires the use of specialized facilities and technology. The Company relies heavily on such facilities to maintain its production levels. Also, the cash flow and profitability of the Company's current operations are significantly affected by the market price of gold. Gold prices can fluctuate widely and are affected by numerous factors beyond the Company's control.

1.198

NORDSTROM, INC. AND SUBSIDIARIES (JAN)

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

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

The Company purchases a significant percentage of its merchandise from foreign countries, principally in the Far East. An event causing a disruption in imports from the Far East could have a material adverse impact on the Company's operations. In connection with the purchase of foreign merchandise, the Company has outstanding letters of credit totaling $60,038 at January 31, 2000.

1.199

PHOTO CONTROL CORPORATION (DEC)

NOTES TO FINANCIAL STATEMENTS

Note 1 (In Part): Business Description

In 1999, sales of flash equipment was highest followed by camera equipment and printer sales. In 1998, sales of camera equipment was the highest followed by flash equipment and printer sales. There has been a consolidation of school photography and studio portrait photography in recent years which has concentrated the Company's sales to fewer customers. It is expected that this trend will continue. In 1999, three customers accounted for 37.3% of the Company's sales, in 1998, 27.6% and in 1997, 22.3%. Due to the rapidly changing technology related to many areas of image processing, the Company has discontinued manufacturing of many products and is replacing them with newer, updated equipment.

1.200

REPUBLIC GROUP INCORPORATED (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 (In Part): Industry Segments

During fiscal 1999, approximately 15% of the recycled paperboard shipped by the mills was consumed by the Company's wallboard operations compared to 14% and 16% respectively in fiscal 1998 and 1997. Another 23% was shipped to other unaffiliated gypsum wallboard manufacturers in fiscal 1999 compared to 20% and 19%, respectively, in fiscal 1998 and 1997. An adverse change in the construction industry could have a material effect on the earnings of the Company. The Company has no customer in either the gypsum segment or the paperboard segment who accounted for more than 8% of consolidated gross sales in fiscal 1999.

1.201

SAUCONY, INC. AND SUBSIDIARIES (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Risks and Uncertainties

In fiscal 1999, one of our suppliers, located in China, accounted for approximately 62% of our total purchases by dollar volume. See Footnotes 18 and 20 for additional disclosure of risks and uncertainties.

18. Major Customer

During 1999 and 1998, the Company had one customer that accounted for approximately 15% and 13% of gross sales, respectively. For 1997 the Company did not have a customer account for more than 10% of gross sales.

20. Concentration of Credit Risk

Financial instruments which potentially subject the Company to credit risk consist primarily of cash, cash equivalents and trade receivables.

The Company maintains cash and cash equivalents with various major financial institutions. Cash equivalents include investments in commercial paper of companies with high credit ratings, investments in money market securities and securities backed by the U.S. Government. At times such amounts may exceed the F.D.I.C. limits. The Company limits the amount of credit exposure with any one financial institution and believes that no significant concentration of credit risk exists with respect to cash investments.

Trade receivables subject the Company to the potential for credit risk with customers in the retail and distributor sectors. To reduce credit risk, the Company performs ongoing evaluations of its customers financial condition but does not generally require collateral. Approximately 41% of the Company's gross trade receivables balance was represented by 17 customers at December 31, 1999, which exposes the Company to a concentration of credit risk.

1.202

SILICON GRAPHICS, INC. (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 6 (In Part): Concentration of Credit and Other Risks

Production

Most of our products incorporate certain components that are available from only one or from a limited number of suppliers. Many of these components are custom designed and manufactured, with lead times from order to delivery that can exceed 90 days. Shortages of various essential materials could occur due to interruption of supply or increased demand in the industry. In addition, we increasingly outsource certain aspects of our production, including the entire Windows NT-based workstation product line, to third parties. If we were unable to procure certain such components or sustain our outsourced production capacity, it could affect our ability to meet demand for our products which would have an adverse effect upon our results.

International Operations

We derive approximately half of our revenue from sales outside the United States. In addition, many key components are produced outside the United States. Therefore, our results could be negatively affected by such factors as changes in foreign currency exchange rates, trade protection measures, longer accounts receivable collection patterns, and changes in regional or worldwide economic or political conditions. The risks of our international operations are mitigated in part by our foreign exchange hedging program and by the extent to which our sales and manufacturing activities are geographically distributed.

Our sales to foreign customers also are subject to export regulations, with sales of most of our high-end products requiring clearance and export licenses from the U.S. Department of Commerce. Our export sales would be adversely affected if such regulations were tightened, or if they are not modified over time to reflect the increasing performance of our products. The Departments of Commerce and Justice are currently conducting civil and criminal investigations into SGI's compliance with the export regulations in connection with the sale of several computer systems to a customer in Russia during fiscal 1997.

We believe that these matters will be resolved without a significant adverse effect on our business. However, if our export privileges were limited or denied, our results would be adversely affected.

1.203

VISHAY INTERTECHNOLOGY, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

13. Current Vulnerability Due to Certain Concentrations

Sources of Supply

Although most materials incorporated in the Company's products are available from a number of sources, certain materials (particularly tantalum and palladium) are available only from a relatively limited number of suppliers. Tantalum, a metal, is the principal material used in the manufacture of tantalum capacitor products. It is purchased in powder form primarily under annual contracts with domestic and foreign suppliers at prices that are subject to periodic adjustment. The Company is a major consumer of the world's annual tantalum production. There are currently three major suppliers that process tantalum ore into capacitor grade tantalum powder. The Company believes that there is currently a surplus of tantalum ore reserves and a sufficient number of tantalum processors relative to foreseeable demand. The tantalum required by the Company has generally been available in sufficient quantities to meet its requirements. However, the limited number of tantalum powder suppliers could lead to increases in tantalum prices that the Company may not be able to pass on to its customers. Palladium is used to produce multi-layer ceramic capacitors. Palladium is primarily purchased on the spot and forward markets, depending on market conditions. Palladium is considered a commodity and is subject to price volatility. The price of palladium fluctuated in the range of approximately $127 to $444 per troy ounce during the three years ended December 31, 1999, and had increased to $670 per troy ounce as of February 28, 2000. Palladium is currently found in South Africa and Russia. Due to various factors, the Company believes there may be a short-term shortage of palladium which may affect both the cost of palladium and the Company's plans to expand multi-layer ceramic chip capacitor production to meet increased demand. An inability on the part of the Company to pass on increases in palladium costs to its customers could have an adverse effect on the margins of those products using the metal.

Geographic Concentration

To address the increasing demand for its products and to lower its costs, the Company has expanded, and plans to continue to expand, its manufacturing operations in Israel in order to take advantage of that country's lower wage rates, highly skilled labor force, government-sponsored grants, and various tax abatement programs. Israeli incentive programs have contributed substantially to the growth and profitability of the Company. The Company might be materially and adversely affected if these incentive programs were no longer available to the Company or if events were to occur in the Middle East that materially interfered with the Company's operations in Israel.

COMMITMENTS

1.204 Paragraph 18 of *Statement of Financial Accounting Standards No. 5* requires the disclosure of commitments such as those for capital expenditures or an obligation to restrict dividends. Table 1-12 lists the various commitments disclosed in the annual reports of the survey companies.

1.205 Examples of commitment disclosures follow.

1.206

TABLE 1-12: COMMITMENTS

	Number of Companies			
	1999	**1998**	**1997**	**1996**
Dividend restrictions	362	329	331	332
Purchase agreements	128	132	122	98
Capital expenditures	70	82	89	91
Employment contracts	30	36	33	31
Additional payments in connection with an acquisition	27	28	36	21
Sales agreements	17	14	18	23
Licensing agreements	15	20	21	17
Other—described	86	48	48	49

Obligations to Maintain Working Capital or Restrict Dividends

1.207

COMMERCIAL METALS COMPANY AND SUBSIDIARIES (AUG)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3 (In Part): Credit Arrangements

Certain of the note agreements include various covenants. The most restrictive of these requires maintenance of consolidated net current assets of $75,000,000 and net worth (as defined) of $150,000,000. At August 31, 1999, approximately $229,000,000 of retained earnings was available for cash dividends under these covenants.

1.208

CROWN CENTRAL PETROLEUM CORPORATION AND SUBSIDIARIES (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note C (In Part): Long-Term Debt and Credit Arrangements

The $10\frac{7}{8}$% Senior Notes due 2005 (Notes) were issued under an Indenture, as amended (Indenture), which includes certain restrictions and limitations affecting the payment of dividends, repurchase of capital stock and incurrence of additional debt. The Indenture also included a provision limiting liens unless the Note holders were directly secured, equally and ratably, with any other holder of an obligation secured by a lien.

Effective as of December 10, 1998, the Company entered into an $80 million Secured Credit Facility (Secured Credit Facility) to provide cash borrowings and letters of credit. The Secured Credit Facility, which has a three-year term and is secured by certain current assets of the Company, is to be used for general corporate and working capital requirements. It includes limitations on additional indebtedness and cash dividends and requires compliance with financial covenants regarding minimum levels of working capital and net worth. Borrowings under the Secured Credit Facility bear interest based on the prime rate or LIBOR based rates. Additionally, the Company pays a fee for unused commitments.

During March 1999, the Company amended the Secured Credit Facility to provide up to $125 million of availability for cash borrowings and letters of credit. Up to $75 million of the Secured Credit Facility is subject to availability of eligible collateral. The remaining $50 million of availability, which is provided by a related party to the Company, is not subject to the limitation of eligible collateral. As of December 31, 1999, eligible collateral, after reserves and the application of advance rates, was approximately $86.1 million.

1.209

LYNCH CORPORATION AND SUBSIDIARIES (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6 (In Part): Notes Payable and Long-term Debt

On a consolidated basis, at December 31, 1999, Lynch maintains short-term and long-term line of credit facilities totaling $43.7 million (subject to limitations that reduce the availability to $35.4 million), of which $12.3 million was available for future borrowings. Spinnaker Industries, Inc. maintains lines of credit as its subsidiaries which in the aggregate total $40.0 million (subject to limitations that reduce the availability to $32.0 million), of which $11.5 million was available at December 31, 1999. These facilities, as well as facilities at other subsidiaries of Lynch, generally limit the credit available under the lines of credit to certain variables, such as inventories and receivables, and are secured by the operating assets of the subsidiary, and include various financial covenants. At December 31, 1999, $3.7 million of these total facilities expire within one year and subsequent to year-end were extended to March of 2001. The weighted average interest rate for short-term borrowings at December 31, 1999 was 8.05%. The Company pays fees ranging from 0% to 0.375% on its unused lines of credit.

In general, the long-term debt facilities are secured by substantially all of the Company's property, land and equipment, inventory, receivables and common stock of certain subsidiaries and contain certain covenants restricting distributions to Lynch. At December 31, 1999, and 1998, substantially all the subsidiaries' net assets are restricted.

1.210

THE ROWE COMPANIES (NOV)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 6 (In Part): Long-Term Debt

In November 1998 and July 1999, the Company executed agreements for revolving bank loans payable in full on April 30, 2002, and July 31, 2002, respectively. The agreements require quarterly interest payments at the London Interbank Offering Rate ("LIBOR") plus a spread ranging from .35% to 1.30%. The revolving bank loans contain financial covenants including ratios on leverage to cash flow, debt to total capitalization and interest coverage. At November 28, 1999, the Company was in compliance with the provisions of the agreements. The proceeds from the loans were used to provide working capital for the Company and its subsidiaries, fund the initial purchase amount to acquire Mitchell Gold and provide funding for the acquisition and retirement of long-term debt of Storehouse (Note 2).

1.211

USG CORPORATION (DEC)

NOTES TO FINANCIAL STATEMENTS

9 (In Part): Debt

U.S. Revolving Credit Facility (In Part)

The credit agreement contains restrictions on the operation of the Corporation's business, including covenants pertaining to liens, sale and leaseback transactions, and mergers with and acquisitions of businesses not related to the building industry.

Lease Limitation

1.212

BANTA CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4 (In Part): Long-Term Debt

The Promissory Note agreements 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.

One of the Promissory Note agreements contains covenants, which restrict the payment of dividends. As of January 1, 2000, $89,965,000 of retained earnings was available for the payment of dividends under the most restrictive of such covenants.

Restriction on Disposition of Assets

1.213

IMC GLOBAL INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

10 (In Part): Financing Arrangements

In December 1999, the Company renewed, amended and restated its $350.0 million short-term credit facility, extending the maturity date to December 2000, and amended and restated its $650.0 million long-term credit facility maturing in December 2002 (collectively, Credit Facilities). Commitment fees associated with the short-term and long-term facilities are 10.0 basis points and 11.0 basis points, respectively. The amount available for borrowing under the Credit Facilities is reduced by the balance of outstanding commercial paper, letters of credit and guarantees. As of December 31, 1999, the Company had a total of $506.0 million of commercial paper outstanding and $1.0 billion of commercial paper back-up facilities. Net available borrowings, under the Credit Facilities, as of December 31, 1999 were $442.2 million. Outstanding letters of credit as of December 31, 1999 totaled $51.8 million. These Credit Facilities contain provisions which: (i) restrict the Company's ability to dispose of a substantial portion of its consolidated assets; (ii) limit the creation of additional liens on the Company's and its subsidiaries' assets; and (iii) limit the Company's subsidiaries' incurrence of debt. These Credit Facilities also contain a leverage ratio test and other covenants.

Purchase Agreements

1.214

AT&T CORP. AND SUBSIDIARIES (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

16 (In Part): Commitments and Contingencies

We have an agreement with General Instrument Corporation to purchase a minimum of 2.5 million set-top devices in 2000 at an average price of $318 per unit.

1.215

AVNET, INC. AND SUBSIDIARIES (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 (In Part): Acquisitions and Dispositions

The Company has also entered into separate agreements to acquire 84% of Eurotronics, B.V. and 94% of the SEI Macro Group, two European electronic components distributors. The combined transaction value, including the assumption of debt, is in the range of $200,000,000-$250,000,000 to be paid for with a combination of cash and Avnet stock. All amounts are subject to change based upon the financial situation at the time each transaction is effective.

Both transactions are subject to regulatory approvals, and the acquisition of the SEI Macro Group is subject to the approval of the selling Company's shareholders. The Company will acquire the remaining 16% of Eurotronics in connection with the acquisition of Marshall and the remaining 6% of the SEI Macro Group when it completes the acquisition of Eurotronics. The combined annual sales of Eurotronics and the SEI Macro Group are approximately $750,000,000.

1.216

THE COCA-COLA COMPANY AND SUBSIDIARIES (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 10 (In Part): Commitments and Contingencies

We have committed to make future marketing expenditures of $760 million, of which the majority is payable over the next 12 years. Additionally, under certain circumstances, we have committed to make future investments in bottling companies. However, we do not consider any of these commitments to be individually significant.

1.217

IBP, INC. AND SUBSIDIARIES (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note N (In Part): Commitments

The company had livestock and other purchase commitments, letters of credit, and other commitments and guarantees at December 25, 1999 aggregating approximately $302 million. Livestock purchase commitments were at a market or market-derived price at the time of delivery or were fully hedged if the price was determined at an earlier date.

In addition to the livestock purchase commitments above, the Company is committed to purchase approximately 24 million market hogs between 2000 and 2009 at market-derived prices under various contracts with producers. Contractual commitments for the next five years average approximately 4.6 million hogs annually, which represents approximately 21% of IBP's current annual production capacity.

1.218

ROCK-TENN COMPANY (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

10 (In Part): Commitments and Contingencies

Stock Repurchase Plan

The Board of Directors has approved a stock repurchase plan for the repurchase of a maximum of 1,500,000 shares in aggregate of Class A Common or Class B Common prior to July 31, 2003. During fiscal 1999, the Company repurchased no shares under this plan. During fiscal 1998, the Company repurchased 290,100 shares of Class A Common under this plan. Under a previously authorized plan, which expired on July 31, 1998, the Company repurchased 40,000 and no shares of Class A Common during fiscal 1998 and 1997, respectively.

1.219

THE WASHINGTON POST COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

J (In Part): Lease and Other Commitments

The Company's broadcast subsidiaries are parties to certain agreements that commit them to purchase programming to be produced in future years. At January 2, 2000, such commitments amounted to approximately $47,000,000. If such programs are not produced, the Company's commitment would expire without obligation.

Capital Expenditures

1.220

DEL MONTE FOODS COMPANY AND SUBSIDIARIES (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 11 (In Part): Commitments and Contingencies

Lease Financing. In April 1999, the Company completed a $38 million lease financing that is being used to finance construction of four warehouse facilities adjacent to the Company's Hanford, Kingsburg and Modesto, California, and Plymouth, Indiana production plants. Construction of the new facilities (totaling approximately 1.4 million square feet) has begun and is expected to be completed at all four sites during calendar 1999. The lease will be classified as an operating lease with related rentals charged to expense in the period incurred. The lease has an initial term of five years. Under certain circumstances, the lease can be renewed for up to five additional years. At the expiration of the lease, the Company has the option to purchase the leased facilities for specified amounts, or to sell them on behalf of the lessor.

1.221

MANDALAY RESORT GROUP AND SUBSIDIARIES (JAN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 11 (In Part): Commitments and Contingent Liabilities

The Detroit joint venture is planning a $600 million permanent hotel/casino facility. The Company has committed to contribute 20% of this amount in the form of equity, and the joint venture will seek project-specific funding for the balance of the cost. The development agreement provides that Mandalay will guarantee completion of the permanent facility and will enter into a keep-well guarantee with the city, pursuant to which it could be required to contribute additional funds, if and as needed, to continue operation of the project for a period of two years. This keep-well agreement also applies to the temporary casino.

1.222

UNIVERSAL FOREST PRODUCTS, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note M (In Part): Commitments and Contingencies

On December 25, 1999, the Company had outstanding purchase commitments on capital projects totaling $9.2 million.

Employment Contracts

1.223

ALLIED WASTE INDUSTRIES, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

14 (In Part): Commitments and Contingencies

We have entered into employment agreements with certain of our executive officers for periods up to three years. We have agreed to pay severance amounts equal to a multiple of defined compensation under certain circumstances. In the event of a material change in control, as defined in the employment agreements, or termination of all executive officers under such agreements, we would be required to make payments of approximately $12.3 million, in addition to a reimbursement payment to eliminate the effect of any excise taxes associated with this payment.

1.224

BED BATH & BEYOND INC. (FEB)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8 (In Part): Commitments and Contingencies

Under terms of employment agreements with its Chairman and President extending through June 2002, the Company is required to pay each a base salary (which may be increased by the Board of Directors) of $750,000 per annum. The agreements also provide for other terms and conditions of employment, including termination payments.

1.225

POLO RALPH LAUREN CORPORATION (MAR)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

13 (In Part): Commitments and Contingencies

Employment Agreements

The Company is party to employment agreements with certain executives which provide for compensation and certain other benefits. The agreements also provide for severance payments under certain circumstances.

Additional Payments Related to Acquisitions

1.226

FIRST DATA CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3 (In Part): Business Combinations and Asset Acquisitions

The terms of certain of the Company's acquisition agreements provide for additional consideration to be paid if the acquired entity's results of operations exceed certain targeted levels. Targeted levels are generally set substantially above the historical experience of the acquired entity at the time of acquisition. Such additional consideration is paid in cash and with shares of the Company's common stock, and is recorded when earned as additional purchase price. Additional consideration was paid totaling $32.3 million in 1999, $2.3 million in 1998 and $2.7 million in 1997 (including 0.5 million shares of common stock valued at $21.0 million). The maximum amount of remaining contingent consideration is $86.0 million (payable through 2001).

1.227

LANCE, INC. AND SUBSIDIARIES (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(2) (In Part): Acquisitions

Effective April 2, 1999, the Company acquired Tamming Foods Ltd. ("Tamming"), headquartered in Waterloo, Ontario, Canada. Tamming manufactures high quality sugar wafer products that are sold under private label in the United States, Canada and Mexico.

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The acquisitions described above were accounted for using the purchase method of accounting for business combinations. The aggregate purchase price of the acquisitions was $53.6 million, which includes the costs of acquisition. The terms of the Tamming acquisition also provide for additional consideration to be paid if Tamming's earnings exceed certain targeted levels through the year 2002. The maximum amount of remaining contingent consideration is Canadian dollars ("Cdn") $15.6 million ($10.8 million at December 25, 1999) The additional consideration is payable in cash in 2004 and will result in additional goodwill if earned. The Company has not recorded this liability as of December 25, 1999 as the outcome of the contingency is not determinable beyond a reasonable doubt.

Sale Agreements

1.228

DOW JONES & COMPANY, INC. (DEC)

NOTES TO FINANCIAL STATEMENTS

Note 15 (In Part): Pending Transactions

On December 27, 1999, the Company signed a letter of intent to sell Dow Jones Financial Publishing Corp., its subsidiary, which publishes: Investment Advisor, Asset Management, Property and Realty Stock Review. The gain on sale of approximately $.10 per diluted share will be recorded at the time of closing, which occurred on January 14, 2000.

1.229

NAVISTAR INTERNATIONAL CORPORATION AND CONSOLIDATED SUBSIDIARIES (OCT)

NOTES TO FINANCIAL STATEMENTS

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

Concentrations (In Part)

Reflecting higher consumer demand for light trucks and vans, sales of mid-range diesel engines to Ford Motor Company by the engine segment were 17% of consolidated sales and revenues in 1999 and 14% in both 1998 and 1997. The Company has a 10-year agreement, effective with model year 2003, to continue supplying Ford Motor Company with diesel engines for use in its diesel-powered light trucks and vans.

Licensing Agreements

1.230

VIACOM INC. AND SUBSIDIARIES (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

15 (In Part): Commitments and Contingencies

The commitments of the Company for program license fees, which are not reflected in the balance sheet as of December 31, 1999 and are estimated to aggregate approximately $1.0 billion, excluding intersegment commitments of approximately $865.9 million, principally reflect Showtime Networks Inc.'s ("SNI's") commitments of approximately $726.7 million for the acquisition of programming rights and the production of original programming. This estimate is based upon a number of factors. A majority of such fees are payable over several years, as part of normal programming expenditures of SNI. These commitments to acquire programming rights are contingent upon delivery of motion pictures which are not yet available for premium television exhibition and, in many cases, have not yet been produced.

Outsourcing Agreements

1.231

MCI WORLDCOM, INC. AND SUBSIDIARIES (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9 (In Part): Leases and Other Commitments

In October 1999, the Company and Electronic Data Systems Corporation ("EDS") finalized dual outsourcing agreements that are expected to capitalize on the individual strengths of each company. Under these agreements, MCI WorldCom has outsourced portions of its information technology ("IT") operations to EDS. EDS has assumed responsibility for IT system operations at more than a dozen MCI WorldCom processing centers worldwide. The IT outsourcing agreement is represented by a 10-year contractual commitment with contractually specified minimums over the term of the contract. The contractual minimums aggregate $3.3 billion and have been included in the operating and capital lease commitment table above.

Reclamation Guarantor

1.232

ASHLAND INC. AND CONSOLIDATED SUBSIDIARIES (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note H (In Part): Leases and Other Commitments

Other Commitments (In Part)

To obtain mining permits, Arch Coal must post surety bonds guaranteeing that it will perform any required reclamation upon closure of a mine. Such bonds are currently included in Ashland's corporate surety bond program which includes its wholly owned subsidiaries, primarily the APAC group of construction companies. Since Ashland has indemnity agreements with its surety companies, Ashland was guarantor for reclamation and various other bonds posted by Arch Coal totaling $635 million at September 30, 1999.

Trade-In Agreement

1.233

GENERAL DYNAMICS CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

O (In Part): Commitments and Contingencies

Other (In Part)

As of December 31, 1999, in connection with orders for twelve Gulfstream V aircraft in backlog, the company has offered customers trade-in options (which may or may not be exercised by the customer) under which the company will accept trade-in aircraft (primarily Gulfstream IVs and IV-SPs) at a guaranteed minimum trade-in price. Additionally, at December 31, 1999, in connection with recorded sales of new aircraft, the company has a commitment to accept pre-owned aircraft totaling approximately $140. Management believes that the fair market value of all such aircraft exceeds the specified trade-in value.

FINANCIAL INSTRUMENTS

1.234 The Financial Accounting Standards Board has issued 3 statements concerning financial instruments. *SFAS No. 105* requires reporting entities to disclose certain information about financial instruments with off-balance sheet risk of accounting loss. *SFAS No. 107* requires reporting entities to disclose the fair value of financial instruments. *SFAS No. 119* requires reporting entities to disclose certain information for derivative financial instruments. *SFAS No. 133,* effective for fiscal years beginning after June 15, 1999 (deferred to all fiscal years beginning after June 15, 2000 by *SFAS No. 137* and amended by *SFAS No. 138*), supersedes *SFAS No. 105* and *SFAS No. 119* and amends *SFAS No. 107* to include in *SFAS No. 107* the disclosure requirements of credit risk concentrations from *SFAS No. 105.*

1.235 Table 1-13 lists the off-balance-sheet financial instruments most frequently disclosed in the financial statements of the survey companies. Many survey companies disclosed fair value information for foreign currency contracts and interest rate contracts. Frequently the fair value information stated that the fair value of these contracts approximated the amount at which they were recorded in the financial statements or that the fair value was the amount payable or receivable upon contract termination. Other bases disclosed for determining fair value were market or broker quotes. Occasionally the survey companies disclosed fair value information for commodity contracts, loan commitments, and receivables sold with recourse.

1.236 Examples of fair value disclosures for financial instruments and of disclosures for concentration of credit risk follow.

1.237

TABLE 1-13: FINANCIAL INSTRUMENTS

	Number of Companies			
	1999	1998	1997	1996
Foreign currency contracts	282	279	289	285
Interest rate contracts	249	244	231	225
Commodity contracts	82	77	72	81
Guarantees:				
Debt	85	88	101	104
Lease payments	23	29	28	27
Contract performance	15	24	24	21
Support agreements	10	17	13	13
Other	14	22	25	34
Letters of credit	172	165	177	183
Sale of receivables with recourse	26	28	33	61

DERIVATIVE FINANCIAL INSTRUMENTS

1.238

AGWAY INC. AND CONSOLIDATED SUBSIDIARIES (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Thousands of dollars)

1 (In Part): Summary of Significant Accounting Policies

Commodity Instruments

Commodity instrument contracts designated at inception as a hedge, where there is a direct relationship to the price risk associated with the underlying exposure, are accounted for under the deferral method, with gains and losses from hedging activity and premiums paid for option contracts included in the cost of sales as those inventories are sold or as the anticipated hedged transaction occurs. Gains and losses on early terminations of commodity instrument contracts designated as hedges are deferred and included in cost of sales in the same period as the hedged transaction. Commodity instrument contracts not designated as effective hedges of firm commitments or anticipated underlying transactions are marked to market at the end of the reporting period, with the resulting gains or losses recognized in cost of sales.

17 (In Part): Financial and Commodity Instruments

Commodity Instruments

In the Energy segment, exchange-traded commodity instruments and, in certain circumstances, over-the-counter contracts with third parties are used principally for gasoline, distillate, and propane. They are entered into as a hedge against the price risk associated with Energy's inventories or future purchases and sales of the commodities used in its operations. Generally, the price risk extends for a period of one year or less.

In the Agriculture segment's feed business, exchange-traded commodity instruments are used principally to hedge corn, soy complex, and oats, which can be sold directly as ingredients or included in feed products. Since November 1997, all transactions involving derivative financial instruments in the feed business are required to have a direct relationship to the price risk associated with existing inventories or future purchase or sale of its products.

In the Agriculture segment's grain marketing business, exchange-traded commodity instruments are used to hedge inventory and forward purchase and sales contracts for grains, principally corn, soy complex, oats, and wheat, which are purchased and sold by the grain marketing department (the department). The department historically entered into both forward purchase contracts and forward sales contracts (forward contracts) with farmers and others on a variety of grain products. Agway's policy requires that the department enter into generally matched transactions (in both maturity and amount) using offsetting forward contracts or commodity instruments to hedge against price fluctuations in the market price of grains. Agway records the grain marketing program on a mark-to-market basis by adjusting all outstanding forward contracts, commodity instruments, and inventory values to market value.

On July 8, 1999, Agway announced that it had become aware of accounting irregularities in its grain marketing department. An investigation, under guidance from external legal counsel and including internal legal counsel, internal financial staff, external auditors, and private investigators, was initiated. Reports on the investigation findings have been made directly to the Board of Directors.

The investigation has determined that unauthorized speculative positions in commodity instruments were taken within the department in violation of express policies, which resulted in losses to Agway. Through falsification of market values on inventory held and on forward contracts and improper accounting for premiums on options sold, losses were concealed within the department, resulting in misreported earnings by Agway for the fourth quarter of the year ended June 30, 1998, and the first three quarters of fiscal 1999. In an effort to recover these losses, additional speculative positions in commodity instruments were taken within the department throughout 1999. In addition, while the unauthorized activity was occurring, the department did not hedge its inventory and forward contracts, in violation of express policies, which led to further losses from the department's operations. To reflect these losses and their effect on the Company, Agway has amended its previously filed annual report on Form 10-K for the year ended June 30, 1998, and its 1999 quarterly reports on Form 10-Q with the SEC. For the year ended June 30, 1998, the net earnings of $41,754, as previously reported, have been reduced by $609 to $41,145 to reflect this restatement. The after-tax effects of the activities described above on each of the first three quarters of 1999 are as follows:

	Consolidated Net Earnings (Loss)		
	As Restated	As Previously Reported	Net Adjustment
Period			
Three months ended September 1998	$ (6,270)	$ (2,570)	$ (3,700)
Three months ended December 1998	(6,877)	(7,336)	459
Six-month period ended December 1998	(13,147)	(9,906)	(3,241)
Three months ended March 1999	2,769	3,255	(486)
Nine-month period ended March 1999	(10,378)	(6,651)	(3,727)

The total pre-tax loss from department activities is $8,600 for the year ended June 30, 1999. This compares to a pre-tax loss as restated of $1,100 in 1998 and a $300 pre-tax loss in 1997. The 1999 loss includes $5,500 from unauthorized speculation in commodity instruments and $3,100 from operations, due in part to not hedging positions in inventory and forward contracts.

The results of operations, as restated, violated certain of Agway's covenants in its loan agreements, including an interest coverage covenant as of December 1998, March 1999, and June 1999 and a tangible net worth covenant as of November and December 1998. Agway disclosed the above-referenced losses and restatements, and causes thereof, to its lenders and has obtained waivers for these violations, and the covenants in the loan agreements have been amended through the remaining term of the agreements.

Subsequent to year-end, open unauthorized speculative commodity instruments were closed. In addition, inventory and open forward contracts have been hedged. During the period it took to restructure and hedge the open positions of the department, further market losses of approximately $1,300 were incurred, which will be reflected in Agway's Form 10-Q for the first quarter of fiscal 2000. Agway has restructured its grain marketing activities, substantially reducing their scope, and requiring that its net position at any point in time to be effectively hedged.

1.239

ANALOG DEVICES, INC. (OCT)

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

2 (In Part): Summary of Significant Accounting Policies

h. Foreign Currency Instruments and Interest Rate Agreements

The Company enters into forward foreign exchange contracts, foreign currency option contracts and currency swap agreements to offset certain operational and balance sheet exposures from changes in foreign currency exchange rates. Such exposures result from the portion of the Company's operations, assets and liabilities that are denominated in currencies other than the U.S. dollar, primarily Japanese yen and European currencies. These foreign exchange contract, option and swap transactions are entered into to support product sales, purchases and financing transactions made in the normal course of business, and accordingly, are not speculative in nature.

Forward foreign exchange contracts are utilized to manage the risk associated with currency fluctuations on certain firm sales and purchase commitments denominated in foreign currencies and certain non-U.S. dollar denominated asset and liability positions. The Company's forward foreign exchange contracts are primarily denominated in Japanese yen and certain European currencies and are for periods consistent with the terms of the underlying transactions, generally one year or less. The forward foreign exchange contracts that relate to firm, foreign currency sales and purchase commitments are designated and effective as hedges of firm, identifiable foreign currency commitments, and accordingly, the gains and losses resulting from the impact of currency exchange rate movements on these contracts are not recognized in operations until the underlying hedged transactions are recognized. Upon recognition, such gains and losses are recorded in operations as an adjustment to the carrying amount of the underlying transactions in the period in which these transactions are recognized. Unrealized gains and losses resulting from the impact of currency exchange rate movements on forward foreign exchange contracts designated to offset certain non-U.S. dollar denominated assets and liabilities are recognized as other income or expense in the period in which the exchange rates change and offset the foreign currency gains and losses on the underlying exposures being hedged. The contract amounts of forward foreign exchange contracts outstanding were $178 million and $140 million at October 30, 1999 and October 31, 1998, respectively.

The Company also may periodically enter into foreign currency option contracts to offset certain probable anticipated, but not firmly committed, foreign currency transactions related to the sale of product during the ensuing nine months. When the dollar strengthens significantly against the foreign currencies, the decline in value of future currency cash flows is partially offset by the gains in value of the purchased currency options designated as hedges. Conversely, when the dollar weakens, the increase in value of future foreign currency cash flows is reduced only by the premium paid to acquire the options. The Company's foreign currency option contracts are primarily denominated in Japanese yen and generally have maturities that do not exceed six months. These foreign currency option contracts are designated and effective as hedges of anticipated foreign currency sales transactions, and accordingly, the premium cost and any realized gains associated with these contracts are deferred and included in the consolidated balance sheet as prepaid expenses and accrued liabilities, respectively, until such time as the underlying sales transactions are recognized. Upon recognition, such premium costs and any realized gains are recorded in sales as a component of the underlying sales transactions being hedged. The contract amounts of foreign currency option contracts outstanding were $39 million and $26 million, at October 30, 1999 and October 31, 1998, respectively. Deferred gains or losses attributable to foreign currency option contracts were not material at October 30, 1999 and October 31, 1998.

The Company uses currency swap agreements to hedge the value of its net investment in certain of its foreign subsidiaries. Realized and unrealized gains and losses on such agreements related to the net foreign investment being hedged are recognized in the cumulative translation adjustment component of stockholders' equity, with the related amounts due to or from counterparties included in accrued liabilities or other current assets. The contract amount of currency swap agreements outstanding, which were principally denominated in Japanese yen, was $10 million at October 30, 1999 and October 31, 1998. The currency swap agreement outstanding at October 30, 1999 has a remaining maturity of 4 months and is expected to remain in effect until expiration.

The Company enters into interest rate swap and cap agreements to manage its exposure to interest rate movements by effectively converting a portion of its debt and certain financing arrangements from fixed to variable rates. Maturity dates of interest rate swap and cap agreements generally match those of the underlying debt or financing arrangements. These agreements, which have maturities of up to eight years, involve the exchange of fixed rate payments for variable rate payments without the exchange of the underlying principal amounts. Variable rates are based on six-month U.S. dollar LIBOR and are reset on a semiannual basis. The differential between fixed and variable rates to be paid or received is accrued as interest rates change in accordance with the agreements and recognized over the life of the agreements as an adjustment to interest expense. The notional principal amounts of interest rate swap and cap agreements outstanding were approximately $50 million at October 30, 1999 and October 31, 1998.

The cash requirements of the above-described financial instruments approximate their fair value. Cash flows associated with these financial instruments are classified consistent with the cash flows from the transactions being hedged.

Derivative financial instruments involve, to a varying degree, elements of market and credit risk not recognized in the consolidated financial statements. The market risk associated with these instruments resulting from currency exchange rate or interest rate movements is expected to offset the market risk of the underlying transactions, assets and liabilities being hedged. The counterparties to the agreements relating to the Company's foreign exchange and interest rate instruments consist of a number of major international financial institutions with high credit ratings. The Company does not believe that there is significant risk of nonperformance by these counterparties because the Company continually monitors the credit ratings of such counterparties, and limits the financial exposure and the amount of agreements entered into with any one financial institution. While the contract or notional amounts of derivative financial instruments provide one measure of the volume of these transactions, they do not represent the amount of the Company's exposure to credit risk. The amounts potentially subject to credit risk (arising from the possible inability of counterparties to meet the terms of their contracts) are generally limited to the amounts, if any, by which the counterparties' obligations under the contracts exceed the obligations of the Company to the counterparties.

i. Fair Values of Financial Instruments

The following estimated fair value amounts have been determined by the Company using available market information and appropriate valuation methodologies. However, considerable judgment is required in interpreting market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts that the Company could realize in a current market exchange.

	1999		1998	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets:				
Cash and cash equivalents	$355,891	$355,891	$263,331	$263,331
Short-term investments	406,553	406,553	41,575	41,575
Long-term investments	85,999	85,999	30,488	30,488
Liabilities:				
Short-term borrowings	(2,344)	(2,344)	(193)	(193)
Long-term debt, including current portion	(80,000)	(79,978)	(309,985)	(328,290)
Foreign Currency Instruments and Interest Rate Agreements:				
Interest rate swap and cap agreements	13	(36)	14	1,201
Forward foreign currency exchange contracts	(4,260)	(7,658)	(3,045)	(1,575)
Foreign currency option contracts	340	220	479	211
Currency swap agreements	375	325	1,325	1,324

The following methods and assumptions were used by the Company in estimating its fair value disclosure for financial instruments:

Cash, cash equivalents and short-term investments—The carrying amounts of these items are a reasonable estimate of their fair value due to the short term to maturity and readily available market for these types of investments.

Long-term investments—The fair value of long-term investments is based on quoted market values.

Short-term borrowings—The carrying amounts of these variable-rate borrowings approximate fair value due to the short period of time to maturity.

Long-term debt—The fair value of long-term debt is estimated based on current interest rates available to the Company for debt instruments with similar terms, degrees of risk and remaining maturities.

Interest rate swap and cap agreements—The fair value of interest rate swap and cap agreements is obtained from dealer quotes. These values represent the estimated amount the Company would receive or pay to terminate the agreements taking into consideration current interest rates.

Forward foreign currency exchange contracts—The estimated fair value of forward foreign currency exchange contracts is based on the estimated amount at which they could be settled based on forward market exchange rates.

Foreign currency option contracts and currency swap agreements—The fair values of foreign currency option contracts and currency swap agreements are obtained from dealer quotes. These values represent the estimated net amount the Company would receive or pay to terminate the agreements.

9 (In Part): Debt and Credit Facilities

Simultaneous with the sale of the $6^5/_8$% Notes, the Company entered into an interest rate swap and cap agreement for the term of the Notes having a notional principal amount of $40 million whereby the effective net interest rate on $40 million of the Notes will be the six-month LIBOR rate (up to a maximum of 7%) plus 1.4%. For the year ended October 30, 1999, the net effective interest rate on $40 million of the Notes was 7.3% after giving effect to the interest rate swap agreement.

1.240

BURLINGTON RESOURCES INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Accounting Policies

Hedging and Related Activities

In order to mitigate the risk of market price fluctuations, the Company utilizes options and swaps to hedge future crude oil and natural gas production. Changes in the market value of these contracts and premiums paid for option contracts are deferred until the gain or loss is recognized on the hedged commodity. If the contract is not a hedge, changes in market value are recorded currently. To qualify as a hedge, these transactions must be designated as a hedge and changes in their fair value must correlate with changes in the price of anticipated future production such that the Company's exposure to the effects of commodity price changes is reduced. These hedging instruments are measured for effectiveness on an enterprise basis both at the inception of the contract and on an ongoing basis. If these instruments are terminated prior to maturity, resulting gains or losses continue to be deferred until the hedged item is recognized in income.

The Company also enters into swap agreements to convert fixed price gas sales contracts to market-sensitive contracts. Gains or losses resulting from these transactions are included in revenue as the related physical production is delivered.

Treasury lock agreements are used to hedge interest rate exposure on specific anticipated debt issuances of the Company. Accordingly, the differential paid or received by the Company on maturity of a treasury lock agreement is recognized as an adjustment to interest expense over the term of the underlying financing transaction.

4. Commodity Hedging and Related Activities

Natural Gas Swaps

The Company enters into gas swap agreements to fix the price of anticipated future natural gas production. As of

December 31, 1999, the Company had the following volumes hedged.

Production Period	Total Hedged Volume (MMBTU)	Hedge/Strike Price	Deferred Gain/(Loss) (In Millions)
2000	164,065,000	$2.43	$ 2
2001	91,345,000	2.35	(15)
2002	2,530,000	$2.57	$—

The Company also enters into swap agreements that, when matched against fixed price gas sales, convert our production back to a market sensitive position. These arrangements are recorded as a revision to gas price in the period the production is sold. As of December 31, 1999, the unrealized loss on these positions was approximately $4 million.

Natural Gas Options

The Company purchases call option agreements that allow the Company to participate in market price increases that exceed hedge prices established when the Company enters into a swap. Approximately 15 percent of the 164,065,000 MMBTU of year 2000 hedged natural gas production was matched with call options that strike at an average price of $2.76 per MMBTU. The deferred loss on call option agreements as of December 31, 1999 was approximately $1 million. The Company also enters into producer collars to establish a floor and ceiling price on anticipated future natural gas production. As of December 31, 1999, the Company had 5.5 million MMBTU of year 2000 natural gas production hedged at a floor price of $2.70 per MMBTU. Approximately 67 percent of that 5.5 million MMBTU of collar floor volumes had a ceiling of $3.30 per MMBTU. The deferred gain on these producer collar positions as of December 31, 1999 was approximately $2 million.

Natural Gas Basis Swaps

The Company enters into natural gas basis swap agreements to fix a component of the sales price of anticipated future natural gas production. This component is expressed as the differential between CIG Rockies and Henry Hub. These transactions are accounted for as hedges of the Company's underlying production. As of December 31, 1999, the Company had 10.1 million MMBTU of year 2000 natural gas production hedged at a fixed differential of approximately ($.28) per MMBTU. There was not deferred gain or loss on these transactions.

Crude Oil Swaps

The Company enters into crude oil swap agreements to fix the price of anticipated future crude oil production. As of December 31, 1999, the Company had the following volumes hedged.

Production Period	Total Hedged Volume (Bbls)	Hedge/Strike Price	Deferred Gain/(Loss) (In Millions)
2000	16,535,500	$20.33	$(30)
2001	3,365,000	$19.57	$ 1

Crude Oil Options

The Company purchases call option agreements that allow the Company to participate in market price increases that exceed hedge prices established when the Company enters into a swap. Approximately 66 percent of the 16,535,500 Bbl of year 2000 hedged crude oil production was matched with call options that strike at an average price of $20.28 per Bbl. All of the year 2001 hedged crude oil production was matched with call options that strike at an average price of $19.57 per Bbl. The deferred gain on these transactions as of December 31, 1999 was $32 million. The Company had an additional 7,585,000 Bbl of year 2001 purchased call options agreements and 180,000 Bbl of year 2002 purchased call option agreements that had not been matched with crude oil swaps that strike at an average price of $19.79 per Bbl and $19.89 per Bbl, respectively. The $12 million unrealized gain on unmatched call option agreements had been recognized in income. Unmatched options are marked to market until matched with swap agreements.

Due to a change in oil and gas prices, the deferred loss on all positions as of February 22, 2000 was a loss of $78 million.

1.241

QUANEX CORPORATION (OCT)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Significant Accounting Policies

Hedging—The Company enters into various derivative instruments to protect itself from fluctuating prices and rates. The Company uses futures contracts to hedge a portion of its exposure to price fluctuations of aluminum. Hedging gains and losses are recognized concurrently with related sales transactions. The Company enters into interest rate swap agreements, which effectively exchange variable interest rate debt for fixed interest rate debt. The agreements are used to reduce the exposure to possible increases in interest rates. The Company enters into these swap agreements with major financial institutions. The Company uses foreign currency swap agreements to protect the value of its investment in Piper Impact Europe as well as to protect itself from currency fluctuations on certain sales and purchases. The impact of the foreign currency instruments which protect the investment in Piper Impact Europe are recorded as a foreign currency translation adjustment in the equity section of the financial statements when exchange rates go outside of the limits. The gains and losses on the forward contracts related to the sales and purchases are deferred off-balance sheet and included as a component of the related transaction when recorded. (See Note 16)

16. Financial Instruments

The Company uses futures contracts to hedge a portion of its exposure to price fluctuations of aluminum. The exposure is related to the Company's backlog of aluminum sales orders with committed prices as well as future aluminum sales for which a sales price increase would lag a raw material cost increase. Firm price commitments associated with these futures contracts do not extend beyond December 2000. Hedging gains and losses are included in "Cost of sales" in the income statement concurrently with the hedged sales. Unrealized gains and losses related to open contracts are not reflected in the consolidated statements of income. At October 31, 1999 and 1998, the Company had open futures contracts at fair values of $5.3 and $3.3 million, respectively, and an unrealized gain of $117 thousand and an unrealized loss of $369 thousand, respectively, on such contracts. At October 31, 1999 and 1998, these contracts covered a notional volume of 7,716,170 and 5,511,557 pounds of aluminum.

In the fourth quarter of fiscal 1996, the Company entered into interest rate swap agreements, which effectively converted $100 million of its variable rate debt under the Bank Agreement, to fixed rate. Under these agreements, payments are made based on a fixed rate ($50 million at 7.025%, and $50 million at 6.755%) and received on a LIBOR based variable rate (6.21% at October 31, 1999). Differentials to be paid or received under the agreements are recognized as interest expense. The agreements mature in 2003. The unrealized losses related to the interest rate swaps are $2.0 million on October 31, 1999 and $8.5 million on October 31, 1998 on the total notional amount of $100 million for fiscal 1999 and fiscal 1998.

The Company utilizes foreign currency forward contracts to hedge identifiable foreign currency commitments associated with transactions in the regular course of the Company's foreign operations. These forward contracts establish the exchange rates at which the Company will purchase a contracted amount of foreign currency for a specified amount of US dollars. At October 31, 1999, there were no open contracts. At October 31, 1998, the Company had 11 separate contracts maturing in monthly increments to purchase an aggregate notional amount of $4.675 million in foreign currency. Unrealized pretax gains on these forward contracts totaled approximately $137 thousand at October 31, 1998.

In December 1997, the Company entered into a zero-cost range forward (foreign currency swap) agreement on a notional value of 30 million Guilders with a major financial institution to hedge its initial equity investment in its Netherlands subsidiary, Piper Impact Europe. This agreement limits the Company's exposure to large fluctuations in the US Dollar/Dutch Guilder exchange rate. Under the terms of the agreement, Quanex has the option to let the agreement expire at no cost if the exchange rate remains within an established range on the expiration date of October 25, 2000. At October 31, 1998, there was no effect on the financial statements from this agreement as the exchange rate remained within this range. At October 31, 1999, the Company booked a $378 thousand gain to stockholders' equity's cumulative foreign currency translation adjustment.

The fair values of the Company's financial assets approximate the carrying values reported on the consolidated balance sheet. The fair value of long-term debt was $186.0 million and $190.6 million, as of October 31, 1999 and 1998, respectively, as compared to carrying values at October 31, 1999 and 1998 of $189.7 million and $200.6 million, respectively.

The fair value of long-term debt was based on the quoted market price, recent transactions, or based on rates available to the Company for instruments with similar terms and maturities. The fair value of interest rate swaps was estimated by discounting expected cash flows using quoted market interest rates. The fair value of the aluminum and foreign currency instruments was determined by obtaining the LME price per pound and the foreign currency translation rates as of October 31, 1999 and valuing the outstanding notional volumes under the agreements.

1.242

SBC COMMUNICATIONS INC. (DEC)

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

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

Derivative Financial Instruments—SBC does not invest in derivatives for trading purposes. From time to time, as part of its risk management strategy, SBC uses derivative financial instruments, including interest rate swaps, to hedge exposures to interest rate risk on debt obligations, and foreign currency forward exchange contracts to hedge exposures to changes in foreign currency rates for transactions related to its foreign investments. Derivative contracts are entered into for hedging of firm commitments only. SBC currently does not recognize the fair values of these derivative financial investments or their changes in fair value in its financial statements. Interest rate swap settlements are recognized as adjustments to interest expense in the consolidated statements of income when paid or received. Foreign currency forward exchange contracts are set up to coincide with firm commitments. Gains and losses are deferred until the underlying transaction being hedged occurs, and then are recognized as part of that transaction (see Note 9).

Note 9 (In Part): Financial Instruments

Derivatives—SBC enters into foreign currency contracts to hedge exposure to adverse exchange risk. SBC also uses interest rate swaps to manage interest rate exposure. Related gains and losses are reflected in net income. The carrying amounts and estimated fair values of SBC's derivative financial instruments are summarized as follows at December 31:

	1999 Carrying/ Notional Amount	1999 Fair Value	1998 Carrying/ Notional Amount	1998 Fair Value
Foreign exchange contracts—long	$ —	$142	$ —	$ —
Foreign exchange contracts—short	—	—	—	765
Interest rate swaps	1,180	(14)	458	(27)
Equity swaps	—	—	13	26

Prior to its merger with an SBC subsidiary, PAC issued stock options to its employees during a spinoff of certain wireless properties. Some of these options were still outstanding when PAC merged with an SBC subsidiary in 1997 (see Note 13). SBC had used equity swaps to hedge the equity price risk related to these spunoff operations employee stock options. However, in 1999 SBC evaluated the related risk level and exited all of its related equity swap contracts, receiving cash for the appreciated value of the contracts and recognizing a minimal gain.

1.243

SMITH INTERNATIONAL, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (All dollar amounts are expressed in thousands, unless otherwise noted)

1 (In Part): Summary of Significant Accounting Policies

Financial Instruments

The Company enters into various instruments, including derivatives, to manage interest rate and foreign exchange risks. Derivatives are limited in use and are not entered into for speculative purposes. The instruments are classified as for "purposes other than trading" under the provisions of Statement of Financial Accounting Standards ("SFAS") No. 119, "Disclosure about Derivative Financial Instruments and Fair Value of Financial Instruments."

The Company enters into interest rate swaps to manage interest rate risk on a portion of its long-term borrowings. The differential to be received or paid is accrued, as interest rates change, and recognized currently in the Consolidated Statements of Operations.

The Company enters into foreign exchange contracts to hedge certain foreign currency denominated assets or liabilities and currency commitments. Gains and losses on foreign exchange contracts are recognized currently and are generally offset by gains or losses on the related assets or liabilities. If the transaction qualifies as a hedge, the resulting gains and losses are deferred.

7. Financial Instruments

Interest Rate Contracts

From time to time, the Company enters into interest rate swaps with the intent of managing its exposure to interest rate risk. Interest rate swaps are contractual agreements between two parties for the exchange of interest payments on a notional principal amount and agreed upon fixed or floating rates, for defined time periods.

At December 31, 1999 and 1998, the Company had notional principal amounts of interest rate swaps on outstanding debt of $54.1 million and $71.1 million, respectively. These agreements, which are hedges against certain obligations, terminate between April 2000 and March 2001. Gains and losses from interest rate swaps are recognized currently in the Consolidated Statements of Operations.

In the unlikely event that the counterparty fails to perform under the contract, the Company bears the credit risk that payments due to the Company may not be collected.

Foreign Currency Contracts and Options

From time to time, the Company enters into spot and forward contracts as a hedge against foreign currency denominated assets and liabilities and currency commitments. The terms of these contracts generally do not exceed one year. Market value gains and losses are recognized currently, and the resulting amounts generally offset foreign exchange gains or losses on the related accounts. Gains or losses on contracts are deferred if the transaction qualifies as a hedge. At December 31, 1999 and 1998, foreign exchange contracts outstanding totaled $52.3 million and $40.0 million, respectively.

The Company also purchases foreign exchange option contracts, with terms which generally do not exceed one year, to hedge certain operating exposures. Premiums paid under these contracts are expensed over the life of the option contract. Gains arising on these options are recognized at the time the options are exercised. The Company had $6.7 million and $5.3 million of foreign exchange option contracts outstanding at December 31, 1999 and 1998, respectively.

Fair Value

	1999 Recorded Value	1999 Fair Value	1998 Recorded Value	1998 Fair Value
Long-term debt	$369,114	$369,670	$391,118	$392,451
Interest rate swaps	—	(21)	—	(716)

The fair value of the remaining financial instruments, including cash and cash equivalents, receivables, payables, short-term debt and foreign currency contracts, approximates the carrying value due to the short-term nature of these instruments.

1.244

TIME WARNER INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Financial Instruments

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

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

15. Derivative Financial Instruments

Time Warner uses derivative financial instruments principally to manage the risk that changes in interest rates will affect either the fair value of its debt obligations or the amount of its future interest payments and, with regard to foreign currency exchange rates, to manage the risk that changes in exchange rates will affect the amount of unremitted or future royalties and license fees to be received from the sale of U.S. copyrighted products abroad. The following is a summary of Time Warner's risk management strategies and the effect of these strategies on Time Warner's consolidated financial statements.

Interest Rate Risk Management

Interest Rate Swap Contracts

Interest rate swap contracts are used to adjust the proportion of total debt that is subject to variable and fixed interest rates. Under an interest rate swap contract, Time Warner either agrees to pay an amount equal to a specified variable-rate of interest times a notional principal amount, and to receive in return an amount equal to a specified fixed-rate of interest times the same notional principal amount or, vice versa, to receive a variable-rate amount and to pay a fixed-rate amount. The notional amounts of the contract are not exchanged. No other cash payments are made unless the contract is terminated prior to maturity, in which case the amount paid or received in settlement is established by agreement at the time of termination, and usually represents the net present value, at current rates of interest, of the remaining obligations to exchange payments under the terms of the contract. Interest rate swap contracts are entered into with a number of major financial institutions in order to minimize counterparty credit risk.

Time Warner accounts for its interest rate swap contracts differently based on whether it has agreed to pay an amount based on a variable-rate of fixed-rate of interest. For interest rate swap contracts under which Time Warner agrees to pay variable-rates of interest, these contracts are considered to be a hedge against changes in the fair value of Time Warner's fixed-rate debt obligations. Accordingly, the interest rate swap contracts are reflected at fair value in Time Warner's consolidated balance sheet and the related portion of fixed-rate debt being hedged is reflected at an amount equal to the sum of its carrying value plus an adjustment representing the change in fair value of the debt obligations attributable to the interest rate risk being hedged. In addition, changes during any accounting period in the fair value of these interest rate swap contracts, as well as offsetting changes in the adjusted carrying value of the related portion of fixed-rate debt being hedged, are recognized as adjustments to interest expense in Time Warner's consolidated statement of operations. The net effect of this accounting on Time Warner's operating results is that interest expense on the portion of fixed-rate debt being hedged is generally recorded based on variable interest rates.

For interest rate swap contracts under which Time Warner agrees to pay fixed-rates of interest, these contracts are considered to be a hedge against changes in the amount of future cash flows associated with Time Warner's interest payments of Time Warner's variable-rate debt obligations. Accordingly, the interest rate swap contracts are reflected at fair value in Time Warner's consolidated balance sheet and the related gains or losses on these contracts are deferred in shareholders' equity (as a component of comprehensive income). These deferred gains and losses are then amortized as an adjustment to interest expense over the same period in which the related interest payments being hedged are recognized in income. However, to the extent that any of these contracts are not considered to be perfectly effective in offsetting the change in the value of the interest payments being hedged, any changes in fair value relating to the ineffective portion of these contracts are immediately recognized in income. The net effect of this accounting on Time Warner's operating results is that interest expense on the portion of variable-rate debt being hedged is generally recorded based on fixed interest rates.

At December 31, 1999, Time Warner had interest rate swap contracts to pay variable-rates of interest (average six-month LIBOR rate of 5.8%) and receive fixed-rates of interest (average rate of 5.5%) on $400 million notional amount of indebtedness. This resulted in approximately 34% of Time Warner's underlying debt being subject to variable interest rates. The $400 million notional amount of outstanding contracts will mature during 2000. At December 31, 1998, Time Warner had interest rate swap contracts on $1.6 billion notional amount of indebtedness. The net gain or loss on the ineffective portion of these interest rate swap contracts was not material in any period.

Interest Rate Lock Agreements

In the past, Time Warner infrequently used interest rate lock agreements to hedge the risk that the cost of a future issuance of fixed-rate debt may be adversely affected by changes in interest rates. Under an interest rate lock agreement, Time Warner agrees to pay or receive an amount equal to the difference between the net present value of the cash flows for a notional principal amount of indebtedness based on the existing yield of a U.S. treasury bond at the date when the agreement is established and at the date when the agreement is settled, typically when Time Warner issues new debt. The notional amounts of the agreement are not exchanged. Interest rate lock agreements are entered into with a number of major financial institutions in order to minimize counterparty credit risk.

Interest rate lock agreements are reflected at fair value in Time Warner's consolidated balance sheet and the related gains or losses on these agreements are deferred in shareholders' equity (as a component of comprehensive income). These deferred gains and losses are then amortized as an adjustment to interest expense over the same period in which the related interest costs on the new debt issuances are recognized in income.

At December 31, 1998, Time Warner had outstanding interest rate lock agreements for an aggregate $650 million notional principal amount of indebtedness, which were settled in January 1999. Since that time, Time Warner has not entered into any interest rate lock agreements to hedge the cost of future issuances of fixed-rate debt. At December 31, 1999, Time Warner had deferred approximately $30 million of net losses on interest rate lock agreements, of which less than $1 million is expected to be recognized in income over the next twelve months.

Foreign Currency Risk Management

Foreign exchange contracts are used primarily by Time Warner to hedge the risk that unremitted or future royalties and license fees owed to Time Warner domestic companies for the sale or anticipated sale of U.S. copyrighted products abroad may be adversely affected by changes in foreign currency exchange rates. As part of its overall strategy to manage the level of exposure to the risk of foreign currency exchange rate fluctuations, Time Warner hedges a portion of its foreign currency exposures anticipated over the ensuing twelve-month period. At December 31, 1999, Time Warner had effectively hedged approximately half of the estimated foreign currency exposures that principally relate to anticipated cash flows to be remitted to the U.S. over the ensuing twelve-month period. To hedge this exposure, Time Warner used foreign exchange contracts that generally have maturities of three months or less, which generally will be rolled over to provide continuing coverage throughout the year. Time Warner often closes foreign exchange sale contracts by purchasing an offsetting purchase contract. Foreign exchange contracts are placed with a number of major financial institutions in order to minimize credit risk.

Time Warner records these foreign exchange contracts at fair value in its consolidated balance sheet and the related gains or losses on these contracts are deferred in shareholders' equity (as a component of comprehensive income). These deferred gains and losses are recognized in income in the period in which the related royalties and license fees being hedged are received and recognized in income. However, to the extent that any of these contracts are not considered to be perfectly effective in offsetting the change in the value of the royalties and license fees being hedged, any changes in fair value relating to the ineffective portion of these contracts are immediately recognized in income. Gains and losses n foreign exchange contracts generally are included as a component of interest and other, net, in Time Warner's consolidated statement of operations.

At December 31, 1999, Time Warner had contracts for the sale of $843 million and the purchase of $468 million of foreign currencies at fixed rates. Contracts in a net sale position primarily consisted of Japanese yen (62% of net contract value), European currency (46%), Canadian dollars (15%) and English pounds (2%), offset in part by contracts in a net purchase position, primarily consisting of New Zealand dollars (34%).

Time Warner had contracts for the sale of $755 million and the purchase of $259 million of foreign currencies at December 31, 1998. Time Warner had deferred approximately $1 million of net gains on foreign exchange contracts at December 31, 1999, which is substantially expected to be recognized in income over the next twelve months. Time Warner recognized $8 million in losses in 1999, $8 million in losses in 1998 ($10 million on a pro forma basis) and $27 million in gains in 1997, on foreign exchange contracts. These amounts were or are expected to be largely offset by corresponding decreases and increases, respectively, in the dollar value of foreign currency royalties and license fee payments that have been or are anticipated to be received in cash from the sale of U.S. copyrighted products abroad.

1.245

ULTRAMAR DIAMOND SHAMROCK CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Derivative Instruments: Interest rate swap agreements are used by the Company to manage liquidity and interest rate exposures. The differentials paid or received on interest rate swap agreements are recognized currently as an adjustment to interest expense.

The Company uses commodity futures contracts to procure a large portion of its crude oil requirements and to hedge its exposure to crude oil, refined product, and natural gas price volatility. Such contracts are used principally to hedge the procurement of crude oil and refined product and to lock in prices on a portion of the natural gas fuel needs of the refineries. The Company also uses commodity futures contracts to manage the price of crude oil and refined products. Realized gains and losses on commodity futures contracts on qualifying hedges are included as a component of the related crude oil and refined product purchases. Realized gains and losses on contracts not designated as hedges are marked to market value and recognized currently in cost of products sold.

The Company uses commodity price swaps to manage its exposure to price volatility related to future planned purchases of crude oil and refined products. Commodity price swaps designated as hedges are not recorded until the resulting purchases occur; however, losses are recognized when prices are not expected to recover. The losses are recognized currently in cost of products sold.

The Company periodically enters into short-term foreign exchange contracts to manage its exposure to exchange rate fluctuations on the trade payables of its Canadian operations that are denominated in U.S. dollars. These contracts involve the exchange of Canadian and U.S. currency at future dates. Gains and losses on these contracts generally offset losses and gains on the U.S. dollar denominated trade payables and are recognized currently in income.

The Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities" in June 1998. SFAS No. 133 establishes new and revises several existing standards for derivative instruments and hedging activities. It requires an entity to recognize all derivatives as either assets or liabilities in the balance sheet and measure those instruments at fair value. If certain conditions are met, a derivative may be designated as a cash flow hedge, a fair value hedge or a foreign currency hedge. An entity that elects to apply hedge accounting is required to establish at the inception of the hedge the method it will use for assessing the effectiveness of the hedge and the measurement method to be used. Changes in the fair value of derivatives are either recognized in earnings in the period of change or as a component of other comprehensive income (loss) in the case of certain hedges. The statement should not be applied retroactively. In June 1999, the FASB issued SFAS No. 137, "Accounting for Derivative Instruments and Hedging Activities—Deferral of the Effective Date of FASB Statement No. 133" which defers the effective date of SFAS No. 133 for one year to be effective for all fiscal quarters of all fiscal years beginning after June 15, 2000. The Company expects to adopt SFAS No. 133 as of January 1, 2001. The Company has not yet completed its evaluation of the impact of the adoption of this new standard.

Note 8 (In Part): Notes Payable and Long-Term Debt

In order to manage interest costs on its outstanding debt, the Company has entered into various interest rate swap agreements (see note 16). In December 1996 and 1997, the Company entered into interest rate swap agreements the effect of which is to modify the interest rate characteristics of a portion of its debt from a fixed to a floating rate. As of December 31, 1999 and 1998, the Company had the following interest rate swap agreements outstanding:

	Year of Maturity		
Fixed to Floating	2002	2005	2023
Notional amount (in millions)	$200.0	$150.0	$100.0
Weighted average rate received	6.23%	6.36%	6.93%
Weighted average rate paid in 1999	5.20%	4.75%	5.38%
Weighted average rate paid in 1998	5.57%	4.89%	5.66%

Note 16: Financial Instruments

Financial instruments consisted of the following:

	1999		1998	
(In millions)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	$ 92.8	$ 92.8	$ 176.1	$ 176.1
Non-current notes receivable	30.7	30.7	27.8	27.8
Long-term debt, including current portion	(1,341.6)	(1,307.8)	(1,943.4)	(2,034.3)
Interest rate swap agreements	—	(11.7)	—	18.7
Commodity futures and price swap contracts	(8.1)	(17.2)	(32.9)	(63.5)

Cash and cash equivalents as of December 31, 1999 and 1998 include $28.2 million and $114.2 million of investments in marketable securities with maturities of less than three months, respectively. The investments are available for sale and are stated at cost, which approximates fair market value.

The aggregate carrying amount of non-current notes receivable approximated fair value as determined based on the discounted cash flow method.

The fair value of the Company's fixed rate debt as of December 31, 1999 and 1998 was $1,295.2 million and $1,651.1 million, respectively (carrying amounts of $1,329.0 million and $1,560.2 million, respectively) and was estimated based on the quoted market price of similar debt instruments. The carrying amounts of the Company's borrowings under its revolving credit agreements and money market facilities approximate fair value because such obligations generally bear interest at floating rates.

The interest rate swap agreements subject the Company to market risk as interest rates fluctuate and impact the interest payments due on the notional amounts of the agreements. The fair value of interest rate swap agreements is determined based on the differences between the contract rate of interest and the rates currently quoted for agreements of similar terms and maturities.

The Company uses commodity futures contracts for the purchase of physical quantities of crude oil and refined products as well as for the management of crude oil costs. For the contracts designated as hedges, whereby physical delivery of the crude oil, refined product or natural gas takes place, gains and losses were recognized as a component of the related purchase. Unrealized gains from the Company's hedging activities were approximately $1.7 million as of December 31, 1999. For the commodity futures contracts that are closed without taking physical delivery, the net gain in 1999 of $48.0 million has been recognized currently in cost of products sold. During 1999, the Company's crude oil purchases to supply its various refineries amounted to $3.7 billion.

In addition, the Company has entered into various price swaps as price hedges for which gains or losses will be recognized when the hedged transactions occur; however, losses are recognized when future prices are not expected to recover. The losses are recognized currently in cost of products sold.

As of December 31, 1999 the Company had outstanding commodity futures contracts designated as hedges and price swap contracts to purchase $351.8 million and sell $194.0 million of crude oil and refined products or to settle differences between a fixed price and market price on aggregate notional quantities of 6.4 million barrels of crude oil and refined products which mature on various dates through June 2002. As of December 31, 1998, the Company had outstanding commodity futures contracts designated as hedges and price swap contracts to purchase $319.9 million and sell $130.6 million of crude oil and refined products or to settle differences between a fixed price and market price on aggregate notional quantities of 8.6 million barrels of crude oil and refined products which mature on various dates through June 2002. The fair value of commodity futures contracts designated as hedges is based on quoted market prices. The fair value of price swap contracts is determined by comparing the contract price with current broker quotes for futures contracts corresponding to the period that the anticipated transactions are expected to occur.

The Company also periodically enters into short-term foreign exchange contracts to manage its exposure to exchange rate fluctuations on the trade payables of its Canadian operations that are denominated in U.S. dollars. These contracts involve the exchange of Canadian and U.S. currency at future dates. Gains and losses on these contracts generally offset losses and gains on the U.S. dollar denominated trade payables. At December 31, 1999, the Company had short-term foreign exchange contracts totaling $12.1 million and commitments to purchase $34.2 million of U.S. dollars. At December 31, 1998, the Company did not have any short-term foreign exchange contracts. The Company generally does not hedge for the effects of foreign exchange rate fluctuations on the translation of its foreign results of operations or financial position.

The Company is subject to the market risk associated with changes in market price of the underlying crude oil and refined products; however, except in the case of the price swaps, such changes in values are generally offset by changes in the sales price of the Company's refined products. The Company is exposed to credit risk in the event of nonperformance by the counterparties in all interest rate swap agreements, price swap contracts and foreign exchange contracts. However, the Company does not anticipate nonperformance by any of the counterparties. The amount of such exposure is generally the unrealized gains or losses on such contracts.

Other financial instruments which potentially subject the Company to credit risk consist principally of trade receivables. Concentration of credit risk with respect to trade receivables is limited due to the large number of customers comprising the Company's customer base and their dispersion across different geographic areas. As of December 31, 1999, the Company had no significant concentrations of credit risk.

1.246

THE WALT DISNEY COMPANY (SEP)

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

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

Risk Management Contracts

In the normal course of business, the Company employs a variety of off-balance-sheet financial instruments to manage its exposure to fluctuations in interest, foreign currency exchange rates and investments in equity and debt securities, including interest rate and cross-currency swap agreements, forward, option, swaption and spreadlock contracts and interest rate caps.

The Company designates and assigns the financial instruments as hedges of specific assets, liabilities or anticipated transactions. When hedged assets or liabilities are sold or extinguished or the anticipated transactions being hedged are no longer expected to occur, the Company recognizes the gain or loss on the designated hedging financial instruments.

The Company classifies its derivative financial instruments as held or issued for purposes other than trading. Option premiums and unrealized losses on forward contracts and the accrued differential for interest rate and cross-currency swaps to be received under the agreements are recorded in the balance sheet as other assets. Unrealized gains on forward contracts and the accrued differential for interest rate and cross-currency swaps to be paid under the agreements are included in accounts and taxes payable and other accrued liabilities. Unrealized gains and losses on forward sale contracts that hedge investments in equity and debt securities are accounted for off-balance sheet until the contracts are settled, at which time any gain or loss is recognized net of the gain or loss on the underlying investment. Costs associated with forward sale contracts are deferred and included in the basis of the underlying investment. Realized gains and losses from hedges are classified in the income statement consistent with the accounting treatment of the items being hedged. The Company accrues the differential for interest rate and cross-currency swaps to be paid or received under the agreements as interest and exchange rates shift as adjustments to net interest expense over the lives of the swaps. Gains and losses on the termination of swap agreements, prior to their original maturity, are deferred and amortized to net interest expense over the remaining term of the underlying hedged transactions.

Cash flows from hedges are classified in the statement of cash flows under the same category as the cash flows from the related assets, liabilities or anticipated transactions (see Notes 5 and 12).

5 (In Part): Borrowings

The Company's borrowings at September 30, 1999 and 1998, including interest rate swaps designated as hedges, are summarized below:

			1999			
		Stated	Interest rate and cross-		Effective	
		Interest	currency swaps[f]		Interest	Swap
	Balance	Rate[e]	Pay Float	Pay Fixed	Rate[g]	Maturities
Commercial paper due 2000[a]	$1,748	5.1%	$ —	$1,700	5.4%	2001-2002
U.S. dollar notes and debentures due 2000-2003[b,h]	7,545	6.3%	3,840	500	6.1%	2000-2029
Dual currency and foreign notes due 2000-2003[c]	765	6.4%	765	—	5.1%	2000-2003
Senior participating notes due 2000-2001[d]	1,247	2.7%	—	—	n/a	n/a
Other due 2000-2027	388	5.5%	—	—	n/a	n/a
	11,693	5.7%	—	—		
Less current portion	2,415		—	—		
Total long-term borrowings	$9,278		$4,605	$2,200		

			1998			
		Stated	Interest rate and cross-		Effective	
		Interest	currency swaps[f]		Interest	Swap
	Balance	Rate[e]	Pay Float	Pay Fixed	Rate[g]	Maturities
Commercial paper due 1999[a]	$2,225	5.5%	$ —	$2,225	6.2%	1999
U.S. dollar notes and debentures due 1999-2003[b]	6,321	6.6%	2,886	675	6.4%	1999-2012
Dual currency and foreign notes due 1999-2003[c]	1,678	5.8%	1,678	—	5.4%	1999-2003
Senior participating notes due 2000-2001[d]	1,195	2.7%	—	—	n/a	n/a
Other due 1999-2027	266	5.2%	—	—	n/a	n/a
	11,685	5.8%	—	—		
Less current portion	2,123		—	—		
Total long-term borrowings	$9,562		$4,564	$2,900		

(a) The Company has established bank facilities totaling $4.8 billion, which expire in one to three years. Under the bank facilities, the Company has the option to borrow at various interest rates. Commercial paper is classified as long-term since the Company intends to refinance these borrowings on a long-term basis through continued commercial paper borrowings supported by available bank facilities.
(b) Includes $722 million in 1999 and $771 million in 1998 representing minority interest in a real estate investment trust established by the Company.
(c) Denominated principally in U.S. dollars, Japanese yen and Italian lira.
(d) Additional interest may be paid based on the performance of designated portfolios of films. The effective interest rate at September 30, 1999 and 1998 was 6.8%.
(e) The stated interest rate represents the weighted-average coupon rate for each category of borrowings. For floating rate borrowings, interest rates are based upon the rates at September 30, 1999 and 1998; these rates are not necessarily an indication of future interest rates.
(f) Amounts represent notional values of interest rate swaps.
(g) The effective interest rate reflects the effect of interest rate and cross-currency swaps entered into with respect to certain of these borrowings as indicated in the "Pay Float" and "Pay Fixed" columns.
(h) Includes $306 million in 1999, representing mandatorily redeemable preferred stock maturing in 2004.

12. Financial Instruments

Investments

As of September 30, 1999 and 1998, the Company held $102 million and $126 million, respectively, of securities classified as available for sale. Realized gains and losses are determined principally on an average cost basis. In 1999, the Company recognized $70 million in gains on sales of securities; in 1998 and 1997, realized gains and losses were not material. In 1999, 1998 and 1997, unrealized gains and losses on available-for-sale securities were not material.

During the year, the Company hedged certain investment holdings using collar and forward sale contracts. The collar contracts were terminated during the year, and the forward contracts, with notional amounts totaling $718 million, expire in five years.

Interest Rate Risk Management

The Company is exposed to the impact of interest rate changes. The Company's objective is to manage the impact of interest rate changes on earnings and cash flows and on the market value of its investments and borrowings. The Company maintains fixed rate debt as a percentage of its net debt between a minimum and maximum percentage, which is set by policy.

The Company uses interest rate swaps and other instruments to manage net exposure to interest rate changes related to its borrowings and investments and to lower its overall borrowing costs. Significant interest rate risk management instruments held by the Company during 1999 and 1998 included pay-floating and pay-fixed swaps and interest rate caps. Pay-floating swaps effectively convert medium and long-term obligations to LIBOR or commercial paper rate indexed variable rate instruments. These swap agreements expire in one to 30 years. Pay-fixed swaps and interest rate caps effectively convert floating rate obligations to fixed rate instruments. The pay-fixed swaps expire in two to three years. The interest rate caps either expired or were terminated during the year.

The following table reflects incremental changes in the notional or contractual amounts of the Company's interest rate contracts during 1999 and 1998. Activity representing renewal of existing positions is excluded.

	September 30, 1998	Additions	Maturities/ Expirations	Terminations	September 30, 1999
Pay-floating swaps	$2,886	$4,704	$ (925)	$(2,825)	$3,840
Pay-fixed swaps	2,900	2,200	(2,900)	—	2,200
Interest rate caps	1,100	2,500	(1,100)	(2,500)	—
	$6,886	$9,404	$(4,925)	$(5,325)	$6,040

	September 30, 1997	Additions	Maturities/ Expirations	Terminations	September 30, 1998
Pay-floating swaps	$2,086	$ 950	$ (50)	$(100)	$2,886
Pay-fixed swaps	950	6,000	(4,050)	—	2,900
Interest rate caps	—	3,100	(2,000)	—	1,100
Swaption contracts	300	—	(300)	—	—
	$3,336	$10,050	$(6,400)	$(100)	$6,886

The impact of interest rate risk management activities on income in 1999, 1998 and 1997, and the amount of deferred gains and losses from interest rate risk management transactions at September 30, 1999 and 1998 were not material.

Foreign Exchange Risk Management

The Company transacts business in virtually every part of the world and is subject to risks associated with changing foreign exchange rates. The Company's objective is to reduce earnings and cash flow volatility associated with foreign exchange rate changes to allow management to focus its attention on its core business issues and challenges. Accordingly, the Company enters into various contracts that change in value as foreign exchange rates change to protect the value of its existing foreign currency assets and liabilities, commitments and anticipated foreign currency revenues. By policy, the Company maintains hedge coverage between minimum and maximum percentages of its anticipated foreign exchange exposures for periods not to exceed five years. The gains and losses on these contracts offset changes in the value of the related exposures.

It is the Company's policy to enter into foreign currency transactions only to the extent considered necessary to meet its objectives as stated above. The Company does not enter into foreign currency transactions for speculative purposes.

The Company uses option strategies that provide for the sale of foreign currencies to hedge probable, but not firmly committed, revenues. While these hedging instruments are subject to fluctuations in value, such fluctuations are offset by changes in the value of the underlying exposures being hedged. The principal currencies hedged are the European euro, Japanese yen, Australian dollar, Canadian dollar and British pound. The Company also uses forward contracts to hedge foreign currency assets and liabilities. Cross-currency swaps are used to hedge foreign currency-denominated borrowings.

At September 30, 1999 and 1998, the notional amounts of the Company's foreign exchange risk management contracts, net of notional amounts of contracts with counterparties against which the Company has a legal right of offset, the related exposures hedged and the contract maturities are as follows:

	1999 Notional Amount	1999 Exposures Hedged	1999 Fiscal Year Maturity	1998 Notional Amount	1998 Exposures Hedged	1998 Fiscal Year Maturity
Option contracts	$1,416	$ 524	2000	$2,966	$1,061	1999-2000
Forward contracts	1,620	1,353	2000	2,053	1,773	1999-2000
Cross-currency swaps	765	765	2000-2003	1,678	1,678	1999-2003
	$3,801	$2,642		$6,697	$4,512	

Gains and losses on contracts hedging anticipated foreign currency revenues and foreign currency commitments are deferred until such revenues are recognized or such commitments are met, and offset changes in the value of the foreign currency revenues and commitments. At September 30, 1999 and 1998, the Company had deferred gains of $38 million and $245 million, respectively, and deferred losses of $26 million and $118 million, respectively, related to foreign currency hedge transactions. Deferred amounts to be recognized can change with market conditions and will be substantially offset by changes in the value of the related hedged transactions. The impact of foreign exchange risk management activities on operating income in 1999 and in 1998 was a net gain of $66 million and $227 million, respectively.

Fair Value of Financial Instruments

At September 30, 1999 and 1998, the Company's financial instruments included cash, cash equivalents, investments, receivables, accounts payable, borrowings and interest rate, forward and foreign exchange risk management contracts.

At September 30, 1999 and 1998, the fair values of cash and cash equivalents, receivables, accounts payable and commercial paper approximated carrying values because of the short-term nature of these instruments. The estimated fair values of other financial instruments subject to fair value disclosures, determined based on broker quotes or quoted market prices or rates for the same or similar instruments, and the related carrying amounts are as follows:

	1999 Carrying Amount	1999 Fair Value	1998 Carrying Amount	1998 Fair Value
Investments	$ 569	$ 832	$ 686	$ 765
Borrowings	$(10,971)	$(10,962)	$(10,914)	$(11,271)
Risk management contracts:				
Foreign exchange forwards	$ (37)	$ (27)	$ 49	$ 18
Foreign exchange options	58	69	58	178
Interest rate swaps	10	(46)	30	181
Forward sale contracts	—	(36)	—	—
Cross-currency swaps	13	(65)	25	(89)
	$ 44	$ (105)	$ 162	$ 288

OTHER OFF-BALANCE-SHEET FINANCIAL INSTRUMENTS

Financial Guarantees

1.247

BELLSOUTH CORPORATION (DEC)

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

Note A (In Part): Accounting Policies

Derivative Financial Instruments

We generally enter into derivative financial instruments only for hedging purposes. Deferral accounting is applied when the derivative reduces the risk of the underlying hedged item effectively as a result of high inverse correlation with the value of the underlying exposure. If a derivative instrument either initially fails or later ceases to meet the criteria for deferral or settlement accounting, any subsequent gains or losses are recognized currently in income.

Note N (In Part): Financial Instruments

Other

We have also issued letters of credit and financial guarantees which approximate $617 at December 31, 1999. Of this total, $356 represents the US Dollar equivalent of the outstanding debt of E-Plus guaranteed by us. We have agreed to guarantee E-Plus borrowings up to a US Dollar equivalent of $361 (705 million German Marks) at December 31, 1999. Since there is no market for the instruments, it is not practicable to estimate their fair value.

1.248

LA-Z-BOY INCORPORATED (APR)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 6: Financial Guarantees

La-Z-Boy has provided financial guarantees relating to loans and leases in connection with some proprietary stores. The amounts of the unsecured guarantees are shown in the following table. Because almost all guarantees are expected to retire without being funded, the contract amounts are not estimates of future cash flows.

(Contract amounts in thousands)	4/24/99	4/25/98
Loan guarantees	$17,193	$23,567
Lease guarantees	$ 5,649	$ 5,122

Most guarantees require periodic payments to the Company in exchange for the guarantee. Terms of current guarantees generally range from one to five years.

The guarantees have off-balance-sheet credit risk because only the periodic payments and accruals for probable losses are recognized until the guarantee expires. Credit risk represents the accounting loss that would be recognized at the reporting date if counter-parties failed to perform completely as contracted. The credit risk amounts are equal to the contractual amounts, assuming that the amounts are fully advanced and that no amounts could be recovered from other parties.

1.249

THE LTV CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Commitments and Contingencies (In Part)

In 1999, as part of the partnership agreement entered into regarding the conversion of the electrogalvanizing joint venture facility in Columbus, Ohio into a hot-dip galvanizing line to be known as Columbus Coatings Company, owned 50% by LTV and 50% by Bethlehem Steel Corporation, the Company has jointly and severally guaranteed the construction funding and the anticipated lease payments of approximately $20 million on an annual basis under a proposed sale/leaseback transaction upon anticipated completion by the end of 2000. The proceeds from the sale/leaseback will be used to reimburse the partners for the construction funding. LTV has a commitment to provide on a junior subordinated basis up to an additional $5 million to Trico Steel.

Financial Instruments (In Part)

Outstanding letters of credit totaled $91 million and $86 million at December 31, 1999 and 1998, respectively. The letters of credit guarantee performance to third parties of various trade activities and tax benefit transfer agreements. The Company does not believe it is practicable to estimate the fair value of the guarantees and does not believe exposure to loss is likely.

1.250

TRICON GLOBAL RESTAURANTS, INC. AND SUBSIDIARIES (DEC)

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

Note 13 (In Part): Financial Instruments

Fair Value. Excluding the financial instruments included in the table below, the carrying amounts of our other financial instruments approximate fair value.

The carrying amounts and fair values of TRICON's financial instruments are as follows:

	1999		1998	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Debt				
Short-term borrowings and long-term debt, excluding capital leases	$2,411	$2,377	$3,415	$3,431
Debt-related derivative instruments				
Open contracts in an (asset) liability position	—	(3)	2	17
Debt, excluding capital leases	$2,411	$2,374	$3,417	$3,448
Guarantees	$ —	$ 27	$ —	$ 24

We estimated the fair value of debt, debt-related derivative instruments and guarantees using market quotes and calculations based on market rates. See Note 2 for recently issued accounting pronouncements relating to financial instruments.

Note 21 (In Part): Commitments and Contingencies

Contingent Liabilities: We were directly or indirectly contingently liable in the amounts of $386 million and $327 million at year-end 1999 and 1998, respectively, for certain lease assignments and guarantees. In connection with these contingent liabilities, after the Spin-off Date, we were required to maintain cash collateral balances at certain institutions of approximately $30 million, which is included in Other Assets in the accompanying Consolidated Balance Sheet. At year-end 1999, $311 million represented contingent liabilities to lessors as a result of assigning our interest in and obligations under real estate leases as a condition to the refranchising of Company restaurants. The $311 million represented the present value of the minimum payments of the assigned leases, excluding any renewal option periods, discounted at our pre-tax cost of debt. On a nominal basis, the contingent liability resulting from the assigned leases was $485 million. The balance of the contingent liabilities primarily reflected guarantees to support financial arrangements of certain unconsolidated affiliates and other restaurant franchisees.

1.251

WEYERHAEUSER COMPANY (DEC)

NOTES TO FINANCIAL STATEMENTS

Note 14 (In Part): Legal Proceedings, Commitments and Contingencies

Other Items (In Part)

During the normal course of business, the company's subsidiaries included in its real estate and related assets segment have entered into certain financial commitments comprised primarily of guarantees made on $37 million of partnership borrowings and limited recourse obligations associated with $93 million of sold mortgage loans. The fair value of the recourse on these loans is estimated to be $16 million, which is based upon market spreads for sales of similar loans without recourse or estimates of the credit risk of the associated recourse obligation.

Letters of Credit

1.252

LUCENT TECHNOLOGIES INC. AND SUBSIDIARIES (SEP)

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

2 (In Part): Summary of Significant Accounting Policies

Financial Instruments

Lucent uses various financial instruments, including foreign currency exchange contracts and interest rate swap agreements to manage and reduce risk to Lucent by generating cash flows, which offset the cash flows of certain transactions in foreign currencies or underlying financial instruments in relation to their amount and timing. Lucent's derivative financial instruments are for purposes other than trading and are not entered into for speculative purposes. Lucent's non-derivative financial instruments include letters of credit, commitments to extend credit and guarantees of debt. Lucent generally does not require collateral to support its financial instruments.

13 (In Part): Financial Instruments

The carrying values and estimated fair values of financial instruments, including derivative financial instruments were as follows:

	1999		1998	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets				
Derivative and off-balance-sheet instruments:				
Foreign currency forward exchange contracts/ options	$ 18	$ 17	$ 26	$ 4
Letters of credit	—	2	—	2
Liabilities				
Long-term debt[(1)(2)]	$4,083	$3,956	$2,408	$2,559
Derivative and off-balance-sheet instruments:				
Foreign currency forward exchange contracts/ options	36	27	25	(4)

(1) Excluding long-term lease obligations of $79 at September 30, 1999 and $1 at September 30, 1998.

(2) For September 30, 1998 reflects the reclassification of debt maturing within one year to long-term debt as a result of the November 19, 1998 sale of $500 ($495 net of unamortized costs of 10-year notes.

The following methods were used to estimate the fair value of each class of financial instruments:

Financial Instrument	Valuation Method
Long-term debt	Market quotes for instruments with similar terms and maturities
Foreign currency forward exchange contracts/options	Market quotes
Letters of credit	Fees paid to obtain the obligations

The carrying amounts of cash and cash equivalents, investments, receivables and debt maturing within one year contained in the Consolidated Balance Sheets approximate fair value.

Credit Risk and Market Risk

By their nature, all financial instruments involve risk, including credit risk for non-performance by counterparties. The contract or notional amounts of these instruments reflect the extent of involvement Lucent has in particular classes of financial instruments. The maximum potential loss may exceed any amounts recognized in the Consolidated Balance Sheets. However, Lucent's maximum exposure to credit loss in the event of nonperformance by the other party to the financial instruments for commitments to extend credit and financial guarantees is limited to the amount drawn and outstanding on those instruments.

Lucent seeks to reduce credit risk on financial instruments by dealing only with financially secure counterparties. Exposure to credit risk is controlled through credit approvals, credit limits and monitoring procedures. Lucent seeks to limit its exposure to credit risks in any single country or region.

All financial instruments inherently expose the holders to market risk, including changes in currency and interest rates. Lucent manages its exposure to these market risks through its regular operating and financing activities and when appropriate, through the use of derivative financial instruments.

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Non-Derivative and Off-Balance-Sheet Instruments

Requests for providing commitments to extend credit and financial guarantees are reviewed and approved by senior management. Management regularly reviews all outstanding commitments, letters of credit and financial guarantees, and the results of these reviews are considered in assessing the adequacy of Lucent's reserve for possible credit and guarantee losses. At September 30, 1999, and 1998, in management's opinion, there was no significant risk of loss in the event of non-performance of the counterparties to these financial instruments.

The following table presents Lucent's non-derivative and off-balance-sheet instruments for amounts committed but not drawn-down and the amounts drawn-down on such instruments. These instruments may exist or expire without being drawn upon. Therefore, the amounts committed but not drawn-down do not necessarily represent future cash flows.

	Amounts Committed But Not Drawn-down		Amounts Drawn-down and Outstanding	
	1999	1998	1999	1998
Commitments to extend credit	$5,544	$2,086	$1,574	$536
Guarantees of debt	$ 108	$ 87	$ 312	$205

Commitments to Extend Credit

Commitments to extend credit to third parties are conditional agreements generally having fixed expiration or termination dates and specific interest rates and purposes.

Guarantees of Debt

From time to time, Lucent guarantees the financing for product purchases by customers and the debt of certain unconsolidated joint ventures. Requests for providing such guarantees are reviewed and approved by senior management. Certain financial guarantees are backed by amounts held in trust for Lucent or assigned to a third-party reinsurer.

Letters of Credit

Letters of credit are purchased guarantees that ensure Lucent's performance or payment to third parties in accordance with unspecified terms and conditions which amount to $931 and $805 as of September 30, 1999 and 1998, respectively.

1.253

SPECTRUM CONTROL, INC. AND SUBSIDIARIES (NOV)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7 (In Part): Long-Term Debt

Long-term debt consists of the following:

(In thousands)	1999	1998
Term loan payable to bank at variable interest rate (7.59% at November 30, 1999)[1]	$20,000	$ —
Mortgage note payable to bank at an interest rate of 8.50%[2]	787	—
Industrial development authority notes at variable interest rate (4.00% at November 30, 1999 and 3.40% at November 30, 1998)[3]	1,800	2,100
Industrial development authority notes at variable interest rate (4.35% at November 30, 1999 and 3.81% at November 30, 1998)[4]	700	1,100
Industrial development authority notes and related bank mortgage notes at interest rates ranging from 4.00% to 7.75%	—	130
Total	23,287	3,330
Less current portion	4,276	830
Long-term debt	$19,011	$2,500

[1] The term loan is collateralized by substantially all of the Company's tangible and intangible assets. The loan bears interest at variable rates at or below the prevailing prime rate and requires quarterly principal payments of $909,000 from December 1999 to March 2005.

The Company has entered into a credit agreement with its principal lending institutions covering the term loan and the Company's domestic line of credit the ("Agreement"). The Agreement requires the Company to comply with certain covenants. These covenants generally restrict the Company from granting additional liens on its assets, disposing of assets other than in the ordinary course of business, and incurring additional indebtedness other than purchase money indebtedness and debt not exceeding $5,000,000 in the aggregate. The Agreement also imposes certain restrictions on future acquisitions by the Company. In addition, the Agreement requires the Company to meet the following quarterly financial covenants: maintain a minimum net worth of $28,000,000 plus 50% of the Company's net income for each fiscal year ending after November 30, 1998; maintain a minimum ratio of EBITDA (earnings before interest, taxes, depreciation and amortization) to fixed charges of 1.2 to 1.0; and maintain a maximum ratio of total indebtedness to EBITDA of 3.5 to 1.0. At November 30, 1999, the Company was in compliance with each of these covenants.

[2] The mortgage note payable is collateralized by certain land and building and requires monthly principal payments of approximately $3,000 through July 2009, with a final principal payment of $400,000 due in August 2009.

(3) The industrial development authority notes are collateralized by certain land, building and equipment and an irrevocable letter of credit issued by the Company, through one of its principal lending institutions. The notes bear interest at approximately 50% of the prevailing prime rate and require annual principal payments ranging from $200,000 to $300,000 through the year 2007.

(4) The industrial development authority notes are collateralized by an irrevocable letter of credit issued by the Company, through one of its principal lending institutions. The notes bear interest at approximately 50% of the prevailing prime rate and require annual principal payments of $400,000 through the year 2000, with a final principal payment of $300,000 due in the year 2001.

Each of the above irrevocable letters of credit is collateralized by substantially all of the Company's tangible and intangible assets.

8 (In Part): Fair Value of Financial Instruments

The carrying amounts of cash, cash equivalents, accounts receivable, accounts payable, and accrued liabilities approximate fair value due to the short-term maturities of these assets and liabilities. The interest rates on substantially all of the Company's bank borrowings are adjusted regularly to reflect current market rates. Accordingly, the carrying amounts of the Company's short-term and long-term borrowings also approximate fair value. The Company utilizes letters of credit to collateralize certain long-term borrowings. The letters of credit reflect fair value as a condition of their underlying purposes and are subject to fees competitively determined in the marketplace.

Sale of Receivables With Recourse

1.254

AMPHENOL CORPORATION (DEC)

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

Note 10 (In Part): Commitments and Contingencies

A subsidiary of the Company has an agreement with a financial institution whereby the subsidiary can sell an undivided interest of up to $60,000 in a designated pool of qualified accounts receivable. The agreement expires in May 2004. Under the terms of the agreement, new receivables are added to the pool as collections reduce previously sold accounts receivable. The Company services, administers and collects the receivables on behalf of the purchaser. Fees payable to the purchaser under this agreement are equivalent to rates afforded high quality commercial paper issuers plus certain administrative expenses and are included in other expenses, net, in the accompanying Consolidated Statement of Income. The agreement contains certain covenants and provides for various events of termination. In certain circumstances the Company is contingently liable for the collection of the receivables sold; management believes that its allowance for doubtful accounts is adequate to absorb the expense of any such liability. At December 31, 1999 and 1998, approximately $60,000 in receivables were sold under the agreement and are therefore not reflected in the accounts receivable balance in the accompanying Consolidated Balance Sheet.

Note 11 (In Part): Financial Instruments

The Company does not utilize financial instruments for trading or other speculative purposes. It is estimated that the carrying value of the Company's other financial instruments at December 31, 1999 and 1998 approximates fair value.

1.255

SEARS, ROEBUCK AND CO. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Retained Interest in Transferred Credit Card Receivables

As part of its domestic credit card securitizations, the Company transfers credit card receivables to a Master Trust ("Trust") in exchange for certificates representing undivided interests in such receivables. Effective January 3 1998, the Company reclassified, for all periods presented, its retained interest in transferred credit card receivables to a separate balance sheet account and presented the related charge-offs of transferred credit card receivables as a reduction of credit revenue. Subsequent to January 3, 1998, amounts transferred from the Company's credit card portfolio to the Trust become securities upon transfer. Accounts are transferred net of the related allowance for uncollectible accounts and income is recognized generally on an effective yield basis over the collection period of the transferred balances. The retained interest consists of investor certificates held by the Company and the seller's certificate, which represents both contractually required seller's interest and excess seller's interest in the credit card receivables in the Trust. The contractually required seller's interest represents the dollar amount of credit card receivables that, according to the terms of the Company's securitization agreements, must be included in the Trust in addition to the amount of receivables which back the securities sold to third parties. The excess seller's interest is the dollar amount of receivables that exist in the Trust to provide for future securitizations, but is not contractually required to be in the Trust. Retained interests are as follows:

(Millions)	1999	1998	1997
Investor certificates held by the Company	$ 960	$ 920	$ 545
Contractually required seller's interest	760	764	697
Excess seller's interest	1,455	2,716	2,074
Retained interest in transferred credit card receivables	$3,175[(1)]	$4,400[(1)]	$3,316

(1) The 1998 retained interest amount is shown before reserve of $106 million related to the transfers during 1998, $31 million of which remains at the 1999 year-end.

The Company intends to hold the investor certificates and contractually required seller's interest to maturity. The excess seller's interest is considered available for sale. Due to the revolving nature of the underlying credit card receivables, the carrying value of the Company's retained interest in transferred credit card receivables approximates fair value and is classified as a current asset.

Note 8 (In Part): Financial Instruments

In the normal course of business, the Company invests in various financial assets, incurs various financial liabilities and enters into agreements involving off-balance sheet financial instruments. The Company's financial assets and liabilities are recorded in the consolidated balance sheets at historical cost, which approximates fair value.

To determine fair value, credit card receivables are valued by discounting estimated future cash flows. The estimated cash flows reflect the historical cardholder payment experience and are discounted at market rates. Long-term debt is valued based on quoted market prices when available or discounted cash flows, using interest rates currently available to the Company on similar borrowings.

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Credit-related

The Company had outstanding domestic securitized credit card receivables sold of $6.58 and $6.63 billion at January 1, 2000, and January 2, 1999, respectively, for which the Company's credit risk exposure is contractually limited to the investor certificates held by the Company.

DISCLOSURES OF FAIR VALUE

1.256

ALLEN TELECOM INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 10: Fair Values of Financial Instruments

Financial Accounting Standards Board ("FASB") Statements No. 107, "Disclosure about Fair Value of Financial Instruments," and No. 119, "Disclosure about Derivative Financial Instruments and Fair Value of Financial Instruments," are part of a continuing process by the FASB to improve information regarding financial instruments. The following methods and assumptions were used by the Company in estimating its fair value disclosures for such financial instruments as defined by the Statements.

Cash and Short-Term Investments: The carrying amount reported in the balance sheet for cash and cash equivalents approximates its fair value.

Long-Term Investments: It is not practicable to estimate the fair value of the Company's 8% investment in the common stock of its former specialty rubber products business including certain other investments in telecommunications companies because of the lack of quoted market prices and the inability to estimate fair value without incurring excessive costs. However, management believes that the carrying amounts recorded at December 31, 1999 and December 31, 1998 reflect the corresponding fair value.

Long-Term Debt: The fair values of the Company's long-term debt either approximate fair value or are estimated using discounted cash flow analyses based on the Company's current incremental borrowing rates for similar types of borrowing arrangements.

Off-balance-sheet instruments: The Company utilizes letters of credit to back certain financing instruments, insurance policies and payment obligations. The letters of credit reflect fair value as a condition of their underlying purpose and are subject to fees competitively determined. The Company enters into foreign currency contracts to offset the impact of currency rate changes related to accounts receivable and certain payment obligations. The fair value of such contracts is based on quoted market prices of comparable contracts. The carrying amounts and fair values of financial instruments at December 31, 1999 and 1998 are as follows (amounts in thousands):

	Carrying Amount		Fair Value	
		1998		1998
Cash and cash equivalents	$ 22,085	$ 19,900	$ 22,085	$ 19,900
Non-current investments	4,334	5,195	4,334	5,195
Long-term debt	124,156	141,633	124,156	145,175
Off balance sheet financial instruments:				
Letters of credit	6,933	1,220	6,933	1,220
Foreign currency net sales contracts	14,746	5,523	14,204	5,519

1.257

DIMON INCORPORATED AND SUBSIDIARIES (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (In thousands)

Note F: Financial Instruments

The estimated fair value of the Company's financial instruments at June 30, 1999 is provided in the following table:

	Carrying Amount	Fair Value
Senior notes	$125,000	$110,000
Convertible subordinated debentures	73,328	49,863
Other long-term debt	40,219	35,844

Interest rate swap agreements modify the interest characteristics of a portion of the Company's debt. The differential to be paid or received is accrued as interest rates change and recognized as an adjustment to interest expense in the statement of consolidated income. The related accrued receivable or payable is included in other assets or liabilities. The fair values of the swap agreements are not recognized in the financial statements.

The counterparties to these contractual arrangements are a diverse group of major financial institutions with which the Company also has other financial relationships. The Company is exposed to credit loss in the event of non-performance by these counterparties. If a counterparty fails to meet the terms of a swap agreement, the Company's exposure is limited to the net amount that would have been received, if any, over the agreement's remaining life. The Company does not anticipate non-performance by the other parties, given their high credit ratings and no material loss would be expected from non-performance by any one of such counterparties.

Interest rate swap agreements with an aggregate notional principal balance of $440,000 ($125,00 fixed to floating and $315,000 floating to fixed) and expiring at various dates through September 21, 2008, had a negative value of $206 at June 30, 1999.

In the normal course of business, the Company is party to financial instruments with off balance sheet risk such as letters of credit and guarantees. Management does not expect any material losses to result from these instruments.

The fair value estimates presented herein are based on information available to management at June 30, 1999, and were determined using quoted market prices and the discounted value of future cash flows.

1.258

EXIDE CORPORATION AND SUBSIDIARIES (MAR)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

13. Fair Value of Financial Instruments

The estimated fair value of financial instruments has been determined by the Company using available market information and appropriate methodologies; however, considerable judgment is required in interpreting market data to develop these estimates. Accordingly, the estimates presented herein are not necessarily indicative of the amounts that the Company could realize in a current market exchange. Certain of these financial instruments are with major financial institutions and expose the Company to market and credit risks and may at times be concentrated with certain counterparties or groups of counterparties. The creditworthiness of counterparties is continually reviewed, and full performance is anticipated.

The methods and assumptions used to estimate the fair value of each class of financial instruments are set forth below:

- Cash and cash equivalents, accounts receivable and accounts payable—The carrying amounts of these items are a reasonable estimate of their fair values at Match 31, 1999.
- Investments in affiliates—The estimated fair value of these investments could not be obtained without incurring excessive costs as they have no quoted market price.
- Long-term receivables—The carrying amounts of these items are a reasonable estimate of their fair value.
- Short-term borrowings—Borrowings under the line of credit arrangements have variable rates that reflect currently available terms and conditions for similar debt. The carrying amount of this debt is a reasonable estimate of its fair value.
- Long-term debt—Borrowings under the Senior Secured Global Credit Facilities have variable rates that reflect currently available terms and conditions for similar debt. The carrying amount of this debt is a reasonable estimate of its fair value.

The 9.125% and 10% Senior Notes and Convertible Senior Subordinated Debentures are traded occasionally in public markets. The carrying values and estimated fair values of these obligations are as follows at March 31, 1998 and 1999:

	1998 Carrying Value	1998 Estimated Fair Value	1999 Carrying Value	1999 Estimated Fair Value
10.00%—Senior notes	$300,000	$309,750	$297,682	$297,000
9.125%—Senior notes (deutsche mark denominated)	94,644	97,010	96,373	95,650
2.90%—Convertible senior subordinated notes	307,036	247,295	316,377	218,900

Interest rate protection agreements and bond swap agreements have no carrying value; however, if the Company were to terminate these agreements at March 31, 1998 and 1999, the Company would have collected $5,502 and $3,851, respectively, based on quotes from financial institutions.

- Lead forward and futures contracts—The estimated fair value of the outstanding instrument, at March 31, 1998 and 1999, exceeds (is less than) the contract value by $346 and ($1,584), respectively, based on quotes from brokers.
- Foreign currency contracts—The fair value is based on quotes obtained from financial institutions. As of March 31, 1998 and 1999, the fair value of foreign currency contracts approximated contract value.

1.259

FOSTER WHEELER CORPORATION AND SUBSIDIARIES (DEC)

NOTES TO FINANCIAL STATEMENTS
(In thousands of dollars, except per share amounts)

19 (In Part): Financial Instruments and Risk Management

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate values:

Cash and Short-term Investments—All investments are considered available for sale and the carrying amount approximates fair value because of the short-term maturity of these instruments.

Long-term Investments—The fair values of some investments are estimated based on quoted market prices for those or similar investments.

Long-term Debt—The fair value of the Corporation's long-term debt (including current installments) is estimated based on the quoted market prices for the same or similar issues or on the current rates offered to the Corporation for debt of the same remaining maturities.

Foreign Currency Contracts and Interest Rate Swaps—The fair values of these financial instruments (used for hedging purposes) are estimated by obtaining quotes from brokers. The Corporation is exposed to market risks from changes in interest rates and fluctuations in foreign exchange rates. Financial instruments are utilized by the Corporation to reduce these risks. The Corporation does not hold or issue financial instruments for trading purposes. The Corporation is exposed to credit loss in the event of nonperformance by the counterparties. All of these financial instruments are with significant financial institutions that are primarily rated A (S&P) or better (see Notes 1, 8 and 11).

Treasury Lock—At year-end 1998, the Corporation had entered into a treasury lock in order to fix the interest rate at a level of 5.91% plus market spread on an anticipated issue of Trust Preferred Securities for a nominal value of $150,000 for 30 years. Trust Preferred Securities totaling $175,000 were issued on January 13, 1999 at which time the treasury lock was terminated. The difference will be recognized as an adjustment to interest expense over the term of the Trust Preferred Securities.

Carrying Amounts and Fair Values—The estimated fair values of the Corporation's financial instruments are as follows:

	1999 Carrying Amount	1999 Fair Value	1998 Carrying Amount	1998 Fair Value
Nonderivatives:				
Cash and short-term investments	$187,321	$187,321	$241,291	$241,291
Long-term debt	(722,422)	(703,844)	(855,476)	(851,207)
Derivatives:				
Foreign currency contracts	(717)	(717)	(1,036)	(1,036)
Interest rate swaps	—	(10,218)	—	(5,424)
Treasury lock	—	—	—	(15,268)

In the ordinary course of business, the Corporation is contingently liable for performance under standby letters of credit and bank guarantees totaling approximately $398,000 and $349,000 at December 31, 1999 and December 25, 1998, respectively. In the Corporation's past experience, no material claims have been made against these financial instruments. Management of the Corporation does not expect any material losses to result from these off-balance-sheet instruments and, therefore, is of the opinion that the fair value of these instruments is zero. As of December 31, 1999, the Corporation had $520,500 of forward exchange contracts outstanding. These forward exchange contracts mature between 2000 and 2003. Approximately 23% of these contracts require a domestic subsidiary to sell Japanese yen and receive U.S. dollars. The remaining contracts have been established by various international subsidiaries to sell a variety of currencies and either receive their respective functional currencies or other currencies for which they have payment obligations to third parties.

1.260

MET-PRO CORPORATION (JAN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. Fair Value of Financial Instruments

Cash and cash equivalents: Short-term investments at January 31, 2000 and 1999 were valued at cost (approximating market) and amounted to $4,186,461 and $5,911,046, respectively. Short-term investments consist principally of commercial paper with an original maturity of three months or less, and money market funds, both of which are considered to be cash equivalents. The Company evaluates the creditworthiness of the financial institutions and financial instruments in which it invests.

Debt: The fair value and carrying amount of long-term debt was as follows:

	2000	1999
Fair value	$11,261,578	$13,891,334
Carrying amount	11,941,954	14,067,047

Valuations for long-term debt are determined based on borrowing rates currently available to the Company for loans with similar terms and maturities.

The Company uses an interest rate swap (see Note 6) to minimize its exposure to fluctuations in interest rates. The interest rate differential to be paid or received under this agreement is recognized over the term of the loan and is included in interest expense.

The Company's financial instruments are not held for trading purposes.

1.261

NORDSTROM, INC. AND SUBSIDIARIES (JAN)

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

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

Fair Value of Financial Instruments: The carrying amount of cash equivalents and notes payable approximates fair value because of the short maturity of these instruments. The fair value of the Company's investment in marketable equity securities is based upon the quoted market price and is approximately $60,778 at January 31, 2000. The fair value of long-term debt (including current maturities), using quoted market prices of the same or similar issues with the same remaining term to maturity, is approximately $715,500 and $894,000 at January 31, 2000 and 1999.

Derivatives Policy: The Company limits its use of derivative financial instruments to the management of foreign currency and interest rate risks. The effect of these activities is not material to the Company's financial condition or results of operations. The Company has no material off-balance sheet credit risk, and the fair value of derivative financial instruments at January 31, 2000 and 1999 is not material.

Statement of Financial Accounting Standards No. 133, "Accounting For Derivative Instruments and Hedging Activities," as amended, requires an entity to recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. The Company is currently reviewing the impact of this statement; however, based on the Company's minimal use of derivatives, management expects that adoption of this standard, in its fiscal year beginning February 1, 2001, will not have a material impact on the Company's consolidated financial statements.

1.262

PHELPS DODGE CORPORATION (DEC)

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

20 (In Part): Derivative Financial Instruments Held for Purposes Other Than Trading and Fair Value of Financial Instruments

We do not purchase, hold or sell derivative contracts unless we have an existing asset, obligation or anticipate a future activity that is likely to occur and will result in exposing us to market risk. We will use various strategies to manage our market risk, including the use of derivative contracts to limit, offset or reduce our market exposure. Derivative instruments are used to manage well-defined commodity price, foreign exchange and interest rate risks from our primary business activities. The fair values of our derivative instruments, as summarized later in this note, are based on quoted market prices for similar instruments and on market closing prices at year end. A summary of the derivative instruments we hold is listed as follows:

Copper Hedging. Copper is an internationally traded commodity, and its prices are effectively determined by the two major metals exchanges—the New York Commodity Exchange (COMEX) and the London Metal Exchange (LME). The prices on these exchanges generally reflect the worldwide balance of copper supply and demand, but also are influenced significantly from time to time by speculative actions and by currency exchange rates.

Some of our wire, cathode and rod customers request a fixed sales price instead of the COMEX or LME average price in the month of shipment or receipt. As a convenience to these customers, we enter into copper swap and futures contracts to hedge the sales in a manner that will allow us to receive the COMEX or LME average price in the month of shipment or receipt while our customers receive the fixed price they requested. We accomplish this by liquidating the copper futures contracts and settling the copper swap contracts during the month of shipment or receipt, which generally results in the realization of the COMEX or LME average price.

Because of the nature of the hedge settlement process, the net hedge value, rather than the sum of the face values of our outstanding futures contracts is a more accurate measure of our market risk from the use of such hedge contracts. The contracts that may result in market risk to us are those related to the customer sales transactions under which copper products have not yet been shipped.

At December 31, 1999, we had futures and swap contracts for approximately 111 million pounds of copper with a net hedge value of $87 million and a total face value of approximately $125 million. At that date, we had $7 million in gains on these contracts not yet recorded in our financial statements because the copper products under the related customer transactions had not yet been shipped or received. These futures contracts had maturities of 30 months or less. At year-end 1998, we had futures and swap contracts in place for approximately 86 million pounds of copper at a net hedge value of $65 million and a total face value of approximately $138 million. We had $7 million in deferred, unrealized losses at that time.

From time to time, we may purchase or sell copper price protection contracts for a portion of our expected future mine production. We do this to limit the effects of potential decreases in copper selling prices. For first quarter 2000 production, we have protection contracts in place that will give us a minimum monthly average LME price of 71 cents per pound for approximately 200 million pounds of copper cathode. For overall 2000 production, we have a combination of minimum (approximately 72 cents) and maximum (approximately 95 cents) annual average LME prices per pound for approximately 110 million pounds of copper cathode.

Aluminum Hedging. During 1999, our Venezuelan wire and cable operation entered into aluminum futures contracts with a financial institution to lock in the cost of aluminum ingot needed in manufacturing aluminum cable contracted by customers. At December 31, 1999, we had futures contracts for approximately 1 million pounds of aluminum with a net hedge and total face value of approximately $1 million. At the end of the year, these contracts did not have any significant gains or losses that were not recorded in our financial statements. The maturities on these aluminum futures contracts were less than one year. At December 31, 1998, we had futures contracts for approximately 6 million pounds of aluminum with a net hedge and total face value of approximately $4 million. Prior to 1998, we had not entered into aluminum futures contracts.

Foreign Currency Hedging. We are a global company and we transact business in many countries and in many currencies. Foreign currency transactions increase our risks because exchange rates can change between the time agreements are made and the time foreign currencies are actually exchanged. One of the ways we manage these exposures is by entering into forward exchange and currency option contracts in the same currency as the transaction to lock in or minimize the effects of changes in exchange rates. With regard to foreign currency transactions, we may hedge or protect transactions for which we have a firm legal obligation or when anticipated transactions are likely to occur. We do not enter into foreign exchange contracts for speculative purposes. In the process of protecting our transactions, we may use a number of offsetting currency contracts. Because of the nature of the hedge settlement process, the net hedge value rather than the sum of the face value of our outstanding contracts is a more accurate measure of our market risk from the use of such contracts.

At December 31, 1999, we had a net hedge and total face value of approximately $34 million in forward exchange contracts to hedge intercompany loans between our international subsidiaries or foreign currency exposures with our trading partners. The forward exchange contracts on December 31, 1999, had maturities of less than one year. At year-end 1998, we had foreign currency protection in place for $44 million to hedge intercompany loans. At year-end 1997, we had $158 million in both the net hedged amount and the total face value of the forward contracts. We did not have any significant gains or losses at year end that had not been recorded in our financial statements for each of the three years in the period ended December 31, 1999.

At year-end 1999, our foreign currency protection contracts included the British pound, euro, German mark and Thai baht.

Interest Rate Hedging. In some situations, we may enter into structured transactions using currency swaps that result in lower overall interest rates on borrowings. We do not enter into currency swap contracts for speculative purposes. At year-end 1999, we had currency swap contracts in place with an approximate net hedged value and total face value of $21 million. These currency swaps involved swapping fixed-rate U.S. dollar loans into floating-rate Brazilian real loans. The currency swap contracts on this date had maturities of less than a year.

In addition, we are vulnerable to increasing costs from interest rates associated with floating-rate debt. We may enter into interest rate swap contracts to manage or limit such interest expense costs. We do not enter into interest rate swap contracts for speculative purposes. At year-end 1999, we had interest rate swap contracts in place with an approximate net hedged and total face value of $485 million. The interest rate swap on this date had maturities of nine years or less. At year-end 1998, our Candelaria copper mine had interest rate swaps to convert $264.9 million of floating-rate, dollar-denominated debt into fixed-rated debt for the life of the debt (through the year 2008). Under the terms of the floating-rate debt agreement, the Candelaria borrowings are scheduled to vary from period to period during the life of the debt. In order to match the projected changes in debt balances, the face value of the interest rate swaps approximate the amounts of the underlying debt.

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Cash and cash equivalents—the financial statement amount is a reasonable estimate of the fair value because of the short maturity of those instruments.

Investments and long-term receivables—the fair values of some investments are estimated based on quoted market prices for those or similar investments. The fair values of other types of instruments are estimated by discounting the future cash flows using the current rates at which similar instruments would be made with similar credit ratings and maturities.

Long-term debt—the fair value of substantially all of our long-term debt is estimated based on the quoted market prices for the same or similar issues or on the current notes offered to use for debt with similar remaining maturities.

Derivative hedge instruments—the fair values of some derivative instruments are estimated based on quoted market prices and on calculations using market closing prices for those or similar instruments.

Financial guarantees and standby letters of credit—the fair value of guarantees and letters of credit are based on fees currently charged for similar agreements or on the estimated cost to terminate them or otherwise settle our obligations with the holders of the guarantees or letters of credit at year-end 1999. As a whole, we have various guarantees and letters of credit totaling $248 million. There is no market for our guarantees or standby letters of credit. Therefore, it is not practicable to establish their fair value.

The estimated fair value of our financial instruments as of December 31, 1999, were as follows:

	Carrying Amount	Fair Value
Cash and short-term investments	$234.2	234.2
Currency swap agreements—assets (liabilities)	—	(1.0)
Investments and long-term receivables *(including amounts due within one year)* for which it is practicable to estimate fair value*	82.1	261.5
Long-term debt *(including amounts due within one year)*	2,303.8	2,277.5
Interest rate swap agreements—assets (liabilities)	—	5.8
Foreign currency exchange contracts—assets (liabilities)	(0.5)	(0.6)

* Our largest cost basis investment is our minority interest in Southern Peru Copper Corporation (SPCC), which is carried at a book value of $13.2 million. Based on the New York Stock Exchange closing market price of SPCC shares as of December 31, 1999, the estimated fair value of our investment in SPCC is approximately $173 million. Our ownership interest in SPCC is represented by our share of a class of SPCC common stock that is currently not registered for trading on any public exchange.

1.263

THE SCOTTS COMPANY (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 12: Financial Instruments

A description of the Company's financial instruments and the methods and assumptions used to estimate their fair values are as follows:

Long-term Debt

At September 30, 1999, the Company had $330 million outstanding of 8⅝% Senior Subordinated Notes due 2009 that were issued through a private offering. The fair value of these notes was estimated based on recent trading information. Variable rate debt outstanding at September 30, 1999 consists of revolving borrowings and term loans under the Company's credit facility and local bank borrowings for certain of the Company's foreign operations. The carrying amounts of these borrowings are considered to approximate their fair values.

At September 30, 1998, the Company had outstanding $100.0 million in principal amount of 9⅞% Senior Subordinated Notes due 2004. The fair value of these notes was based on the quoted market prices for the same or similar issues. Borrowings at September 30, 1998 under the credit facility were at variable rates. The carrying amounts of these borrowings were considered to approximate their fair values.

Interest Rate Swap Agreements

At September 30, 1999, the Company had outstanding five interest rate swaps with major financial institutions that effectively convert variable-rate debt to a fixed rate. One swap has a notional amount of 20.0 million British Pounds Sterling under a five-year term expiring in April 2002 whereby the Company pays 7.6% and receives three-month LIBOR. The remaining four swaps have notional amounts between $20 million and $35 million ($105 million in total) with three, four or five year terms commencing in January 1999. Under the terms of these swaps, the Company pays rates ranging from 5.05% to 5.18% and receives three-month LIBOR.

At September 30, 1998, the Company had outstanding the interest rate swap agreement with a notional amount of 20.0 million British Pounds Sterling.

The Company enters into interest rate swap agreements as a means to hedge its interest rate exposure on debt instruments. In addition, the Company's credit facility requires that the Company enter into hedge agreements to the extent necessary to provide that at least 50% of the aggregate principal amount of the Senior Subordinated Notes and term loans is subject to a fixed rate. Since the interest rate swaps have been designated as hedging instruments, their fair values are not reflected in the Company's Consolidated Balance Sheets. Net amounts to be received or paid under the swap agreements are reflected as adjustments to interest expense. The fair value of the swap agreements was determined based on the present value of the estimated future net cash flows using implied rates in the applicable yield curve as of the valuation date.

Interest Rate Locks

In fiscal 1998, the Company entered into two contracts, each with notional amounts of $100.0 million to lock the treasury rate component of the Company's anticipated offering of debt securities in the first quarter of fiscal 1999. One of the interest rate locks expired in October 1998 and was rolled over into a new rate lock that expired in February 1999. The other rate lock expired in February 1999.

The Company entered into the interest rate locks to hedge its interest rate exposure on the offering of the 9⅞% Senior Subordinated Notes. Since the interest rate locks were designated as hedging instruments, their fair value was not reflected in the Company's Consolidated Balance Sheets; net amounts to be received or paid under the interest rate locks will be reflected as an adjustment to the carrying amount of the future debt offering. The fair value of the interest rate locks was estimated based on the difference between the contracted interest rates and the yield on treasury notes at September 30, 1998.

The estimated fair values of the Company's financial instruments are as follows for the fiscal years ended September 30:

(In millions)	1999 Carrying Amount	1999 Fair Value	1998 Carrying Amount	1998 Fair Value
Long-term debt	$903.3	$889.3	$99.5	$106.8
Interest rate swap agreement	—	2.8	—	(1.5)
Interest rate locks	—	—	—	(16.7)

CONCENTRATIONS OF CREDIT RISK

1.264

AK STEEL HOLDING CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

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. The Company sells domestically to customers primarily in the Midwestern and Eastern United States, while approximately 6% of sales are to foreign customers, primarily in Canada, Mexico and Western Europe. Approximately 47% of trade receivables outstanding at December 31, 1999 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. Overall, credit risk related to trade receivables is limited due to the large number of customers in differing industries and geographic areas.

1.265

AMCAST INDUSTRIAL CORPORATION (AUG)

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

Major Customers and Credit Concentration

The Company sells products to customers primarily in the United States and Europe. The Company performs ongoing credit evaluations of customers, and generally does not require collateral. Allowances are maintained for potential credit losses and such losses have been within management's expectations. On August 31, 1999, total trade receivables from the domestic and foreign automotive industry were $67,931, and $18,720 was due from the construction industry.

Sales to Engineered Components' largest customer, General Motors, were $136,469, $105,720, and $105,788 for the years ended August 31, 1999, 1998, and 1997, respectively. Trade receivables from General Motors on August 31, 1999 and 1998, were $14,570 and $15,024, respectively, and were current. No other single customer accounted for a material portion of trade receivables.

1.266

BAKER HUGHES INCORPORATED (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 10 (In Part): Financial Instruments

Concentration of Credit Risk

The Company sells its products and services to various companies in the oil and gas industry. Although this concentration could affect the Company's overall exposure to credit risk, management believes that the Company is exposed to minimal risk since the majority of its business is conducted with major companies within the industry. The Company performs periodic credit evaluations of its customers' financial condition and generally does not require collateral for its accounts receivables. In some cases, the Company will require payment in advance or security in the form of a letter of credit or bank guarantee.

The Company maintains cash deposits with major banks which from time to time may exceed federally insured limits. The Company periodically assesses the financial condition of the institutions and believes that the risk of any loss is minimal.

1.267

IOMEGA CORPORATION AND SUBSIDIARIES (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

15 (In Part): Other Matters

Concentration of Credit Risk

The Company markets its products primarily through computer product distributors, retailers and OEMs. Accordingly, as the Company grants credit to its customers, a substantial portion of outstanding accounts receivable are due from computer product distributors, certain large retailers and OEMs. At December 31, 1999, the customers with the ten highest outstanding accounts receivable balances totaled $128.0 million or 53% of the gross accounts receivable, compared to $124.0 million, or 42% of gross accounts receivable, at December 31, 1998. At December 31, 1999, the outstanding accounts receivable balance from one customer was $44.0 million or 18% of gross accounts receivable, compared to the accounts receivable balance from one customer of $29.3 million, or 10% of gross accounts receivable, at December 31, 1998. If any one or a group of these customers' receivable balances should be deemed uncollectable, it would have a material adverse effect on the Company's results of operations and financial condition.

1.268

KLA-TENCOR CORPORATION (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Concentration of Credit Risk. Financial instruments, which potentially subject the Company to credit risk, consist principally of investments, accounts receivable and financial instruments used in hedging activities.

Investments are maintained with high-quality institutions, and the composition and maturities of investments are regularly monitored by management. Generally, these securities are traded in a highly liquid market, may be redeemed upon demand and bear minimal risk. The Company, by policy, limits the amount of credit exposure to any one financial institution or commercial issuer. The Company has not experienced any material losses on its investments.

A majority of the Company's trade receivables are derived from sales to large multinational semiconductor manufacturers. Concentration of credit risk with respect to trade receivables is considered to be limited due to its customer base and the diversity of its geographic sales areas. The Company performs ongoing credit evaluations of its customers' financial condition. The Company maintains a provision for potential credit losses based upon expected collectibility of all accounts receivable.

The Company is exposed to credit loss in the event of nonperformance by counterparties on the foreign exchange contracts used in hedging activities. The Company does not anticipate nonperformance by these counterparties.

1.269

MERRIMAC INDUSTRIES, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

11 (In Part): Business Segment and Geographic Data

The Company's customers are primarily major industrial corporations that integrate the Company's products into a wide variety of defense and commercial systems. The Company's customers include Raytheon, Boeing, Northrop Grumman, Lockheed Martin, Harris Corp., Litton Industries, Hughes Aircraft, TRW, Southwest Research and Motorola. Sales to any one foreign geographic area did not exceed 10% of net sales for 1999, 1998 or 1997. Sales to Hughes Aircraft in 1999 and 1998 were 10.9% of net sales, sales to Boeing Aircraft were 10.4% in 1999 and sales to Lockheed Martin in 1998, 1997 and 1996 amounted to 10.0%, 13.4% and 10.8% of net sales, respectively.

Accounts receivable are financial instruments that expose the Company to a concentration of credit risk. A substantial portion of the Company's accounts receivable are from customers in the defense industry, and 48.6% of its receivables at January 1, 2000 were from five customers. Exposure to credit risk is limited by the large number of customers comprising the remainder of the Company's customer base, their geographical dispersion and by ongoing customer credit evaluations performed by the Company.

1.270

PILLOWTEX CORPORATION AND SUBSIDIARIES (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

16. Concentration of Credit Risk

The Company's customers are primarily retailers located throughout the United States and Canada. Although the Company closely monitors the creditworthiness of its customers, adjusting credit policies and limits as needed, a customer's ability to pay is largely dependent upon the retail industry's economic environment.

The Company establishes an allowance for doubtful accounts based upon factors surrounding the credit risk of specific customers, historical trends and other information. The Company has trade receivables which are due from certain customers who are experiencing financial difficulties. However, in the opinion of management of the Company, the allowance for doubtful accounts is adequate, and trade receivables are presented at net realizable value.

Sales to the Company's two individual major customers, including their affiliated entities, accounted for approximately 13.5% and 12.6% each of net sales in fiscal 1997 and approximately 23.6% and 6.9% each of net sales in fiscal 1998. These two customers accounted for approximately 20.5% and 9.6% each of net sales in fiscal year 1999.

1.271

SAUCONY, INC. AND SUBSIDIARIES (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

20. Concentration of Credit Risk

Financial instruments which potentially subject the Company to credit risk consist primarily of cash, cash equivalents and trade receivables.

The Company maintains cash and cash equivalents with various major financial institutions. Cash equivalents include investments in commercial paper of companies with high credit ratings, investments in money market securities and securities backed by the U.S. Government. At times such amounts may exceed the F.D.I.C. limits. The Company limits the amount of credit exposure with any one financial institution and believes that no significant concentration of credit risk exists with respect to cash investments.

Trade receivables subject the Company to the potential for credit risk with customers in the retail and distributor sectors. To reduce credit risk, the Company performs ongoing evaluations of its customers' financial condition but does not generally require collateral. Approximately 41% of the Company's gross trade receivables balance was represented by 17 customers at December 31, 1999, which exposes the Company to a concentration of credit risk.

1.272

TEXAS INSTRUMENTS INCORPORATED (DEC)

NOTES TO FINANCIAL STATEMENTS

Financial Instruments and Risk Concentration (In Part)

Risk Concentration: Financial instruments that potentially subject the company to concentrations of credit risk are primarily cash investments, accounts receivable and noncurrent investments. The company places its cash investments in investment-grade, short-term debt securities and limits the amount of credit exposure to any one commercial issuer. Concentrations of credit risk with respect to the receivables are limited due to the large number of customers in the company's customer base and their dispersion across different industries and geographic areas. The company maintains an allowance for losses based upon the expected collectibility of accounts receivable. The company's noncurrent investments at year-end 1999 have an aggregate fair value of $4204 million ($2564 million at year end 1998). The investments are in high-technology companies and are subject to price volatility and other uncertainties. They include a significant concentration of Micron securities, debt valued at $1027 million ($978 million at year-end 1998) and equity instruments valued at $2260 million ($1463 million at year-end 1998). The company adjusts the carrying amounts of the investments to fair value each quarter.

SUBSEQUENT EVENTS

1.273 Events or transactions which occur subsequent to the balance sheet date but prior to the issuance of the financial statements and which have a material effect on the financial statements should be either recorded or disclosed in the financial statements. Section 560 of *Statement on Auditing Standards No. 1* sets forth criteria for the proper treatment of subsequent events. Table 1-14 lists the subsequent events disclosed in the financial statements of the survey companies.

1.274 Example of subsequent event disclosures follow.

1.275

TABLE 1-14: SUBSEQUENT EVENTS

	Number of Companies			
	1999	**1998**	**1997**	**1996**
Business combinations pending or effected	88	81	92	70
Discontinued operations	44	46	34	39
Debt incurred, reduced or refinanced	35	62	62	69
Litigation	29	52	32	26
Capital stock issued or purchased	27	25	22	22
Stock splits or dividends	11	15	17	13
Stock purchase rights	7	11	10	9
Employee benefits	5	15	18	10
Formation of jointly owned companies	4	10	11	N/C*
Other—described	75	72	58	48

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

Business Combinations

1.276

BEMIS COMPANY, INC. AND SUBSIDIARIES (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 18: Subsequent Event

Effective January 6, 2000, the Company completed the previously announced agreement to acquire the 13 percent minority interest in Morgan Adhesives Company (MACtac). The Company issued 1,728,000 shares of its common stock and paid $3.4 million to acquire all of the minority owned shares of MACtac. Upon the acquisition of these minority shares, MACtac became a wholly owned subsidiary of Bemis Company, Inc. This transaction is expected to be dilutive in the range of one to two cents per share to the Company's earnings per share in 2000, and accretive after that.

1.277

THE BOEING COMPANY AND SUBSIDIARIES (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4 (In Part): Mergers and Acquisitions

Proposed Acquisition of Hughes Space and Communications Business

On January 13, 2000, the Company announced an agreement to acquire the Hughes space and communications business and related operations for $3.75 billion. The transaction is subject to regulatory and government reviews and is expected to be finalized by the end of the second quarter of 2000. Hughes is a technological leader in space-based communications, reconnaissance, surveillance and imaging systems. It is also a leading manufacturer of commercial satellites. Under the definitive agreement, Boeing also will acquire Hughes Electron Dynamics, a supplier of electronic components for satellites, and Spectrolab, a provider of solar cells and panels for satellites.

1.278

CHAMPION INTERNATIONAL CORPORATION AND SUBSIDIARIES (DEC)

NOTES TO FINANCIAL STATEMENTS

Note 19: Subsequent Event (Unaudited)

On February 17, 2000 UPM-Kymmene Corporation and Champion announced that their boards of directors had approved a definitive merger agreement. Under the terms of the agreement, UPM-Kymmene will exchange 1.99 of its ordinary shares for each outstanding share of Champion common stock. Champion's shareholders may elect to receive either UPM-Kymmene American Depositary Receipts or ordinary shares. The transaction is expected to be accounted for as a pooling of interests.

The merger is conditioned upon, among other things, the approvals of the shareholders of both companies and regulatory approvals in various jurisdictions. The companies anticipate that the merger can be completed during the first half of the year 2000.

1.279

HONEYWELL INTERNATIONAL INC. (DEC)

NOTES TO FINANCIAL STATEMENTS

Note 25: Subsequent Event

On February 3, 2000, we completed a tender offer acquiring substantially all of the outstanding shares of Pittway Corporation (Pittway) Common Stock and Class A Stock for approximately $2.2 billion, including the assumption of the net debt of Pittway of approximately $167 million. The acquisition was funded through the issuance of commercial paper. Pittway designs, manufactures and distributes security and fire systems for homes and buildings and had 1998 sales of $1.3 billion.

1.280

IBP, INC. AND SUBSIDIARIES (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note L (In Part): Acquisitions

Corporate Brand Foods America On February 7, 2000, the company acquired Corporate Brand Foods America, Inc. ("CBFA"), a privately held processor and marketer of meat and poultry products for the retail and foodservice markets. In the transaction, which will be accounted for as a pooling of interests, IBP issued 14.4 million common shares for all of the outstanding stock of CBFA. The company also assumed $344 million of CBFA's debt and preferred stock obligations.

IBP had product sales to CBFA in IBP's fiscal years ended December 25, 1999 and December 26, 1998, totaling $63 million and $64 million, respectively. The effects of conforming CBFA's accounting policies to those of IBP are not expected to be material.

Prior to the merger, CBFA's fiscal year ended on the Sunday closest to the last day of February. The following information presents certain statement of earnings data of CBFA for the periods preceding the merger:

(In thousands)	Twelve Months Ended December 25, 1999 (unaudited)	Fiscal Year Ended February 28, 1999	Fiscal Year Ended March 1, 1998
Net sales	$634,932	$515,888	$272,935
EBITDA[1]	47,341	33,943	18,134
Net earnings	4,098	2,531	3,134

[1] Earnings before interest, taxes, depreciation and amortization.

1.281

QUANEX CORPORATION (OCT)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

18 (In Part): Subsequent Events

On December 15, 1999, the Company announced that it had signed a contract to acquire the assets of Alcoa's Fort Lupton, Colorado-based aluminum sheet production facility for $8 million plus working capital value which is estimated at $17 million. Consummation of the sale is subject to government approval.

The acquisition of the Fort Lupton mill will increase the casting, cold-finishing and value-added painting capacities of Nichols Aluminum, Quanex's aluminum sheet business. The Fort Lupton mill can produce more than 40 million pounds annually of high-grade aluminum sheet for a variety of applications, including beverage cans and other food packaging, home furnishing, and other consumer durable products.

1.282

SMITH INTERNATIONAL, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

15. Subsequent Event

Subsequent to December 31, 1999, the Company acquired Texas Mill Supply and Manufacturing, Inc., a provider of industrial mill and safety products and management services to the refining, power generation, petrochemical and chemical markets, with borrowings under existing credit facilities.

1.283

STEELCASE INC. (FEB)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 20: Subsequent Event

On April 22, 1999, the Company entered into an Agreement to acquire the remaining 50% equity interest of Steelcase Strafor held by Strafor Facom S.A. The purchase price approximated $225.2 million and was funded by approximately $75.1 million from existing cash balances and approximately $150.1 million of short-term borrowings that the Company expects to refinance in the first half of fiscal 2000 as it finalizes its borrowing structure. The acquisition will be accounted for using the purchase method of accounting and Steelcase Strafor, now being a wholly-owned subsidiary of the Company, will be consolidated with the results of the Company beginning in fiscal 2000. The following unaudited pro forma data summarize the combined balance sheets and results of operations of the Company and Steelcase Strafor as if the acquisition had occurred at the beginning of 1999.

(In millions)	1999
Balance sheet:	
Current assets	$ 970.4
Property and equipment, net	882.5
Other assets	865.3
Total assets	$2,718.2
Current liabilities	690.9
Long-term liabilities	533.4
Total liabilities	$1,224.3
Net assets	$1,493.9

(In millions, except per share amounts)	Year Ended 1999
Results of operations:	
Net sales	$3,344.4
Gross profit	1,176.6
Operating income	351.1
Net income	215.3
Earnings per share (basic and diluted)	$ 1.40

1.284

TRIBUNE COMPANY AND SUBSIDIARIES (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 17: Subsequent Events

On Jan. 28, 2000, the assets of television station KTWB-Seattle were transferred back to the Company from a disposition trust after the FCC approved the Company's application. The Company had transferred KTWB's assets into a trust as part of the March 1999 television exchange of WGNX-Atlanta for KCPQ-Seattle. FCC regulations in effect at the time of the exchange precluded the Company from owning both KCPQ and KTWB. However, on Aug. 5, 1999, the FCC adopted changes to its rules that now permit Tribune to own both stations. The operating results of KTWB have been included in the consolidated financial statements since its acquisition in June 1998.

On Feb. 3, 2000, the Company acquired the remaining interest in Qwest, which owned television stations WATL-Atlanta and WNOL-New Orleans, for $107 million in cash. The Company had owned a 33% equity interest and convertible debt in Qwest since it was formed in 1995. The acquisition was recorded as a purchase. The FCC's rule changes in August 1999 permit Tribune to own both WNOL and the Company's WGNO-New Orleans television station.

On Feb. 14, 2000, the Company acquired the remaining 20% of Landoll for approximately $18 million in cash. The Company has owned approximately 80% of Landoll since December 1997.

In November 1999, the Company announced an agreement to acquire, for approximately $24 million, the remaining interest in Tiberius Broadcasting, Inc. ("Tiberius"), the current licensee of television station WTXX-Hartford. Since December 1997, Tribune has owned a 28.5% equity interest in Tiberius and has operated WTXX under a local management agreement. Tribune has filed an application with the FCC for a waiver of its rule prohibiting duopoly ownership in the same Nielsen Designated Market Area where fewer than eight separately owned television stations remain in the market after the combination. The transaction, subject to FCC approval, would close in the second quarter of 2000.

Discontinued Operations

1.285

THE GREAT ATLANTIC & PACIFIC TEA COMPANY, INC. (FEB)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Subsequent Event

On April 26, 1999, the company announced that it had reached definitive agreements to sell 14 stores in the Atlanta market, two of which were previously included in the Company's store exit program (see "Store and Facilities Exit Costs" footnote). In conjunction with the sale, the Company decided to exit the entire Atlanta market and close the remaining 22 stores, as well as the distribution center and administrative office. Accordingly, the Company expects to record a fiscal 1999 first quarter pre-tax charge, net of proceeds from asset sales, in the range of $15 million to $20 million. This charge will include fixed and intangible asset write-offs, severance and lease commitments, and will be recorded as "store operating, general and administrative expense."

1.286

HANNAFORD BROS. CO. AND SUBSIDIARIES (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. Sale of HomeRuns.com, Inc.

In February 2000, the Company sold a majority interest in HomeRuns.com, Inc., its internet-based grocery delivery service through a $100,000,000 investment and recapitalization on the part of the Cypress Group L.L.C., a New York-based private equity firm. The Company will retain a minority interest and will account for the future results of this investment using the cost method. The Company has also entered into a wholesale supply agreement with HomeRuns.com, Inc.

1.287

HECLA MINING COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 15 (In Part): Subsequent Events

On March 15, 2000, Hecla completed a sales transaction of its MWCA—Mountain West Products division. The proceeds from the sales transaction were used to pay down amounts outstanding under Hecla's current Bank Agreement.

Based upon Hecla's estimate of metals prices and metals production for 2000, Hecla believes that its operating cash flows, the cash proceeds from the sale of MWCA—Mountain West Products division, and the proceeds from the new credit facility will be adequate to fund the combined total of anticipated minimum capital expenditures, idle property expenditures, exploration expenditures, and Hecla's preferred dividend requirement. In 2000, Hecla will continue to pursue the sale of the MWCA—Colorado Aggregate division which it anticipates closing in the first half of 2000, consider other asset sales, and actively pursue equity offerings in order to provide funds for possible expansion projects, acquisitions, or other cash requirements.

1.288

SEABOARD CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 13: Discontinued Operations/Subsequent Event

In December 1999, the Company agreed to sell its Poultry Division to ConAgra, Inc. for $375 million, consisting of the assumption of approximately $16 million in indebtedness and the remainder in cash, subject to certain adjustments. The sale was completed on January 3, 2000 resulting in a pre-tax gain on the sale of approximately $148 million ($90 million after estimated taxes). This gain is based on certain estimates including a final working capital adjustment and construction costs the Company is required to fund in 2000 to complete certain expansion projects on behalf of the buyer. Any differences between these estimates and their actual settlement will change the gain accordingly.

The Company's financial statements have been restated to reflect the Poultry Division as a discontinued operation for all periods presented. Operating results of the discontinued poultry operations are summarized below. The amounts exclude general corporate overhead previously allocated to the Poultry Division for segment reporting purposes. The amounts include interest on debt at the Poultry Division assumed by the buyer and an allocation of the interest on the Company's general credit facilities based on a ratio of the net assets of the discontinued operations to the total net assets of the Company plus existing debt under the Company's general credit facilities. The results for 1999 reflect activity throughout November 1999 (the measurement date); results for 1998 and 1997 reflect activity for each entire year. Net losses incurred after the measurement date (for the month of December 1999) totaled $4,180,000 and have been deferred as a component of current assets of discontinued operations at December 31, 1999. These losses will be recognized in January 2000 as a reduction of the gain realized on the sale.

	Years Ended		
(Thousands of dollars)	1999	1998	1997
Net sales	$437,695	514,503	476,580
Operating income (loss)	$ 27,023	36,414	(4,076)
Earnings (loss) from discontinued operations	$ 13,634	19,511	(5,991)

Assets and liabilities of the discontinued poultry operations are summarized below:

(Thousands of dollars)	1999	1998
Receivables	$ 17,367	$27,681
Inventories	70,532	62,889
Prepaid expenses and deposits	1,385	1,489
Deferred net loss after measurement date	4,180	—
Current assets of discontinued operations	$103,464	$92,059
Net property, plant and equipment	$132,224	$96,893
Other assets	183	194
Non-current assets of discontinued operations	$132,407	$97,087
Accounts payable	$ 14,189	$14,819
Accrued liabilities	9,824	8,831
Current liabilities of discontinued operations	$ 24,013	$23,650
Long-term debt	$ 16,145	$16,145
Other liabilities	679	971
Non-current liabilities of discontinued operations	$ 16,824	$17,116

Debt Incurred, Reduced or Refinanced

1.289

LSI LOGIC CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 13: Subsequent Events

On February 18, 2000, the Company issued $500 million of 4% Convertible Subordinated Notes (the "2000 Convertible Notes") due in 2005. The 2000 Convertible Notes are subordinated to all existing and future senior debt, are convertible at any time following issuance into shares of the Company's common stock at a conversion price of $140.569 per share ($70.2845 per share after giving effect to the two-for-one common stock split announced January 25, 2000) and are redeemable at the Company's option, in whole or part, at any time on or after February 20, 2003. Each holder of the 2000 Convertible Notes has the right to cause the Company to repurchase all of such holder's convertible notes at 100% of their principle amount plus accrued interest upon the occurrence of certain events and certain circumstances. Interest is payable semiannually. The Company paid approximately $15.3 million for debt issuance costs related to the 2000 Convertible Notes. The debt issuance costs are being amortized using the interest method. The net proceeds from the 2000 Convertible Notes were used to repay bank debt outstanding with a balance of $380 million as of December 31, 1999.

1.290

NORTHWESTERN STEEL AND WIRE COMPANY AND SUBSIDIARIES (JUL)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Subsequent Events

The Company has implemented a strategic plan to modernize its facilities and operations. The key theme of the strategic plan is to be a low-cost producer in the Company's core and chosen markets by modernizing facilities and improving operating efficiency. The strategic plan does not rely on capacity increases or incremental sales to achieve its goals. The elements of the strategic plan are as follows:

- Construction of a new, more efficient, low cost mill (the "New Mill") to replace the Company's existing 14" and 24" rolling mill capacity at its Sterling, Illinois facility.
- Implementation of a new collective bargaining agreement with the Company's union.
- Modernization of the Company's existing melting capabilities with the construction of a new furnace to replace the Company's existing two furnaces.
- Implementation of a maintenance program to rationalize the Company's existing maintenance operations.
- Implementation of a total quality management program.

The Company has entered into the new collective bargaining agreement which is subject to the Company obtaining the financing for the construction of the New Mill, is implementing the total quality management and maintenance programs, and has commenced construction of the new furnace to replace the existing furnaces. The Company also has a plan in place for the New Mill, but will not commence construction of the New Mill until construction financing is in place.

Since early calendar 1999, the Company has been attempting to finance the modernization construction, but as yet has not been able to obtain the necessary financing because of the poor operating results caused largely by imports and because of the deterioration in the credit markets which traditionally provide funding to steel companies. Consequently, the Company has decided to apply for a guaranty under the Emergency Steel Loan Guarantee Act of 1999 (the "Guarantee Act"). Under the Guarantee Act, domestic steel companies may apply for a United States government guarantee of 85% of the principal amount of a loan or loans of up to $250,000. According to the Guaranty Act regulations published on October 18, 1999, the applications for guarantees under the Guarantee Act must be submitted to the United States Department of Commerce on or before December 30, 1999, and guarantees are anticipated to be awarded approximately five to eight weeks after the application deadline. The Company anticipates filing its guarantee application in December 1999. If the Company is able to obtain a guaranty under the Guarantee Act in an acceptable amount with acceptable terms, the Company intends to use the proceeds of the guaranteed loan to complete the modernization program.

The Company is also in the process or trying to reduce its significant future debt service obligations which primarily consist of $115,000 of senior notes that mature on June 15, 2001, and significant unfunded employee benefit obligations. The Company has reached an agreement in principle with the representatives of an unofficial committee of holders of senior notes to exchange the outstanding notes for $52,500 in cash and common stock of the Company representing 70% of the issued and outstanding common stock of the Company after the issuance. The Company intends to begin a formal exchange offer on those terms in November. This offer will be contingent upon, among other things, 95% acceptance by the senior note holders, shareholder approval and the Company's ability to obtain a guarantee under the Guarantee Act sufficient to finance the modernization project. If the financing is approved but less than 95% of the holders of the senior notes accept the exchange offer, the Company may implement the exchange through a prepackaged bankruptcy plan if the plan is approved by more than one-half in number and at least two-thirds in amount of the senior notes that actually vote on the plan. In anticipation of the Guarantee Act application, the Company has requested that members of the unofficial committee of senior note holders submit "lock-up" letters acknowledging their acceptance of the agreement in principal, and is in the process of securing such "lock-up" letters from those senior note holders.

The Company also has entered into a new $65,000 credit facility with Fleet Financial which was effective on October 5, 1999. The New Credit Facility has a three year term, maturing in September, 2002 and allowed the Company to repay amounts owed under its former credit facility out of existing cash, in addition to providing funds for its ongoing working capital needs. The New Credit Facility may be drawn upon up to an amount based upon a percentage of eligible accounts receivable, inventory, supplies and rolling stock (the "Borrowing Base"). Interest is payable monthly at a rate of prime plus 0.25% or, at the election of the Company, LIBOR plus 2.25%. Principle prepayments must be made with net cash proceeds resulting from sales of any Company assets, with some exceptions. The Borrowing Base as of October 5, 1999 was equal to $65,000 and there was approximately $48,500 available for the Company to borrow.

The loan documents evidencing the New Credit Facility are designed to accommodate the Company's current strategic plan, including the financing of the New Mill and the exchange offer to the senior note holders. The documents contain restrictions on the Company's activities outside of the strategic plan. These restrictions include, among other things, a restriction on capital expenditures and the ability to acquire additional debt as well as limitations on liens, guaranties, dividends and other distribution. Additionally, the Company must, at all times, have a Borrowing Base evidencing excess availability of at least $5,000. Repayment of the New Credit Facility is secured by a first priority lien on all real and personal property owned by the Company.

1.291

RYERSON TULL, INC. AND SUBSIDIARY COMPANIES (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4 (In Part): Long-Term Debt

On February 1, 2000, the Company's subsidiary, Joseph T. Ryerson & Son, Inc., redeemed its $7.0 million Industrial Revenue Bond obligation. As a result, this subsidiary is no longer required to maintain specified amounts of working capital and net worth and to meet leverage tests as outlined in the loan agreement.

1.292

TOKHEIM CORPORATION (NOV)

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

21 (In Part): Subsequent Events

On December 22, 1999, the Company amended its New Credit Agreement. Among the items amended were the removal of the requirement to obtain $50,000 through the issuance of equity type securities and the provision for a mandatory reduction of the term loan by $50,000. Other terms of the New Credit Agreement that were amended include the addition of $5,750 to the borrowing availability under the working capital facility; changes to the consolidated net worth covenant; changes to the leverage and senior leverage ratio covenants; changes to the minimum EBITDA covenant; the addition of a clean down or availability covenant on the working capital facility; and an acceleration of the termination date of the New Credit Agreement from September 30, 2004 to September 30, 2003.

In consideration for the amendment to the New Credit Agreement, the Company paid certain fees and expenses to the bank group including warrants to purchase 16.5% of the outstanding common stock of the Company at a purchase price of $3.95 per share. The warrants are exercisable for an aggregate of 2,097,427 shares. The Company has the right, subject to the terms and conditions of the New Credit Agreement, to purchase 100% of the warrants upon termination of the New Credit Agreement or 50% by meeting specified deleveraging conditions at various discount rates.

Litigation

1.293

IOMEGA CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(5) (In Part): Commitments and Contingencies

On February 18, 2000, Maître Jean-Jacques Savenier, the Commissaire à l'execution du Plan (bankruptcy trustee) filed a complaint against the Company's subsidiary, Nomai S.A. Maître Jean-Jacques Savenier claims that Nomai has not complied with investment and employment related commitments made by Nomai's former management before the Commercial Court in 1997. In 1997, Nomai S.A. acquired certain assets from RPS Media SA in bankruptcy, with the consent and under the supervision of the Commercial Court of Albi, pursuant to French bankruptcy law provisions. The action seeks a daily penalty against Nomai of FF 100,000 (approximately $15,000) until Nomai invests FF 48,000,000 (approximately $7.4 million) and hires 100 people. The Company intends to vigorously defend against the lawsuit. On February 22, 2000, the Company demanded indemnification on this claim against Nomai S.A. from the principal shareholders of Nomai S.A. pursuant to the Stock Purchase Agreement with the Company. The submission of this claim against the principle shareholders increases the Company's claim against the escrow account and individual shareholders from $11 million to approximately $19 million.

1.294

TRUE NORTH COMMUNICATIONS, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6 (In Part): Contingencies

On May 5, 1998, Publicis S.A., a greater than 5% shareholder, and Publicis Communications (together, Publicis), filed counterclaims in international arbitration proceedings which had been instituted by True North with the London Court of International Arbitration. Publicis sought damages in the amount of 382 million French Francs (approximately $62 million) for, among other things, the alleged breaches of the May 1997 Separation Agreement between the parties and other actions which Publicis alleged created liabilities associated with the arbitration proceedings. The counterclaims followed True North's direct claims against Publicis in the amount of $106 million for alleged breaches by Publicis of its obligations under the Separation Agreement and for additional compensation for its investment in Publicis Communication. The alleged breaches related principally to the merger of Publicis S.A. and Publicis Communication. The parties also submitted claims for their respective attorney's fees and expenses. True North and Publicis appeared before the arbitration tribunal from September 27 through October 10, 1999 and presented evidence with regard to their respective claims.

On February 15, 2000, the arbitration tribunal issued its decision, which ruled that Publicis' conduct in connection with the Publicis Communication merger constituted a breach of Publicis' obligations to True North under the Separation Agreement. No damages were awarded. In addition, the tribunal ordered Publicis to provide True North with tax and financial information it had withheld, also in breach of the Separation Agreement. The arbitration tribunal rejected Publicis' claims against True North for alleged breaches of the Separation Agreement and other actions which Publicis alleged created liabilities associated with the arbitration proceeding and therefore did not award any damages for such claims to Publicis. The tribunal ordered Publicis and True North to each pay coordination fees to the other, resulting in a net payable by True North to Publicis of approximately $0.9 million. The arbitration tribunal also ordered the parties to share the costs of the arbitration and to each pay their respective attorney's fees and expenses. True North has provided for these costs in its 1999 financial results.

Capital Stock Issued or Purchased

1.295

ALPHA INDUSTRIES, INC. AND SUBSIDIARIES (MAR)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 11: Subsequent Events (Unaudited)

On April 27, 1999, the Board of Directors approved a plan to reserve up to 675,000 shares of common stock for future grants of stock options to employees. Directors and officers are not eligible to participate in this plan.

In June 1999, we successfully completed a public offering which raised $109.4 million, net of expenses, on the sale of 3,314,350 shares of common stock.

1.296

DELUXE CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 17 (In Part): Subsequent Events (Unaudited)

The Company has announced that eFunds plans to issue shares of its common stock to the public through an initial public offering. After this offering, the Company will own at least 80.1% of eFunds' outstanding shares. The Company plans to distribute all of its shares of eFunds' common stock to its shareholders who tender shares of the Company's common stock in an exchange offer (the Split-off). The Company intends to request a private letter ruling from the Internal Revenue Service (IRS) that the Split-off would be a tax-free transaction to the Company and its shareholders. The Split-off is contingent upon the Company receiving a favorable tax ruling from the IRS.

Stock Splits/Dividends

1.297

MOTOROLA, INC. AND SUBSIDIARIES (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

15 (In Part): Subsequent Events

Stock Split

On February 29, 2000, the Company's Board of Directors approved a 3-for-1 common stock split in the form of a stock dividend, subject to approval by stockholders of an increase in the Company's authorized common shares. If the Company's stockholders approve the increase of authorized common shares from 1.4 billion to 4.2 billion at their Annual Meeting on May 1, 2000, the stock dividend will be distributed on June 1, 2000, to common stockholders of record on May 15, 2000.

1.298

QUALCOMM INCORPORATED (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 16 (In Part): Subsequent Events

On November 2, 1999, the Company's Board of Directors approved, subject to stockholders' approval, a four-for-one stock split of the Company's common stock and an increase in the number of authorized shares of common stock to three billion shares. The Board of Directors also authorized a special meeting of stockholders for the purposes of approving the stock split and the proposed share increase. The special stockholders meeting is expected to be held on or about December 20, 1999. If the stockholders approve the stock split and the proposed increase in the authorized number of shares, the stock split will be implemented as soon as practicable following the special meeting. Common stock shares outstanding (in thousands), giving retroactive effect to the stock split, at September 30, 1999 and 1998 are 646,363 and 564,726, respectively (unaudited). Pro forma earnings per common share, giving retroactive effect to the stock split, are as follows (shares in thousands).

	Years Ended		
	1999	1998	1997
	(Unaudited)		
Net earnings per common share:			
Basic	$0.34	$0.20	$0.17
Diluted	$0.31	$0.18	$0.16
Shares used in per share calculations:			
Basic	594,714	553,623	538,681
Diluted	649,889	591,697	575,097

1.299

USA NETWORKS, INC. AND SUBSIDIARIES (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 9 (In Part): Stockholders Equity

On January 20, 2000, the Board of Directors declared a two-for-one stock split of USAi's common stock and Class B common stock, payable in the form of a dividend to stockholders of record as of the close of business on February 10, 2000. The 100% stock dividend was paid on February 24, 2000. On February 20, 1998, the Board of Directors declared a two-for-one stock split of USAi's common stock and Class B common stock, payable in the form of a dividend to stockholders of record as of the close of business on March 12, 1998. The 100% stock dividend was paid on March 26, 1998. All share data give effect to such stock splits, applied retroactively as if the splits occurred on January 1, 1997.

Stock Purchase Rights

1.300

MIRAGE RESORTS, INCORPORATED (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 15: Subsequent Event (Unaudited)

On March 6, 2000, the Company signed a definitive merger agreement with MGM Grand, Inc. ("MGM Grand") under which MGM Grand will acquire all of the Company's outstanding common stock for $21 per share in cash and the Company will become a wholly owned subsidiary of MGM Grand. The merger is subject to the approval of the Company's stockholders and to the satisfaction of customary closing conditions contained in the merger agreement, including the receipt of all necessary regulatory approvals. The merger is not subject to a financing contingency, and MGM Grand has stated that it has financing commitments to fund the entire acquisition cost. The merger is currently expected to close by the fourth quarter of 2000.

In connection with the execution of the merger agreement, the Company entered into a stock option agreement under which MGM Grand was granted an option to purchase an amount of the Company's common stock equivalent to up to 12% of the outstanding shares at the date of exercise at $21 per share. The option will become exercisable only in certain circumstances if the merger agreement is terminated.

On February 29, 2000, the Company's Board of Directors declared a dividend of one preferred share purchase right (a "Right") for each outstanding share of common stock, payable on March 20, 2000 to the stockholders of record on that day. In connection with the merger agreement, the Company agreed to amend the terms of the rights agreement pursuant to which the Rights will be issued in order to permit the merger with MGM Grand to occur without triggering the exercisability of the Rights.

Employee Benefits

1.301

EASTMAN KODAK COMPANY AND SUBSIDIARY COMPANIES (DEC)

NOTES TO FINANCIAL STATEMENTS

Note 12 (In Part): Retirement Plans

On January 1, 2000, the Company adopted a cash balance plan effective for all U.S. employees hired after February 1999. All U.S. employees hired prior to that date were granted the option to choose the KRIP plan or the Cash Balance Plus plan. Written elections were made by employees in 1999, and were effective January 1, 2000. The Cash Balance Plus plan will be funded by Company contributions to employee cash balance accounts which earn interest at the 30-year Treasury bond rate. In addition, for employees participating in this plan and the Company's defined contribution plan, the Savings and Investment Plan (SIP), the Company will match SIP contributions for an amount up to 3%, for employee contributions of up to 5%. As a result of employee elections to the Cash Balance Plus plan, the Company does not anticipate any material impact on results of operations, as the estimated reduction in future pension expense will be almost entirely offset by the cost of matching employee contributions to SIP.

Formation of Joint Ventures

1.302

PHILLIPS PETROLEUM COMPANY (DEC)

NOTES TO FINANCIAL STATEMENTS

Note 20 (In Part): Subsequent Events

Chemicals Joint Venture

On February 7, 2000, Phillips announced that it had signed a letter of intent to form a 50/50 joint venture with Chevron Corporation combining the two companies' worldwide chemicals businesses. The transaction is expected to close midyear 2000, subject to approval by the companies' Boards of Directors, the signing of definitive agreements, and regulatory review and approval. In addition to all the assets and operations included in Phillips' Chemicals segment, the natural gas liquids fractionation assets located at the Sweeny Complex and associated pipelines will become part of the joint venture also.

1.303

SUIZA FOODS CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3 (In Part): Subsequent Events

Effective January 1, 2000, we entered into a joint venture with Dairy Farmers of America ("DFA") in which we combined certain of our domestic fluid dairy operations with certain of DFA's operations into a newly formed venture, Suiza Dairy Group. DFA is a large farmers cooperative from which we purchase a significant portion of our raw milk. DFA received a 33.8% ownership interest in Suiza Dairy Group in exchange for the contribution of the operations of Southern Foods Group and for the contribution of its investments in its other joint ventures with us: Suiza GTL, LLC and Suiza SoCal, LLC. We received a 66.2% ownership interest in Suiza Dairy Group in exchange for the contribution of our domestic fluid dairy operations (excluding our Puerto Rican operations and our Morningstar subsidiary). Our ownership interests as well as DFA's were determined by negotiation between the parties. This transaction will be accounted for as an acquisition of Southern Foods using the purchase method of accounting. Suiza Dairy Group also assumed $113.8 million, 9⅞% senior notes of Southern Foods which mature in September 2007.

Upon closing of the acquisition, Suiza Dairy Group entered into a new $1.61 billion credit facility and borrowed approximately $1.1 billion under this new facility. Suiza Dairy Group distributed a portion of the borrowings under the new credit facility to DFA and to us. DFA used its portion of the distributed funds to repay certain existing obligations of Southern Foods and we used our portion of the distributed funds to repay certain of our existing obligations, including redeeming the $100 million aggregate stated amount of mandatorily redeemable trust-issued preferred securities held by DFA and repaying amounts outstanding under our senior credit facility. We also terminated our existing senior credit facility and replaced it with a new $300 million parent-level senior credit facility as discussed in Note 11.

The preliminary unaudited consolidated results of operations on a pro forma basis for the year ended December 31, 1999, as if the Southern Foods operations had been acquired as of the beginning of 1999, are as follows (in thousands, except per share data):

	Historical	Pro Forma
Net sales	$4,481,999	$5,782,896
Income from continuing operations before taxes	193,103	217,152
Net income from continuing operations	108,827	109,787
Earnings per share from continuing operations:		
Basic	$ 3.31	$ 3.34
Diluted	$ 3.11	$ 3.16

The pro forma results of operations are presented for informational purposes only and are not necessarily indicative of the results of operations that would have occurred had the acquisition been completed as of the above date, nor are they necessarily indicative of future results of operations.

Merger Agreement Termination

1.304

AMERICAN HOME PRODUCTS CORPORATION AND SUBSIDIARIES (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 (In Part): Acquisitions, Divestitures and Proposed Merger

On November 3, 1999, the Company and Warner-Lambert Company entered into an agreement to combine the two companies in a merger-of-equals transaction. On February 6, 2000, subsequent to the date of the Report of Independent Public Accountants, the merger agreement was terminated. In accordance with the merger agreement, the Company received a payment of $1.8 billion as a termination fee.

Cash Dividend Increase

1.305

AVON PRODUCTS, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

15. Subsequent Event

On February 3, 2000, Avon's Board approved an increase in the quarterly cash dividend to $.185 per share from $.18. The first dividend at the new rate will be paid on March 1, 2000 to shareholders of record on February 16, 2000. On an annualized basis, the new dividend rate will be $.74 per share.

Transaction Affecting Investment Valuation

1.306

STAPLES, INC. AND SUBSIDIARIES (JAN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note Q (In Part): Subsequent Events

On March 3, 2000, Register.com, an investment recorded by Staples, Inc. at a cost of approximately $8,000,000 at January 29, 2000, completed an initial public offering of its common stock. The closing stock price of Register.com on that date was $57.25 per share. At the date of the initial public offering, Staples owned approximately 2,160,000 shares of common stock, and warrants to purchase approximately 1,640,000 additional shares, resulting in an unrealized gain of approximately $215,000,000. Staples accounts for its investment in Register.com in accordance with SFAS 115 and the resulting unrealized gain or loss resulting from fluctuations in the market price of Register.com would be recorded as a component of stockholders' equity.

Going Concern

1.307

VLASIC FOODS INTERNATIONAL, INC. (JUL)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

26. Subsequent Event

The accompanying financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. As discussed in Note 22, we have significant borrowings which require, among other things, compliance with certain financial ratios, specifically a debt/EBITDA ratio and a fixed charge coverage ratio, on a quarterly basis. As a result of operating losses incurred during the quarter ended January 30, 2000, we were not in compliance with the financial ratio covenants under our senior credit facility; however, we requested and received a waiver through February 29, 2000. We have received a further waiver of these financial ratio covenants from our lenders through June 20, 2000 in consideration for the payment of a fee and an increase in interest rates. The waiver required delivery of and compliance with a cash budget and established a minimum EBITDA test to be met as of April 30, 2000. If the minimum EBITDA test is not met, the waiver will expire on March 31, 2000. Additionally, if the cash budget is not met, we will be unable to borrow under the senior credit facility. The waiver also required that the senior credit facility be secured by liens on substantially all of our real property in the United States on or before April 30, 2000.

We fully expect to be in compliance with the minimum EBITDA test and the other terms and conditions of the waiver and we do not anticipate needing any additional borrowings through June 20, 2000.

We are exploring strategic opportunities including, but not limited to, potential divestitures, joint manufacturing or marketing ventures, acquisitions, a merger, a recapitalization or other actions. The investment banking firm of Lazard Freres & Co. has been hired to assist with this strategic review and to formulate proposed plans and actions for the consideration of our Board of Directors. Because Lazard Freres & Co. is currently conducting its review and formulation of proposed plans and actions, no assessment can be made of the likelihood that such plans and actions can be effectively implemented. Moreover, regardless of the outcome of the strategic review, an extension of the existing waiver, a new waiver covering certain terms and conditions of the senior credit facility, an amendment of the senior credit facility, a de novo senior credit facility or some combination of the above will be required. Without such an action, we will be in default on June 20, 2000. Although no assurances can be given, we expect that the plans and actions proposed by the strategic review and to be acted upon by our Board of Directors will enable us to successfully fulfill such requirement and that we will be able to effectively implement them. In particular, we anticipate being able to negotiate with our present senior credit bank syndicate, as is necessary, for an extension of the existing waiver or for a new waiver, before the current waiver expires on June 20, 2000, so as to preclude any acceleration of our indebtedness. Our continuation as a going concern is dependent upon our ability to successfully establish the necessary financing arrangements and to comply with the terms thereof.

A breach of any of the terms and conditions of the waiver, or subsequent breaches of the financial covenants under the senior credit facility could result in acceleration of our indebtedness, in which case the debt would become immediately due and payable. Based upon our current projections, we do not believe we will comply with the existing financial covenants unless they are modified, as they have been in the waiver. If there is no modification of the existing financial covenants, we may not be able to repay our debt or borrow sufficient funds to refinance it. Even if new financing is available, it may not be on terms that are acceptable to us. We have, however, received such modifications in the past in the form of waivers and an amendment to our senior credit facility.

Our ability to operate as a going concern is dependent on or ability to successfully negotiate with our senior credit bank syndicate to preclude acceleration after June 20, 2000. However, although no assurances can be given, we remain confident that we will be able to continue operating as a going concern.

Marketing Agreement Cancellation

1.308

LEE ENTERPRISES, INCORPORATED, AND SUBSIDIARIES (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 14: Subsequent Event

On October 1, 1999, the Company sold substantially all the assets used in, and liabilities related to, the publication, marketing and distribution of two daily newspapers and the related specialty and classified publications in Kewanee, Geneseo, and Aledo, Illinois, and Ottumwa, Iowa, in exchange for $9,300,000 of cash and a daily newspaper and specialty publications in Beatrice, Nebraska. In addition, in November, 1999, the Company received $1,700,000 in cancellation of its local marketing agreement for KASY-TV in Albuquerque, New Mexico. The gain, net of closing costs, will be approximately $19,500,000.

RELATED PARTY TRANSACTIONS

1.309 *Statement of Financial Accounting Standards No. 57* specifies the nature of information which should be disclosed in financial statements about related party transactions. In 1999, 161 survey companies disclosed related party transactions. Examples of related party disclosures follow.

Sale of Receivables to Subsidiary

1.310

ULTRAMAR DIAMOND SHAMROCK CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4 (In Part): Accounts and Notes Receivable

In March, 1999, the Company arranged a $250.0 million revolving accounts receivable securitization facility. On an ongoing basis, the Company sells eligible accounts receivable to Coyote Funding, L.L.C. (Coyote), a non-consolidated, wholly-owned subsidiary. Coyote sells a percentage ownership in such receivables, without recourse, to a third party cooperative corporation. The Company's retained interest in receivables sold to Coyote is included in notes receivable. The proceeds from the sales of receivables in March 1999 and June 1999 totaled $237.6 million and were used to reduce long-term debt of the Company. In December 1999, the balance of receivables sold was reduced to $39.8 million. The remaining availability under the Securitization Facility can be used should the Company decide to sell additional receivables in the future. Discounts and net expenses associated with the sales of receivables totaled $11.2 million and are included in interest expense in the consolidated statement of operations for the year ended December 31, 1999.

Transaction Between Reporting Entity and Investee

1.311

ENGELHARD CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 12: Related Party Transactions

In the ordinary course of business, the Company has raw material supply arrangements with entities in which Anglo American Corporation of South Africa Limited ("Anglo") has material interests and with Engelhard-CLAL and its subsidiaries. Anglo, indirectly through Minorco S.A., held a significant minority interest in the common stock of the Company. In May 1999, Minorco sold all the shares of common stock of Engelhard that it owned (see Note 2, "Significant Shareholder Transaction," for further detail). Engelhard-CLAL is a 50% owned joint venture. The Company's transactions with such entities (through May 1999 for entities in which Anglo had material interests) amounted to: purchases-from of $41.3 million in 1999, $176.3 million in 1998 and $101.2 million in 1997; sales-to of $24.6 million in 1999, $1.7 million in 1998 and $42.2 million in 1997; and metal leasing-to of $2.8 million in 1999, $17.5 million in 1998 and $16.3 million in 1997. At December 31, 1999 and 1998, amounts due to such entities totaled $1.9 million and $8.6 million, respectively.

Transaction Between Reporting Entity and Major Stockholder

1.312

ZENITH ELECTRONICS CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note Six: Related Party

In November 1995, LGE and an affiliate of LGE purchased a majority of the shares of the company pursuant to a combined tender offer and purchase of newly issued shares of common stock from the company. As a result of the approval of the prepackaged plan of reorganization in November 1999, LGE owned 100 percent of the common stock of the company as of December 31, 1999.

LGE is a leading international brand-name manufacturer of five main groups of products: televisions; audio and video equipment; home appliances; computers and office automation equipment; and other products, including video displays, telecommunication products and components, and magnetic media. The following represent the most significant transactions between the company and LGE during 1999, 1998 and 1997.

Product purchases: In the ordinary course of business, the company purchases VCRs, television-VCR combinations and components from LGE and its affiliates. The company purchased $52.7 million, $50.7 million and $93.3 million of these items in 1999, 1998 and 1997, respectively. The purchase prices were the result of negotiations between the parties and were consistent with third party bids.

In 1998, the company and LGE entered into a direct shipment arrangement pursuant to which LGE sells and ships VCRs directly to the company's two largest customers and pays the company a license fee for the use of the company's brand names on such products and the inclusion of the company's patented tuner technology in such products. The license fee payable by LGE is comparable to licensing rates charged by the company to unrelated parties. During 1999 and 1998, the company accrued approximately $1.7 million and $1.5 million, respectively, in royalties for the use of the company's brand names pursuant to this direct shipment program. A similar arrangement was entered into in April, 1997, in Canada where LGE's Canadian affiliate sells Zenith-branded VCRs under a license from the company. Pursuant to that arrangement, the company accrued approximately $0.5 million in 1999, $0.3 million in 1998 and less than $60,000 in 1997.

Equipment purchases: The company purchased approximately $0.3 million and $13.0 million of production machinery and equipment from LGE during 1998 and 1997, respectively. The machinery and equipment in 1997 related primarily to new production lines in the company's picture tube plant for the manufacture of computer display tubes. No machinery and equipment was purchased from LGE in 1999, although $11.8 million of equipment rights pertaining to the sale-leaseback transaction discussed below were reclassified to property, plant and equipment in 1999, of which $3.8 million is included in machinery and equipment and $8.0 million is included in property held for disposal.

Product and other sales: The company sold televisions, picture tubes, yokes and other manufactured subassemblies to LGE and its affiliates at prices that equate to amounts charged by the company to its major customers. Sales in 1999, 1998 and 1997 by the company to LGE and its affiliates were $33.2 million, $53.6 million and $55.1 million, respectively.

In December 1996, the company entered into a distributor agreement with an LGE subsidiary whereby LGE became the Canadian distributor for the company. During 1997, the company entered into a similar agreement with an LGE subsidiary in Mexico to sell the company's products in Mexico. During 1999, 1998 and 1997, the company's sales to the LGE Canadian subsidiary were $15.8 million, $27.3 million and $25.5 million, respectively. During 1999, 1998 and 1997, the company's sales to the LGE Mexican subsidiary were $17.4 million, $19.6 million and $16.8 million, respectively. These amounts are included in the sales figures discussed above.

Included in the financial statements are $12.4 million and $8.5 million of related party receivables from LGE and its affiliates as of December 31, 1999 and 1998, respectively. The balances represent $2.2 million and $2.7 million of receivables related to license and warranty fees from direct shipment of VCRs as of December 31, 1999 and 1998, respectively. The remaining balances of $10.2 million and $5.8 million relate primarily to sales, in the ordinary course of business, of televisions, picture tubes, yokes and other manufactured subassemblies during 1999 and 1998, respectively.

Technical agreements: The company and LGE are currently operating under several technology agreements and licenses, including: LGE engineering support for HDTV development and related technical and intellectual property; technology and patent licenses to LGE to develop flat tension mask products; and agreements granting LGE the right to use the company's patents on television tuners. LGE's payments in 1999, 1998 and 1997 to the company under these agreements and licenses were $0.4 million, $0.4 million and $0.6 million, respectively.

An affiliate of LGE has licensed certain technological information from Zenith relating to the manufacture of VSB modulation equipment under a 1998 agreement. That agreement allows the LGE affiliate to use technical information and design schematics as the basis for further development of commercial products. Under the agreement, Zenith received $0.3 million in 1998 in up-front payments and additional royalty payments per unit sold by the LGE affiliate based on Zenith's design. No additional amount was accrued for these royalty payments in 1999. This agreement does not include a license on the VSB patent.

In September 1997, the company and LGE entered into a High Definition TV Receiver Project Agreement. As called for in the agreement, the company received $4.5 million from LGE toward funding for the project. In return, LGE was to receive a percentage of applicable royalties the company anticipated receiving until such time as LGE had received the $4.5 million. This obligation was included in long-term liabilities to related party in 1998 and was settled as part of the prepackaged plan of reorganization.

Service assistance: In 1999 and 1998, employees of LGE provided certain services to the company that were covered under the various agreements. The cost of these services was $0.2 million and $1.5 million in 1999 and 1998, respectively.

In 1997, employees of LGE provided certain services to the company for which LGE was not compensated. These donated services were valued at $2.2 million (the actual costs of payroll, travel and living expenses) and the accounting treatment was to recognize the value of these expenses in the company's income statement and in additional paid-in capital.

In 1997, employees of LGE provided certain services to the company that were covered under service agreements. The company's payments ($1.1 million) and payable ($3.7 million) to LGE for such services totaled $4.8 million.

In late December, 1997, the company entered into an agreement with an LGE affiliate pursuant to which certain software development, design and support services are provided. Projects under the agreement include the Company's Year 2000 Readiness support. Payments to the affiliate were $1.3 million, $1.1 million and $0.1 million in 1999, 1998 and 1997, respectively.

Transaction Between Reporting Entity and Officer/Director

1.313

KOHL'S CORPORATION (JAN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

11. Related Parties

A director of the Company is also a shareholder of a law firm which performs legal services for the Company.

A director of the Company is also the chief executive officer of an insurance company which provides $40 million of the senior notes to the Company (see Note 4). Total interest expense incurred on the senior notes totaled $2.6 million in 1999, 1998 and 1997.

Another director was previously affiliated with an investment bank which performed services for the Company. Investment banking fees incurred with this investment bank totaled approximately $8.8 million in fiscal 1997 and no fees were paid in fiscal 1998. The director retired from the investment bank in 1998.

Rent expense incurred on store leases with various entities owned by a director of the Company and his affiliates, which is included in the total rent expense above, was $4,353,000, $4,323,000 and $3,789,000 in fiscal 1999, 1998 and 1997, respectively.

Lease Guarantees by Another Reporting Entity

1.314

OFFICEMAX, INC. (JAN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 5: Relationship With Kmart Corporation

Kmart Corporation ("Kmart"), which previously owned an equity interest in the Company, continues to guarantee certain of the Company's leases. Such lease guarantees are provided by Kmart at no cost to the Company. The Company has agreed to indemnify Kmart for any losses incurred by Kmart as a result of actions, omissions or defaults on the part of OfficeMax, as well as for all amounts paid by Kmart pursuant to Kmart's guarantees of the Company's leases. The agreement contains certain financial and operating covenants, including restrictions on the Company's ability to pay dividends, incur indebtedness, incur liens or merge with another entity.

Consolidated Tax Return

1.315

CORDANT TECHNOLOGIES INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 9 (In Part): Income Taxes

In February 1999, the Company's ownership of Howmet International, Inc. common stock increased to 84.6 percent of Howmet's outstanding shares. As a result of the increase in ownership, the Company and Howmet will file consolidated federal income tax returns beginning in 1999. The consolidated tax liability of the affiliated group, determined without taking credits into account, will be allocated based on each company's contribution to consolidated federal taxable income. All tax credits will be allocated on a pro rata basis equal to each company's contribution to the consolidated tax credit determined to be available each year.

Tax Sharing Agreements

1.316

CERIDIAN CORPORATION AND SUBSIDIARIES (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

D (In Part): Income Taxes

Under tax sharing agreements existing at the time of the disposition of certain former operations of Ceridian, Ceridian remains subject to income tax audits in various jurisdictions for the years 1985-1992. Ceridian considers its tax accruals adequate to cover any U.S. and international tax deficiencies not recoverable through deductions in future years.

INFLATION ACCOUNTING

1.317 Effective for financial reports issued after December 2, 1986, *Statement of Financial Accounting Standards No. 89* states that companies previously required to disclose current cost information are no longer required to disclose such information.

1.318 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.

1.319

ENESCO GROUP, INC. (DEC)

Inflation, Changing Prices and Economic Conditions

Although the Company's operations are affected by general economic trends, inflation and changing prices did not have a material impact on 1999 and 1998 income statement results compared to prior years. International operations were unfavorably affected in 1999 by the currency translation of local currencies into United States dollars. International operations in total were not materially impacted by currency translations for 1998. The value of the U.S. dollar versus international currencies where the Company conducts business will continue to impact the future results of these businesses. In addition to the currency risks, the Company's international operations, including sources of imported products, are subject to the risks of doing business abroad, including reliance on third party overseas manufacturers, import or export restrictions and changes in economic and political climates. The fluctuations in net sales and operating profit margins from quarter to quarter are partially due to the seasonal characteristics of the Company's business.

1.320

GUILFORD MILLS, INC. (SEP)

Inflation

The Company believes that the relatively moderate inflation rate of the 1990s has not significantly impacted its operations.

1.321

SCIENCE APPLICATIONS INTERNATIONAL CORPORATION (JAN)

Effects of Inflation

The Company's cost-reimbursement type contracts are generally completed within one year. As a result, the Company has been able to anticipate increases in costs when pricing its contracts. Bids for longer term fixed-price and T&M type contracts typically include labor and other cost escalations in amounts expected to be sufficient to cover cost increases over the period of performance. Consequently, because costs and revenues include an inflationary increase commensurate with the general economy, net income as a percentage of revenues has not been significantly impacted by inflation. As the Company expands into international markets and into highly inflationary economies, movements in foreign currency exchange rates may impact the Company's results of operations. Currency exchange rate fluctuations may also affect the Company's competitive position in international markets as a result of its impact on the Company's profitability and the pricing offered to its non-U.S. customers.

1.322

TEMTEX INDUSTRIES, INC. AND SUBSIDIARIES (AUG)

Effects of Inflation

The Company believes that the effects of inflation on its operations have not been material during the past three fiscal years. However, inflation could adversely affect the Company if inflation results in higher interest rates or a substantial weakening in economic conditions that could adversely affect the new housing market.

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

	1999	1998	1997	1996
Balance Sheet	569	569	565	564
Statement of Financial Position	28	27	30	30
Statement of Financial Condition	3	4	5	6
Total Companies	**600**	**600**	**600**	**600**

BALANCE SHEET FORMAT

2.03 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, 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 No. 94* requires that companies consolidate subsidiaries having nonhomogeneous operations. This requirement resulted in certain survey companies presenting an unclassified balance sheet (2 companies in 1999) or a balance sheet classified as to industrial operations but showing assets and liabilities of nonhomogeneous operations as segregated amounts (5 companies in 1999). 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

	1999	1998	1997	1996
Report form	477	465	461	450
Account form	122	134	138	149
Financial position form	1	1	1	1
Total Companies	**600**	**600**	**600**	**600**

Reclassifications

2.07

LOCKHEED MARTIN CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Classifications

Receivables and inventories are primarily attributable to long-term contracts or programs in progress for which the related operating cycles are longer than one year. In accordance with industry practice, these items are included in current assets. Certain amounts for prior years have been reclassified to conform with the 1999 presentation.

2.08

VENATOR GROUP, INC. (JAN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Reclassifications

Certain balances in prior fiscal years have been reclassified to conform to the presentation adopted in the current fiscal year. The inventory, fixed assets and other long-lived assets of all businesses to be exited have been reclassified as assets held for disposal in the Consolidated Balance Sheet as of January 29, 2000.

CASH AND CASH EQUIVALENTS

2.09 Cash is commonly considered to consist of currency and demand deposits. *Statement of Financial Accounting Standards No. 95* defines cash equivalents as "short-term, highly liquid investments" that will mature within three months or less after being acquired by the holder.

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

	1999	1998	1997	1996
Cash	57	57	56	61
Cash and cash equivalents	469	462	460	447
Cash and equivalents	35	40	41	41
Cash includes certificates of deposit or time deposits	8	5	5	9
Cash combined with marketable securities	29	31	32	35
No amount for cash	2	5	6	7
Total Companies	**600**	**600**	**600**	**600**

2.12

OWENS-ILLINOIS, INC. (DEC)

(Millions of dollars)	1999	1998
Current assets:		
Cash, including time deposits of $113.4 ($95.1 in 1998)	$ 257.1	$ 271.4
Short-term investments	32.1	21.1
Receivables, less allowances of $56.9 ($56.9 in 1998) for losses and discounts	856.4	877.7
Inventories	826.6	838.1
Prepaid expenses	137.6	168.6
Total current assets	$2,109.8	$2,177.1

STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (In Part)

Cash

The Company defines "cash" as cash and time deposits with maturities of three months or less when purchased.

2.13

SONOCO PRODUCTS COMPANY (DEC)

(Dollars and shares in thousands)	1999	1998
Current assets:		
Cash and cash equivalents	$ 36,515	$ 57,249
Trade accounts receivable, net of allowances of $6,969 in 1999 and $5,420 in 1998	346,845	297,672
Other receivables	28,847	54,475
Inventories		
Finished and in process	94,133	93,829
Materials and supplies	154,231	123,432
Prepaid expenses	57,362	28,599
Deferred income taxes	5,148	866
Net assets held for sale		5,294
	723,081	661,416

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

4. Cash and Cash Equivalents

Cash equivalents are composed of highly liquid investments with an original maturity of three months or less and are recorded at market.

At December 31, 1999 and 1998, outstanding checks of $32,601 and $33,227, respectively, were included in Payable to suppliers on the Consolidated Balance Sheets.

At December 31, 1999 and 1998, $2,792 and $7,409, respectively, of cash and cash equivalents represented proceeds from the issuance of Industrial Revenue Bonds (IRBs) and were restricted to funding qualified expenditures as provided for by the bonds.

2.14

TUPPERWARE CORPORATION (DEC)

(Dollars in millions, except per share amounts)	1999	1998
Assets:		
Cash and cash equivalents	$ 24.4	$ 23.0
Accounts receivable, less allowances of $22.5 million in 1999 and $32.7 million in 1998	114.4	92.3
Inventories	136.7	157.1
Deferred income tax benefits	48.5	55.5
Prepaid expenses and other	46.5	57.7
Total current assets	$370.5	$385.6

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Cash and Cash Equivalents

The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. As of December 25, 1999, and December 26, 1998, $8.3 million and $6.8 million, respectively, of the cash and cash equivalents included on the consolidated balance sheet were held in the form of time deposits or certificates of deposit.

MARKETABLE SECURITIES

2.15 *Statement of Financial Accounting Standards No. 115* 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 *Statement of Financial Accounting Standards No. 133*, state the disclosure requirements for such investments.

2.16 By definition, investments in debt and equity securities are financial instruments. Paragraph 10 of *Statement of Financial Accounting Standards No. 107,* as amended by *SFAS No. 133,* requires that the basis for estimating the fair value of a financial investment be disclosed if it is practicable to do so. 157 survey companies stated that the fair value of investments in debt and equity securities presented as current assets approximated carrying amount.

2.17 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.

2.18

TABLE 2-4: MARKETABLE SECURITIES—BASES

	Number of Companies			
	1999	**1998**	**1997**	**1996**
Market/fair value	137	120	138	120
Cost	63	56	47	66
Lower of cost or market	2	2	1	1

Available-for-Sale Securities

2.19

AMERICAN BILTRITE INC. AND SUBSIDIARIES (DEC)

(In thousands of dollars)	1999	1998
Current assets:		
Cash and cash equivalents	$ 27,285	$ 59,505
Short-term investments	19,232	—
Accounts and notes receivable, less allowances of $5,543 in 1999 and $5,124 in 1998 for doubtful accounts and discounts	30,586	33,551
Inventories	82,977	69,722
Prepaid expenses and other current assets	11,672	9,199
Total current assets	$171,752	$171,977

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Significant Accounting Policies

Short-Term Investments

The Company invests in highly liquid debt instruments with strong credit ratings. Commercial paper investments with a maturity greater than three months, but less than one year, at the time of purchase are considered to be short-term investments. The carrying amount of the investments approximates fair value due to their short maturity. The Company maintains cash and cash equivalents and short-term investments with certain financial institutions. The Company performs periodic evaluations of the relative credit standing of those financial institutions that are considered in the Company's investment strategy.

2.20

ELECTRONIC DATA SYSTEMS CORPORATION AND SUBSIDIARIES (DEC)

(In millions, except share and per share amounts)	1999	1998
Current assets:		
Cash and cash equivalents	$ 537.2	$1,038.8
Marketable securities	191.5	272.9
Accounts receivable, net	4,423.4	3,835.0
Prepaids and other	725.6	486.6
Total current assets	$5,877.7	$5,633.3

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Financial Instruments

The following table presents the carrying amounts and fair values of the Company's financial instruments at December, 31, 1999 and 1998 (in millions):

	December 31, 1999		December 31, 1998	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Current available-for-sale marketable securities (Note 2)	$ 191.5	$ 191.5	$ 272.9	$ 272.9
Investment in securities, joint ventures and partnerships, excluding equity method investments (Note 4)	476.2	485.2	564.8	584.1
Long-term debt (Note 7)	(2,709.3)	(2,806.4)	(1,232.0)	(1,332.7)
Redeemable preferred stock of subsidiaries and related interest rate swap agreements (Note 8)	(175.0)	(175.0)	(175.0)	(175.0)
Foreign exchange forward contracts, net asset (liability) (Note 12)	(12.5)	(12.5)	3.4	3.4

Current available-for-sale marketable securities are carried at their estimated fair value based on current market quotes. The fair values of certain long-term investments are estimated based on quoted market prices for these or similar investments. For other investments, various methods are used to estimate fair value, including external valuations and discounted cash flows. The fair value of long-term debt and redeemable preferred stock of subsidiaries, including related interest rate swap agreements, is estimated based on the current rates offered to the Company for instruments with similar terms, degree of risk and remaining maturities. The fair value of foreign exchange forward contracts is based on the estimated amount to settle the contracts using current market exchange rates. The carrying value of other financial instruments, such as cash equivalents, accounts and notes receivable, and accounts payable, approximates their fair value.

Note 2: Marketable Securities

The following is a summary of current available-for-sale marketable securities at December 31, 1999 and 1998 (in millions):

December 31, 1999	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Government and agency obligations	$113.2	$ —	$(2.7)	$110.5
Other debt securities	60.4	—	(1.9)	58.5
Total debt securities	173.6	—	(4.6)	169.0
Equity securities	22.3	0.4	(0.2)	22.5
Total current available-for-sale securities	$195.9	$0.4	$(4.8)	$191.5

December 31, 1998	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Government and agency obligations	$187.4	$ 3.9	$(0.2)	$191.1
Other debt securities	68.7	1.0	(0.1)	69.6
Total debt securities	256.1	4.9	(0.3)	260.7
Equity securities	4.2	8.0	—	12.2
Total current available-for-sale securities	$260.3	$12.9	$(0.3)	$272.9

Non-current securities are included in Investments and Other Assets (see Note 4). In addition, at December 31, 1999 and 1998, certain available-for-sale marketable securities with carrying amounts of $422.5 million and $197.3 million, including unrealized gains of $407.4 million and $103.4 million, respectively, were classified as Investments and Other Assets. Such classification resulted from the Company's intent to hold the securities for greater than one year.

The amortized cost and estimated fair value of current debt securities at December 31, 1999, by contractual maturity, are shown below (in millions). Expected maturities will differ from contractual maturities because the issuers of the securities may have the right to repay obligations without prepayment penalties.

December 31, 1999	Amortized Cost	Estimated Fair Value
Debt securities:		
Due in one year or less	$ 20.1	$ 20.1
Due after one year through five years	153.5	148.9
Total debt securities	$173.6	$169.0

The following table summarizes sales of available-for-sale securities for the years ended December 31, 1999, 1998 and 1997 (in millions). Specific identification was used to determine cost in computing realized gain or loss.

Years Ended December 31,	1999	1998	1997
Proceeds from sales	$278.5	$ 134.1	$ 90.8
Gross realized gains	$ 91.0	$ 32.2	$ —
Gross realized loses	$ (0.2)	$ —	$ (1.4)

2.21

INGRAM MICRO INC. (DEC)

(Dollars in 000s, except per share data)	1999	1998
Current assets:		
Cash	$ 128,152	$ 96,682
Investment in available-for-sale securities	142,338	—
Trade accounts receivable (less allowances of $100,754 in 1999 and $55,904 in 1998)	2,853,509	2,562,050
Inventories	3,471,565	3,094,227
Other current assets	373,365	278,591
Total current assets	$6,968,929	$6,031,550

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars in 000s, except per share data)

Note 2 (In Part): Significant Accounting Policies

Investments in Available-for-Sale Securities

The Company classifies 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 are carried at fair market value, with unrealized gains and losses reported in stockholders' equity as a component of other comprehensive income (loss). Gains or losses on securities sold are based on the specific identification method.

In December 1998, the Company purchased 990,800 shares of common stock of SOFTBANK Corp. ("Softbank"), Japan's largest distributor of software, peripherals and networking products, for approximately $50,262. These securities had a gross unrealized holding gain of $6,666 as of January 2, 1999. No text provision was provided in 1998 because of tax planning strategies that the Company believes will reduce the tax consequences to an immaterial amount.

During December 1999, the Company sold 346,800 shares of Softbank common stock, or approximately 35% of its original investment, for approximately $230,109 resulting in a pre-tax gain of approximately $201,318, net of related expenses of approximately $18,609. As a result of the Company's reconsideration of certain tax planning strategies, the Company provided for deferred taxes totaling approximately $76,098 associated with this sale of stock. The Company used the net proceeds from the sale to repay existing indebtedness. As of January 1, 2000, the Company had an unrealized holding gain on the remaining 644,000 shares of Softbank common stock totaling $356,936, net of $227,248 in deferred income taxes.

In connection with the December 1999 sale of Softbank common stock, the Company issued warrants to Softbank for the purchase of 1,500,000 shares of the Company's Class A Common Stock with an exercise price of $13.25 per share, which approximated the market price of the Company's common stock on the warrant issuance date. The warrants are exercisable immediately and have a 5-year term. The estimated fair value of these warrants upon issuance was approximately $11,264 and was determined using the Black-Scholes option-pricing model using the following assumptions:

Risk-free interest rate	6.27%
Term of warrant	5 years
Expected stock volatility	55.4%

The estimated fair value of the warrants has been included in the other expenses in the Statement of Income for fiscal 1999.

2.22

LSI LOGIC CORPORATION (DEC)

(In thousands, except per share amounts)	1999	1998
Assets:		
Cash and cash equivalents	$ 250,603	$210,306
Short-term investments	410,730	81,220
Accounts receivable, less allowances of $11,346 and $3,949	275,620	249,106
Inventories	243,896	181,440
Deferred tax assets	66,212	62,699
Prepaid expenses and other current assets	41,223	52,250
Total current assets	$1,288,284	$837,021

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (In Part): Significant Accounting Policies

Cash Equivalents and Short-Term Investments

All highly liquid investments purchased with an original maturity of ninety days or less are considered to be cash equivalents and are classified as held-to-maturity. Marketable short-term investments are generally classified and accounted for as available-for-sale. Management determines the appropriate classification of debt and equity securities at the time of purchase and reassesses the classification at each reporting date. Investments in debt and equity securities classified as held-to-maturity are reported at amortized cost plus accrued interest, and securities classified as available-for-sale are reported at fair value with unrealized gains and losses, net of related tax, recorded as a separate component of comprehensive income in shareholders' equity until realized. (See Note 5 of the Notes.) Interest and amortization of premiums and discounts for debt and equity securities are included in interest income. Gains and losses on securities sold are determined based on the specific identification method and are included in other income. For all investment securities, unrealized losses that are other than temporary are recognized in net income. The Company does not hold these securities for speculative or trading purposes.

Note 5: Cash and Investments

As of December 31, 1999 and 1998, cash and cash equivalents and short-term investments included the following debt and equity securities:

(In thousands)	1999	1998
Cash and cash equivalents:		
Overnight deposits	$ 34,994	$ 82,591
Corporate debt securities	15,138	—
Commercial paper	4,951	44,803
Total held-to-maturity	$ 55,083	$127,394
Cash	195,520	82,912
Total cash and cash equivalents	$250,603	$210,306
Short-term investments:		
Corporate debt securities	$178,284	$ 34,545
Commercial paper	99,475	—
Auction rate preferred	74,928	5,013
Certificates of deposit	27,967	—
Equity securities	25,000	—
U.S. government and agency securities	5,076	5,065
Time deposits	—	24,934
Banknotes	—	11,663
Total available-for-sale	$410,730	$ 81,220

Unrealized holding gains and losses of held-to-maturity securities and available-for-sale debt securities were not significant and accordingly the amortized cost of these securities approximated fair market value at December 31, 1999 and 1998. Securities classified as held-to-maturity were included in cash equivalents, and debt securities classified as available-for-sale were included in short-term investments as of December 31, 1999 and 1998. Contract maturities of these securities were within one year as of December 31, 1999. Realized gains and losses for held-to-maturity securities and available-for-sale debt securities were not significant for the year ended December 31, 1999, 1998 and 1997.

At December 31, 1999, the Company had marketable equity securities with an aggregate carrying value of $153 million, $25 million of which were classified as short-term investments on the Company's consolidated balance sheet. The remaining balance was included in other long-term assets. There were no significant investments in marketable equity securities as of December 31, 1998. The unrealized gain of $90 million, net of the related tax effect of $48 million, on these equity securities was included in accumulated comprehensive income as of December 31, 1999. In the third quarter of 1999, the Company adopted a program of regular selling of marketable equity securities. During 1999, the Company sold the equity securities for $49 million in the open market, realizing a pre-tax gain of approximately $48 million.

In the third quarter of 1998, the Company wrote down to estimated fair value two long-term non-marketable equity investments. The write-down consisted of $12 million for the Company's 2.4% equity investment in a non-public foundry company and $2 million for the Company's equity investment in a non-public technology company. The estimated fair values established for these investments were determined by use of management's estimates. The decline in value of the investments was not considered by management to be temporary. In the fourth quarter of 1998, the Company recognized a gain of $17 million on proceeds of $23 million from a sale of one of its equity investments in a non-public technology company.

There were no significant gains or losses realized on investments in debt and equity securities for the year ended December 31, 1997.

2.23

STARBUCKS CORPORATION (SEP)

	1999	1998
Current assets:		
Cash and cash equivalents	$ 66,419	$101,663
Short-term investments	51,367	21,874
Accounts receivable	47,646	50,972
Inventories	180,886	143,118
Prepaid expenses and other current assets	19,049	11,205
Deferred income taxes, net	21,133	8,448
Total current assets	$386,500	$337,280

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Investments

The Company's investments consist primarily of investment-grade marketable debt and equity securities, all of which are classified as available-for-sale and recorded at fair value. Unrealized holding gains and losses are recorded, net of any tax effect, as a separate component of accumulated other comprehensive income.

Fair Value of Financial Instruments

The carrying value of cash and cash equivalents approximates fair value because of the short-term maturity of those instruments. The fair value of the Company's investments in marketable debt and equity securities is based upon the quoted market price on the last business day of the fiscal year plus accrued interest, if any. The fair value and amortized cost of the Company's investments (short- and long-term) at October 3, 1999, were $56.4 million and $56.2 million, respectively. The fair value and amortized cost of the Company's investments at September 27, 1998, were $21.9 million and $22.7 million, respectively. For further information on investments, see Note 4. The carrying value of long-term debt approximates fair value.

Note 4: Investments

The Company's investments consist of the following (in thousands):

1999	Fair Value	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses
Current investments:				
Corporate debt securities	$17,233	$17,123	$155	$ (45)
U.S. government obligations	4,988	4,976	13	(1)
Commercial paper	18,706	18,751	—	(45)
Mutual funds	2,056	2,002	73	(19)
Marketable equity securities	8,384	8,258	313	(187)
	$51,367	$51,110	$554	$(297)
Non-current investments:				
U.S. Government obligations	$ 5,028	$5,044	$ —	$ (16)

1998	Fair Value	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses
Current investments:				
Corporate debt securities	$11,356	$11,373	$20	$ (37)
U.S. government obligations	10,410	10,409	1	—
Marketable equity securities	108	958	—	(850)
	$21,874	$22,740	$21	$(887)

All investments are classified as available-for-sale as of October 3, 1999 and September 27, 1998. Securities with remaining maturities of one year or less are classified as short-term investments. Securities with remaining maturities longer than one year are classified as long-term and are included in the line item "Joint ventures and other investments" in the accompanying consolidated balance sheets. The specific identification method is used to *determine a cost basis for computing realized gains and losses.*

In fiscal 1999, 1998 and 1997, proceeds from the sale of investment securities were $3.6 million, $5.1 million and $9.3 million, respectively. Gross realized gains and losses were not material in 1999, 1998 and 1997.

Trading Securities

2.24

FORD MOTOR COMPANY AND SUBSIDIARIES (DEC)

(In millions)	1999	1998
Assets:		
Automotive		
Cash and cash equivalents	$ 4,642	$ 3,685
Marketable securities (Note 2)	18,943	20,120
Total cash and marketable securities	$ 23,585	$23,805
Receivables	$ 3,769	$ 2,604
Inventories	6,435	5,656
Deferred income taxes	3,872	3,239
Other current assets	4,126	3,405
Current receivable from Financial Services	2,304	0
Total current assets	$ 44,091	$38,709

NOTES

Note 2 (In Part): Marketable and Other Securities

Trading securities are recorded at fair value with unrealized gains and losses included in income. Available-for-sale securities are recorded at fair value with net unrealized gains and losses reported, net of tax, in other comprehensive income. Held-to-maturity securities are recorded at amortized cost. Equity securities which did not have readily determinable fair values are recorded at cost. The basis of cost used in determining realized gains and losses is specific identification.

The fair value of substantially all securities is determined by quoted market prices. The estimated fair value of securities, for which there are no quoted market prices, is based on similar types of securities that are traded in the market. Book value approximates fair value for all securities.

Expected maturities of debt securities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without penalty.

Automotive Sector

Investments in securities at December 31 were as follows (in millions):

	Amortized Cost	Unrealized Gains	Unrealized Losses	Book/ Fair Value
1999				
Trading securities	$17,243	$56	$123	$17,176
Available-for-sale securities—Corporate securities	1,004	—	8	996
Held-to-maturity securities	771	—	—	771
Total investments in securities	$19,018	$56	$131	$18,943
1998				
Trading securities	$19,534	$83	$ 40	$19,577
Available-for-sale securities—Corporate securities	543	—	—	543
Total investments in securities	$20,077	$83	$ 40	$20,120

During 1997, $365 million of bonds issued by affiliates were reclassified from equity in net assets of affiliated companies to available-for-sale marketable securities; $163 million of the bonds matured in 1999 and $202 million matured in 1998. Proceeds from sales of available-for-sale securities were $2,352 million in 1999 and $586 million in 1998. In 1999, gross gains of $11 million were reported. Other comprehensive income included net unrealized gains of $13 million in 1999 and net unrealized losses of $5 million in 1998 on securities owned by certain unconsolidated affiliates. The available-for-sale securities at December 31, 1999 had contractual maturities between one and five years.

Held-to-Maturity Securities

2.25

ELI LILY AND COMPANY AND SUBSIDIARIES (DEC)

(Dollars in millions)	1999	1998
Current assets:		
Cash and cash equivalents	$3,700.4	$1,495.7
Short-term investments	135.6	101.4
Accounts receivable, net of allowances of $79.9 (1999) and $64.3 (1998)	1,443.2	1,967.9
Other receivables	399.6	275.8
Inventories	899.6	999.9
Deferred income taxes (Note 10)	240.3	332.7
Prepaid expenses	236.8	233.4
Total current assets	$7,055.5	$5,406.8

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

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

Investments: All short-term 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 discounts to maturity. Substantially all long-term 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. The Company owns no investments that are considered to be trading securities.

Note 5 (In Part): Financial Instruments

Fair Value of Financial Instruments

A summary of the Company's outstanding financial instruments as of December 31 follows. As summarized, "cost" relates to investments while "carrying amount" relates to long-term debt.

	1999		1998	
	Cost/ Carrying Amount	Fair Value	Cost/ Carrying Amount	Fair Value
Short-term investments:				
Debt securities	$ 135.6	$ 136.0	$ 101.4	$ 102.7
Noncurrent investments:				
Marketable equity	63.9	96.8	66.5	70.4
Debt securities	35.6	35.6	38.6	38.6
Nonmarketable equity	14.9	14.9	26.1	26.1
Long-term debt, including current portion	$3,026.7	$2,990.6	$2,337.7	$2,629.7

The Company determines fair values based on quoted market values where available or discounted cash flows analyses (principally long-term debt). The fair values of nonmarketable equity securities, which represent either investments in start-up technology companies or partnerships that invest in start-up technology companies, are estimated based on the fair value information provided by these ventures. The fair value and carrying amount of risk-management instruments were not material at December 31, 1999 and 1998.

At December 31, 1999 and 1998, the gross unrealized holding gains on available-for-sale securities were $42.5 million and $22.7 million, respectively, and the gross unrealized holding losses were $12.6 million and $20.6 million, respectively. Substantially all these gains and losses are associated with the marketable equity securities. The proceeds from sales of available-for-sale securities totaled $56.2 million, $36.3 million, and $39.7 million in 1999, 1998, and 1997, respectfully. Realized gains on sales of available-for-sale securities were $25.0 million, $20.6 million, and $6.6 million in 1999, 1998, and 1997, respectively. Realized losses on sales of available-for-sale securities were negligible, $2.5 million and $25.3 million in 1999, 1998, and 1997, respectively. The net adjustment to unrealized gains and losses on available-for-sale securities increased other comprehensive income by $18.6 million in 1999 and decreased other comprehensive income by $1.7 million in 1998.

2.26

SCIENTIFIC INDUSTRIES, INC. & SUBSIDIARY (JUN)

	1999	1998
Current assets:		
Cash and cash equivalents	$ 229,100	$ 165,900
Investment securities	522,500	1,035,600
Trade accounts receivable, less allowance for doubtful accounts of $7,400 in 1999 and 1998	323,000	269,300
Inventories	366,000	341,000
Recoverable income taxes	102,000	—
Prepaid expenses and other current assets	48,300	59,400
Deferred income taxes	—	21,200
Total current assets	$1,590,900	$1,892,400

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Investment Securities

Securities which the Company has the ability and positive intent to hold to maturity are carried at amortized cost. All held-to-maturity securities mature within one year. Securities available for sale are carried at fair value with unrealized gains or losses reported in a separate component of shareholders' equity. Realized gains or losses are determined based on the specific identification method.

3. Investment Securities

Details as to investment securities are as follows:

	Gross Cost or Amortized Cost	Fair Value	Unrealized Holding Gain (Loss)
At June 30, 1999:			
Available for sale:			
Equity securities	$ 19,400	$ 18,400	$(1,000)
Held-to-maturity:			
State and municipal	$ 471,100	$ 471,100	$ —
Certificates of deposit	33,000	33,000	—
	$ 504,100	$ 504,100	$ —
At June 30, 1998:			
Available for sale:			
Equity securities	$ 16,100	$ 19,500	$ 3,400
Held-to-maturity:			
State and municipal	$1,016,100	$1,016,200	$ 100

13. Fair Value of Financial Instruments

The financial statements include various estimated fair value information as of June 30, 1999 and 1998, as required by Statement of Financial Accounting Standards 107, "Disclosure about Fair Value of Financial Instruments." Such information, which pertains to the Company's financial instruments, is based on the requirements set forth in that statement and does not purport to represent the aggregate net fair value of the Company. The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value.

The carrying value of cash and cash equivalents and investment securities approximates fair market value because of the short maturity of those instruments.

The following table provides summary information on the fair value of significant financial instruments included in the financial statements:

(In thousands)	1999 Carrying Amount	1999 Estimated Fair Value	1998 Carrying Amount	1998 Estimated Fair Value
Assets:				
Cash and cash equivalents	$229,100	$229,100	$ 165,900	$ 165,900
Investment securities (Note 3)	$522,500	$522,500	$1,035,600	$1,035,700

CURRENT RECEIVABLES

2.27 Table 2-5 summarizes both the descriptive titles used in the balance sheet to describe trade receivables and the types of receivables, other than trade receivables, which the survey companies most frequently showed as current assets.

2.28 228 survey companies disclosed fair value information about current receivables of which 224 stated that fair value approximated carrying amount. Paragraph 13 of *Statement of Financial Accounting Standards No. 107,* as amended by *SFAS No. 133,* states that no disclosure about the fair value of trade receivables is required if the fair value approximates the carrying amount of the trade receivables.

2.29 Examples of presentations and disclosures for current receivables follow.

2.30

TABLE 2-5: CURRENT RECEIVABLES

	1999	1998	1997	1996
Trade Receivable Captions				
Accounts receivable	282	280	269	268
Receivables	133	143	138	137
Trade accounts receivable	125	116	130	123
Accounts and notes receivable	57	61	63	72
No caption for current receivables	3	1	—	—
Total Companies	**600**	**600**	**600**	**600**
Receivables Other Than Trade Receivables				
Tax refund claims	50	49	45	31
Contracts	41	37	46	46
Investees	29	31	26	25
Finance	20	16	20	28
Retained interest in sold receivables	4	10	5	—
Insurance claims	4	9	6	5
Installment notes or accounts	4	3	4	2
Employees	1	2	4	6
Sales of assets	1	1	5	5

RECEIVABLES OTHER THAN TRADE RECEIVABLES

Tax Refund Claims

2.31

FREEPORT–McMORAN COPPER & GOLD INC. (DEC)

(In thousands)	1999	1998
Current assets:		
Cash and cash equivalents	$ 6,698	$ 5,877
Accounts receivable:		
Customers	141,325	180,978
Other	31,437	47,524
Inventories:		
Product	134,735	118,440
Materials and supplies	233,390	182,964
Prepaid expenses and other	16,869	10,111
Total current assets	$564,454	$545,894

NOTES TO FINANCIAL STATEMENTS

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

Accounts Receivable

Customer accounts receivable include amounts due from PT Smelting totaling $27.6 million at December 31, 1999 and $20.8 million at December 31, 1998. Other accounts receivable include refundable value-added taxes, net of the allowance for uncollectible amounts, totaling $19.5 million at December 31, 1999 and $24.9 million at December 31, 1998. The allowance for uncollectible amounts totaled $5.5 million at December 31, 1999 and 1998.

2.32

TREESOURCE INDUSTRIES, INC. AND SUBSIDIARIES (APR)

(In thousands)	1999	1998
Current assets:		
Cash and cash equivalents	$ 2,131	$ 2,157
Accounts receivable, net	10,210	10,464
Inventories	13,716	14,005
Prepaid expenses	1,320	1,195
Income tax refund receivable	70	—
Deferred tax asset	750	750
Assets held for sale	7,749	6,685
Timber, timberlands and timber-related assets	2,190	4,252
Total current assets	$38,136	$39,508

Contracts

2.33

SEQUA CORPORATION AND SUBSIDIARIES (DEC)

(Amounts in thousands)	1999	1998
Current assets:		
Cash and cash equivalents	$ 68,164	$ 84,889
Short-term investments	—	11,475
Trade receivables, net	239,532	292,152
Unbilled receivables, net (Note 4)	32,130	38,795
Inventories	315,158	262,765
Other current assets	25,275	25,792
Total current assets	$680,259	$715,868

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4: Unbilled Receivables, Net

Unbilled receivables, net consist of the following:

(Amounts in thousands)	1999	1998
Fixed-price contracts	$29,165	$33,923
Cost-reimbursement contracts	2,965	4,872
	$32,130	$38,795

Unbilled receivables on fixed-price contracts arise as revenues are recognized under the percentage-of-completion method. These amounts are billable at specified dates, when deliveries are made or at contract completion, which is expected to occur within one year. All amounts included in unbilled receivables are related to long-term contracts and are reduced by appropriate progress billings.

Unbilled amounts on cost-reimbursement contracts represent recoverable costs and accrued profits not yet billed. These amounts are billable upon receipt of contract funding, final settlement of indirect expense rates, or contract completion.

Allowances for estimated nonrecoverable costs are primarily to provide for losses which may be sustained on contract costs awaiting funding and for the finalization of indirect expenses. Unbilled amounts at December 31, 1999 and 1998 are reduced by allowances for estimated nonrecoverable costs of $2,060,000 and $879,000, respectively.

2.34

UNOVA, INC. (DEC)

(Thousands of dollars)	1999	1998
Current assets:		
Cash and cash equivalents	$ 25,239	$ 17,708
Accounts receivable, net of allowance for doubtful accounts of $20,375 (1999) and $24,021 (1998)	596,885	662,885
Inventories, net of progress billings	310,175	336,005
Deferred tax assets	158,170	141,773
Other current assets	19,873	21,129
Total current assets	$1,110,342	$1,179,500

NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

Note D (In Part): Accounts Receivable and Inventories

Accounts receivable consist of the following:

(Thousands of dollars)	1999	1998
Trade receivables, net	$224,876	$365,232
Receivables related to long-term contracts		
Amounts billed	104,356	125,920
Unbilled costs and accrued profit on progress completed and retentions	267,653	171,733
Accounts receivable, net	$596,885	$662,885

The unbilled costs and retentions at December 31, 1999 are expected to be entirely billed and collected during 2000.

Receivables From Affiliates

2.35

THE LUBRIZOL CORPORATION (DEC)

(In thousands of dollars)	1999	1998
Cash and short-term investments	$185,465	$ 53,639
Receivables	301,256	301,644
Inventories	258,149	277,612
Other current assets	35,572	54,575
Total current assets	$780,442	$687,470

NOTES TO FINANCIAL STATEMENTS
(In thousands of dollars unless otherwise indicated)

Note 5 (In Part): Other Balance Sheet Information

	1999	1998
Receivables:		
Customers	$273,054	$269,264
Affiliates	9,013	8,976
Other	19,189	23,404
	$301,256	$301,644

Receivables are net of allowance for doubtful accounts of $4.1 million in 1999 and $2.2 million in 1998.

2.36

PEPSICO, INC. AND SUBSIDIARIES (DEC)

(In millions)	1999	1998
Current assets:		
Cash and cash equivalents	$ 964	$ 311
Short-term investments, at cost	92	83
	1,056	394
Accounts and notes receivable, net	1,704	2,453
Inventories	899	1,016
Prepaid expenses and other current assets	514	499
Total current assets	$4,173	$4,362

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Tabular dollars in millions)

Note 7: Accounts and Notes Receivable, net

	1999	1998	1997
Trade receivables	$1,234	$2,126	
Receivables from affiliates	243	59	
Other receivables	312	395	
	1,789	2,580	
Allowance, beginning of year	127	125	$166
Charged to expense	26	47	41
Other additions	9	8	7
Deductions	(77)	(53)	(89)
Allowance, end of year	85	127	$125
Net receivables	$1,704	$2,453	

Other additions include acquisitions and reclassifications and deductions include the impact of the bottling transactions, accounts written off and currency translation effects.

Finance Receivables

2.37

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES (OCT)

(In millions)	1999	1998
Current assets:		
Cash and cash equivalents	$ 5,411	$ 4,046
Short-term investments	179	21
Accounts receivable	5,958	5,104
Financing receivables	1,889	1,494
Inventory	4,863	4,699
Other current assets	3,342	3,143
Total current assets	$21,642	$18,507
Property, plant and equipment, net	4,333	4,877
Long-term investments and other assets	5,789	5,240
Net assets of discontinued operations	3,533	3,084
Total assets	$35,297	$31,708

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Financing Receivables and Investment in Operating Leases (In Part)

Financing receivables represent sales-type and direct-financing leases and installment sales resulting from the marketing of HP's, and complementary third-party, products. These receivables typically have terms from two to five years and are usually collateralized by a security interest in the underlying assets. The components of net financing receivables, which are included in financing receivables and long-term investments and other assets, are as follows at October 31:

(In millions)	1999	1998
Gross financing receivables	$4,336	$3,396
Unearned income	(489)	(340)
Financing receivables, net	3,847	3,056
Less current portion	(1,889)	(1,494)
Amounts due after one year, net	$1,958	$1,562

Contractual maturities of HP's gross financing receivables at October 31, 1999 were $2,135 million in 2000, $1,182 million in 2001, $700 million in 2002, $139 million in 2003, $126 million in 2004 and $54 million thereafter. Actual cash collections may differ primarily due to customer early buy-outs and refinancings.

2.38

TASTY BAKING COMPANY (DEC)

	1999	1998
Current assets:		
Cash	$ 705,494	$ 372,871
Receivables, less allowance of $2,874,088 and $2,849,538, respectively	19,682,733	21,214,576
Inventories	4,505,779	4,707,280
Deferred income taxes	2,418,107	2,021,509
Prepayments and other	87,105	296,318
Total current assets	$27,399,218	$28,612,554

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. Long-Term Receivables and Distribution Routes

The majority of the Company's sales distribution routes are owned by independent owner/operators who purchase the exclusive right to sell and distribute Tastykake products in defined geographical territories. The Company maintains a wholly-owned subsidiary to assist in financing route purchase activities if requested by new owner/operators. Most route purchase activities involve transactions between existing and new independent owner/operators. At December 25, 1999 and December 26, 1998, notes receivable of $12,115,000 and $12,669,000, respectively, are included in current and long-term receivables in the accompanying consolidated balance sheets.

Retained Interest in Sold Receivables

2.39

FEDERAL-MOGUL CORPORATION (DEC)

(Millions of dollars)	1999	1998
Cash and equivalents	$ 64.5	$ 77.2
Accounts receivable	514.6	1,025.0
Investment in accounts receivable securitization	232.2	91.1
Inventories	883.6	1,068.6
Prepaid expenses and income tax benefits	331.6	337.7
Total current assets	$2,026.5	$2,599.6

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7 (In Part): Financial Instruments

Accounts Receivable Securitization

In July 1999, the Company entered into a new $450 million accounts receivable securitization agreement replacing the existing $150 million agreement. The facility maturity date is June 28, 2000. Net proceeds were used to repay borrowings under the Senior Credit Agreement's multicurrency revolving credit facility.

On an ongoing basis, the Company sells certain accounts receivable to Federal-Mogul Funding Corporation (FMFC), a wholly owned subsidiary of the Company, which then sells such receivables, without recourse, to a financial conduit. Amounts excluded from the balance sheets under these arrangements were $410.1 million and $105.8 million at December 31, 1999 and 1998, respectively. The Company's retained interest in the accounts receivable sold to FMFC is included in the consolidated balance sheet caption "Investment in Accounts Receivable Securitization."

Insurance Claims

2.40

DEXTER CORPORATION (DEC)

(In thousands of dollars)	1999	1998
Current assets:		
Cash	$ 9,043	$ 8,566
Short-term securities	77,807	102,483
Accounts receivable, net	181,726	203,872
Inventories:		
Materials and supplies	56,451	65,180
In process and finished goods	122,551	129,175
LIFO reserve	(15,507)	(17,388)
	163,495	176,967
Current deferred tax assets	23,176	14,874
Prepaid and deferred expenses	9,307	10,768
	$464,554	$517,530

FINANCIAL REVIEW

Contingencies (In Part)

The Company and its subsidiaries are subject to potential liability under government regulations, contractual and other matters and various claims and legal actions which are pending or may be asserted. These matters arise in the ordinary course and conduct of the business of the Company and its subsidiaries and some are expected to be covered, at least in part, by insurance. At December 31, 1999, $0.3 million of current and $4.9 million of long-term receivables from third-party insurance companies are included as assets of the Company. Equal and offsetting payables to third parties are included as liabilities of the Company. Estimated amounts for claims that are probable and are not covered by third-party insurance are properly reflected as liabilities of the Company.

2.41

ROUGE INDUSTRIES, INC. (DEC)

(Amounts in thousands)	1999	1998
Current assets:		
Cash and cash equivalents	$ 1,861	$ 2,418
Accounts receivable:		
Trade and other (net of allowances of $15,997 and $17,937)	135,588	130,624
Insurance recovery	43,085	—
Affiliates	2,643	5,644
Inventories	269,808	275,811
Other current assets	27,530	7,075
Total current assets	$480,515	$421,572

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 11: Powerhouse Explosion and Insurance Claim

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 the temporary shutdown of Rouge Steel's steel making facilities. The Powerhouse is owned 60 percent by Rouge Steel and 40 percent by Ford. Ford was responsible for the day-to-day management, operation and maintenance of the Powerhouse.

The Company's insurance program provides 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 to operations. The Company continues to evaluate its potential insurance recoveries in three areas:

1. Damage to Rouge Steel property and Powerhouse property as a result of the explosion—Costs for repairs are being expressed as incurred, with related estimated insurance recoveries recorded as they are considered to be probable, up to the amount of the actual costs incurred.
2. Rouge Steel business interruption costs—The non-capitalizable costs are being expensed as incurred. Estimated insurance recoveries are recorded to the extent such recoveries are considered to be probable. Recoveries in excess of actual costs incurred will be recorded as gains when the claims are settled and proceeds are received. Certain costs relating to capital improvements incurred to mitigate the Company's loss from the Powerhouse explosion are being capitalized and amortized over their estimated useful lives. Insurance recoveries relating to these items are being recognized over the same periods.
3. Powerhouse property damage—The net book value of the Powerhouse property destroyed, which was $1,622,000, was written off in 1999. Any proceeds from the claims relating to Powerhouse property damage (other than amounts relating to repairs discussed in 1. above) are expected to result in a gain since the proceeds are expected to exceed the net book value of the property written off. The anticipated gain will be recorded as the claims are settled and proceeds are received.

Pursuant to the accounting methodology described above, through December 31, 1999, the Company has recorded recoverable insurance proceeds of $202,085,000 net of reserves of $39,990,000. Of the total amount recorded, $177,414,000 has been included in other income and $24,671,000 has been deferred and will be recognized in other income over the period the related capital items are amortized.

At December 31, 1999, the Company has a receivable of $43,085,000, which is net of reserves of $39,990,000 and advances from the insurance carriers of $159,000,000. The Company continues to discuss the determination of the total claim with its insurers. The Company's assessment of probability with respect to the receivable was made based on discussions with insurers and legal and financial experts retained to assist in the claim process. The estimates will change as additional information becomes available with respect to actual costs and as the insurers perform their review of claim information submitted by the Company. Based on the magnitude and complexity of the insurance claim, the Company is presently unable to reasonably estimate the amount of actual costs to be incurred in the future as well as the extent of the Company's exposure for amounts not covered by its insurance program.

The Company is evaluating ancillary costs relating to the explosion, including cleanup and abatement activities. Certain of these costs are probable, but are not currently subject to reasonable estimation. Such amounts could be material to the Company's results of operations, cash flows and financial position during future periods. Based upon the available information, during 1999, the Company recorded a $3,000,000 reserve for its share of the estimated cost to encapsulate the Powerhouse. If the abatement costs exceed $3,000,000, those costs will be recorded as incurred if they relate to future operations. If they do not result in future benefit to the Company, additional abatement costs will be recorded in the period during which losses become probable and reasonably estimable.

Installment Receivables

2.42

COMPUTER ASSOCIATES INTERNATIONAL, INC. (MAR)

(Dollars in millions)	1999	1998
Current assets:		
Cash and cash equivalents	$ 399	$ 251
Marketable securities	137	59
Trade and installment accounts receivable, net	2,021	1,859
Other current assets	74	86
Total current assets	$2,631	$2,255

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 5: Trade and Installment Accounts Receivable

Trade and installment accounts receivable consist of the following:

(Dollars in millions)	March 31, 1999	1998
Current receivables	$3,153	$2,655
Less:		
Allowance for uncollectible amounts	(204)	(210)
Unamortized discounts	(463)	(240)
Deferred maintenance fees	(465)	(346)
	$2,021	$1,859
Non-current receivables	$4,565	$3,719
Less:		
Allowance for uncollectible amounts	(60)	(36)
Unamortized discounts	(735)	(457)
Deferred maintenance fees	(926)	(736)
	$2,844	$2,490

Installment accounts receivable represent amounts collectible on long-term financing arrangements and include fees for product licenses, upgrades, and maintenance, sometimes also bundled with professional services contracts. Installment receivables are generally financed over three to five years and are recorded net of unamortized discounts, deferred maintenance fees, and allowances for uncollectible amounts.

The provisions for uncollectible amounts for the years ended March 31, 1999, 1998, and 1997 were $75 million, $71 million, and $110 million, respectively, and are included in selling, marketing, and administrative expenses.

Environmental Remediation Recovery

2.43

GENCORP INC. (NOV)

(Dollars in millions)	1999	1998
Current assets:		
Cash and cash equivalents	$ 23	$ 24
Accounts receivable	139	164
Inventories	144	101
Prepaid expenses and other	57	48
Discontinued operations	—	192
Total current assets	$363	$529

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note I: Accounts Receivable

At November 30, the amount of commercial receivables was $79 million and $90 million for 1999 and 1998, respectively. Receivables for the Vehicle Sealing Segment of $63 million and $52 million in 1999 and 1998, respectively, are due primarily from General Motors and Ford. The amount of United States Government receivables was $60 million and $74 million for 1999 and 1998, respectively. Included in the 1999 and 1998 United States Government receivables is $12 million and $16 million, respectively, for environmental remediation recovery (see Note S—Contingencies). The Company's receivables are generally unsecured and are not backed by collateral from its customers.

Also included in accounts receivable from the United States Government are unbilled receivables of $10 million and $11 million at November 30, 1999 and 1998, respectively, relating to long-term government contracts. Such amounts are billed either upon delivery of completed units or settlements of contracts. The unbilled receivables amount at November 30, 1999 includes $5 million expected to be collected in fiscal year 2000, and $5 million expected to be collected in subsequent years.

Note S (In Part): Contingencies

Environmental Matters (In Part)

Muskegon, Michigan—In a lawsuit filed by the EPA, the United States District Court ruled in 1992 that Aerojet and its two inactive Cordova Chemical subsidiaries (Cordova) are liable for remediation of Cordova's Muskegon, Michigan site, along with a former owner/operator of an earlier chemical plant at the site, who is the other potentially responsible party (PRP). That decision was appealed to the United States Court of Appeals.

In May 1997, the United States Court of Appeals for the Sixth Circuit issued an en banc decision reversing Aerojet's and the other PRP's liability under the CERCLA statute. Petitions for certiorari to the United States Supreme Court for its review of the appellate decision were filed on behalf of the State of Michigan and the EPA and were granted in December 1997. On June 8, 1998, the United States Supreme Court issued its opinion. The Court held that a parent corporation could be directly liable as an operator under CERCLA if it can be shown that the parent corporation operated the facility. The Supreme Court vacated the Sixth Circuit's 1997 ruling and remanded the case back to the United States District Court in Michigan for retrial. Aerojet does not expect that it will be found liable on remand. Aerojet has been involved in settlement discussions with the EPA and a proposed consent decree was filed with the District Court in July 1999. If approved by the District Court, Aerojet and Cordova will be dismissed.

In a separate action, Aerojet and Cordova won indemnification for the Muskegon site investigation and remediation costs from the State of Michigan in the state Court of Claims. The Michigan Court of Appeals affirmed on appeal, and the Michigan Supreme Court refused to hear the case. Further, the Michigan Supreme Court also denied the State's motion for reconsideration. As a result, the Company believes that most of the $50 million to $100 million in anticipated remediation costs will be paid by the State of Michigan and the former owner/operator of the site. A settlement agreement with the State of Michigan, related to the proposed consent decree discussed above, has been finalized and will be implemented contingent on the EPA consent decree being approved. in addition, Aerojet settled with one of its two insurers in August 1999 for $4 million.

RECEIVABLES SOLD OR COLLATERALIZED

2.44 Table 2-6 shows that 1999 annual reports of 138 survey companies disclosed either the sale of receivables or the pledging of receivables as collateral. Of those 138 survey companies, 10 disclosed a factoring agreement and 27 disclosed that the receivables were transferred to a special-purpose entity.

2.45 *Statement of Financial Accounting Standards No. 125,* as amended by *Statement of Financial Accounting Standards No. 133,* establishes new 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. 125* also establishes new accounting requirements for pledged collateral. As issued, *SFAS No. 125* is effective for all transfers and servicing of financial assets and extinquishments of liabilities occurring after December 31, 1996. *SFAS No. 127* deferred for one year the effective date of *SFAS No. 125* as it relates to the transfer of financial assets accounted for as a secured borrowing with pledge of collateral, and for certain other transactions.

2.46 Examples of disclosures made in the reports of the survey companies collateralizing receivables follow.

2.47

TABLE 2-6: RECEIVABLES SOLD OR COLLATERALIZED

	1999	1998	1997	1996
Receivables sold				
With recourse	20	21	N/C*	N/C*
With limited recourse	22	15	N/C*	N/C*
Without recourse	26	21	19	15
Recourse not discussed	42	43	N/C*	N/C*
	110	**100**	**100**	**94**
Receivables used as collateral	28	25	31	33
	138	**125**	**131**	**127**
No reference to receivable sold or collateralized	462	475	469	473
Total Companies	**600**	**600**	**600**	**600**

* N/C = Not compiled. This table has been revised to enhance its clarity. As a result, the line item was not included in the table for the year shown.

Receivables Sold

2.48

BECKMAN COULTER, INC. (DEC)

(In millions)	1999	1998
Current assets:		
Cash and cash equivalents	$ 34.4	$ 24.7
Trade and other receivables	566.4	540.2
Inventories	313.1	302.8
Deferred income taxes	21.5	60.5
Other current assets	31.0	28.4
Total current assets	$966.4	$956.6

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Tabular dollar amounts in millions)

Note 2 (In Part): Composition of Certain Financial Statement Captions

	1999	1998
Trade and other receivables:		
Trade receivables	$504.9	$488.9
Other receivables	35.7	50.2
Current portion of lease receivables	21.3	21.8
Less allowance for doubtful accounts	(31.5)	(20.7)
	$566.4	$540.2

Note 5 (In Part): Sale of Assets

During 1999 we sold certain financial assets (primarily consisting of customer lease receivables) as part of our plan to reduce debt and provide funds for integration purposes. The net book value of financial assets sold was $72.4 million for which we received approximately $74.0 million in cash proceeds. In 1998, we sold similar assets with a net book value of $67.7 million for cash proceeds of $68.9 million.

Under the provisions of Statement of Financial Accounting Standards No. 124, "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities," the 1999 and 1998 transactions were accounted for as sales and as a result the related receivables have been excluded from the accompanying Consolidated Balance Sheets. The sales are subject to certain recourse and servicing provisions and as such we have established reserves for these probable liabilities.

2.49

DILLARD'S INC. (JAN)

(Amounts in thousands)	2000	1999
Current assets:		
Cash and cash equivalents	$ 198,721	$ 72,401
Accounts receivable (net of allowance for doubtful accounts of $32,533 and $37,487)	1,104,925	1,192,572
Merchandise inventories	2,047,830	2,157,010
Other current assets	72,249	28,266
Total current assets	$3,423,725	$3,450,249

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Accounts Receivable

Customer accounts receivable are classified as current assets and include some which are due after one year, consistent with industry practice. Concentrations of credit risk with respect to customer receivables are limited due to the large number of customers comprising the Company's credit card base, and their dispersion across the country.

In August 1998, the Company transferred, through a subsidiary, substantially all of its credit card receivables to a trust in exchange for a certificate representing an undivided interest in the trust. In January 1999, a Class A certificate with a market value of $300 million was sold to a third party. The Company owns the remaining undivided interest in the trust not represented by the Class A certificate, which is classified in accounts receivable. The undivided interest in the trust represents securities that the Company intends to hold to maturity in accordance with Statement of Financial Accounting Standards ("SFAS") No. 115, "Accounting for Certain Investments in Debt and Equity Securities." Due to the short-term revolving nature of the credit card portfolio, the carrying value of the Company's undivided interest in the trust approximates fair value. In March 2000, the Company repurchased, from the third party, its undivided class A interest of approximately $300 million and anticipates no material charge to be recorded in the first quarter of 2000.

2.50

THE GEON COMPANY (DEC)

(In millions)	1999	1998
Current assets:		
Cash and cash equivalents	$ 51.2	$ 14.4
Accounts receivable	105.4	70.8
Inventories	168.2	113.9
Deferred income tax assets	27.2	24.6
Prepaid expenses	5.7	11.0
Total current assets	$357.7	$234.7

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note I: Sale of Accounts Receivable

The Company has an agreement with a bank to sell an undivided interest in certain trade accounts receivable under which, on an ongoing basis, a maximum of $85.0 million can be sold from a designated pool subject to limited recourse. Payments are collected from the sold accounts receivable, the collections are reinvested in new accounts receivable for the buyers, and a yield based on defined short-term market rates is transferred to the buyers. Buyers have collection rights to recover payments from the receivables in the designated pool. Sales of accounts receivable averaged $69.6 million, $78.4 million and $79.9 million in 1999, 1998 and 1997, respectively. Accounts receivable at December 31, 1999, and 1998 were net of $85.0 million, representing the interests in receivables sold under these agreements. The discount from the Company's sale of receivables is included in "Other expense, net" in the Consolidated Statements of Income.

2.51

JONES APPAREL GROUP, INC. (DEC)

(All amounts in millions)	1999	1998
Current assets:		
Cash and cash equivalents	$ 47.0	$129.0
Accounts receivable	271.1	169.2
Inventories	619.6	268.2
Prepaid and refundable income taxes	34.5	—
Deferred taxes	98.9	32.1
Prepaid expenses and other current assets	59.5	33.3
Total current assets	$1,130.6	$631.8

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Accounts Receivable

Accounts receivable consists of the following:

(In millions)	1999	1998
Accounts receivable	$176.3	$172.5
Securitized interest in accounts receivable	121.4	—
Allowance for doubtful accounts	(26.6)	(3.3)
	$271.1	$169.2

As of December 31, 1999, the Company had an agreement with a financial institution under which it could sell, without recourse, its interest in certain trade accounts receivable. As of December 31, 1999, the Company had sold $188.4 million of outstanding trade accounts receivable, had received proceeds of $67.0 million and had a subordinated interest in the remaining outstanding receivables of $121.4 million. The level of the Company's securitized interests in outstanding receivables sold under the agreement was capped at $132.0 million and the program had an effective interest rate of 6.5%. The Company plans to terminate this agreement in the first quarter of 2000.

2.52

MANPOWER INC. (DEC)

(In millions)	1999	1998
Current assets:		
Cash and cash equivalents	$ 241.7	$ 180.5
Accounts receivable, less allowance for doubtful accounts of $47.1 and $39.5, respectively	1,897.6	1,674.7
Prepaid expenses and other assets	66.0	53.6
Future income tax benefits	52.0	52.8
Total current assets	$2,257.3	$1,961.6

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (In millions)

1 (In Part): Summary of Significant Accounting Policies

Accounts Receivable Securitization

The Company accounts for the securitization of accounts receivable in accordance with SFAS No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities." At the time the receivables are sold, the balances are removed from the Consolidated Balance Sheets. Costs associated with the sale of receivables, primarily related to the discount and loss on sale, are included in other expense in the Consolidated Statements of Operations.

4. Accounts Receivable Securitization

The Company and certain of its U.S. subsidiaries entered into an agreement (the "Receivables Facility") in December 1998 with a financial institution whereby it sells on a continuous basis an undivided interest in all eligible trade accounts receivable. Pursuant to the Receivables Facility, the Company formed Ironwood Capital Corporation ("ICC"), a wholly-owned, special purpose, bankruptcy-remote subsidiary. ICC was formed for the sole purpose of buying and selling receivables generated by the Company and certain subsidiaries of the Company. Under the Receivables Facility, the Company and certain subsidiaries, irrevocably and without recourse, transfer all of their accounts receivables to ICC. ICC, in turn, has sold and, subject to certain conditions, may from time to time sell an undivided interest in these receivables and is permitted to receive advances of up to $200.0 for the sale of such undivided interest. The agreement expires in December 2000.

This two-step transaction is accounted for as a sale of receivables under the provisions of SFAS No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities." There was $200.0 and $175.0 advanced under the Receivables Facility at December 31, 1999 and 1998, respectively, and accordingly, that amount of accounts receivable has been removed from the Consolidated Balance Sheets. Costs associated with the sale of receivables, primarily related to the discount and loss on sale, were $9.8 and $.7 in 1999 and 1998, respectively, and are included in other expenses in the Consolidated Statements of Operations.

2.53

OFFICE DEPOT, INC. (DEC)

(In thousands)	1999	1998
Current assets:		
Cash and cash equivalents	$ 218,784	$ 704,541
Short-term investments	—	10,424
Receivables, net of allowances of $27,736 in 1999 and $25,927 in 1998	849,478	721,446
Merchandise inventories, net	1,436,879	1,258,355
Deferred income taxes	68,279	52,422
Prepaid expense	57,632	33,247
Total current assets	$2,631,052	$2,780,435

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note H (In Part): Commitments and Contingencies

Receivables Sold with Recourse

We have two private label credit card programs that are managed by financial services companies. All credit card receivables related to these programs were sold on a recourse basis during 1999, 1998 and 1997. Proceeds from the sale of these receivables were approximately $1.1 billion in 1999, 1998 and 1997. Our maximum exposure to off-balance sheet credit risk is represented by the outstanding balance of private label credit card receivables with recourse, which totaled approximately $223.6 million at December 25, 1999.

Other

We are involved in litigation arising in the normal course of our business. In our opinion, these matters will not materially affect our financial position or results of our operations.

2.54

WESTPOINT STEVENS INC. (DEC)

(In thousands)	1999	1998
Current assets:		
Cash and cash equivalents	$ 162	$ 527
Accounts receivable (less allowances of $18,950 and $19,251, respectively)	85,419	70,086
Inventories	448,887	381,022
Prepaid expenses and other current assets	13,842	18,051
Total current assets	$548,310	$469,686

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 (In Part): Indebtedness and Financial Arrangements

The Company, through a "bankruptcy remote" receivables subsidiary, has a Trade Receivables Program which provides for the sale of accounts receivable on a revolving basis. In December 1999, the Company amended and extended its existing Trade Receivables Program for an additional one-year period with an independent issuer of receivables backed commercial paper. Under the terms of the Trade Receivables Program, the Company has agreed to sell on an ongoing basis, and without recourse, an undivided ownership interest in its accounts receivable portfolio. The Company maintains the balance in the designated pool of accounts receivable sold by selling undivided interests in new receivables as existing receivables are collected. The agreement permits the sale of up to $160 million of accounts receivable. The cost of the Trade Receivables Program is charged to selling and administrative expense in the accompanying Consolidated Statements of Income. At December 31, 1999 and 1998, $154.0 million and $145.0 million, respectively, of accounts receivable had been sold pursuant to the trade receivables programs and the sale is reflected as a reduction of accounts receivable in the accompanying Consolidated Balance Sheets.

Receivables Used as Collateral

2.55

SMITHFIELD FOODS, INC. AND SUBSIDIARIES (APR)

(In thousands)	1999	1998
Current assets:		
Cash and cash equivalents	$ 30,590	$ 60,522
Accounts receivable less allowances of $2,656 and $1,541	252,332	156,091
Inventories	348,956	249,511
Prepaid expenses and other current assets	50,302	44,999
Total current assets	$682,080	$511,123

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 5 (In Part): Debt

In fiscal 1998, the Company entered into a loan agreement with a bank group for a five-year $300,000 revolving credit facility. In connection with this refinancing, the Company repaid all borrowings under its previous $300,000 credit facilities, which were terminated. The borrowings are prepayable and bear interest, at the Company's option, at various rates based on margins over the federal funds rate or Eurodollar rate. The Company has aggregate credit facilities totaling $402,000 including a $300,000 revolving credit facility with a bank group which expires July 2002. As of May 2, 1999, the Company had unused capacity under the credit facilities of $214,000. Included in the aggregate credit facilities are $102,000 of short-term credit facilities with various U.S. and international banks assumed in connection with businesses acquired during fiscal 1999. These short-term credit facilities are classified as notes payable in the Consolidated Balance Sheet. These facilities are generally at prevailing market rates. The Company pays a commitment fee on the unused portion of the $300,000 revolving credit facility.

Average borrowings under credit facilities were $74,820 in fiscal 1999, $149,723 in fiscal 1998 and $165,071 in fiscal 1997 at average interest rates of approximately 6%, 7% and 7%, respectively. Maximum borrowings were $152,510 in fiscal 1999, $247,000 in fiscal 1998 and $215,000 in fiscal 1997. Total outstanding borrowings were $134,900 as of May 2, 1999, at an average interest rate of 7%. There were no borrowings under the facility as of May 3, 1998.

The senior subordinated notes are unsecured. Senior notes are secured by four of the Company's major processing plants and certain other property, plant and equipment. The $300,000 credit facility is secured by substantially all of the Company's U.S. inventories and accounts receivable.

2.56

STORAGE TECHNOLOGY CORPORATION AND SUBSIDIARIES (DEC)

(In thousands of dollars)	1999	1998
Current assets:		
Cash, including cash equivalents of $100,825 at 1999 and $190,925 at 1998	$ 215,421	$ 231,985
Accounts receivable, net of allowance for doubtful accounts of $19,492 at 1999 and $20,424 at 1998	627,435	755,931
Inventories	260,642	261,808
Deferred income tax assets	124,588	114,715
Total current assets	$1,228,086	$1,364,439

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 5 (In Part): Credit Facilities, Debt and Lease Obligations

The Company has a revolving credit facility (the Primary Revolver) which expires in October 2001. The credit limit available under the Primary Revolver ($287,500,000 as of December 31, 1999) is reduced by $12,500,000 on the last day of each calendar quarter. The terms of the Primary Revolver were amended in January 2000 to be secured by the Company's U.S. accounts receivable and U.S. inventory. The interest rates under the Primary Revolver depend upon the repayment period of the advance selected and the Company's Total Debt to Earnings before Interest, Taxes, Depreciation and Amortization (EBITDA) ratio. The rate may range from LIBOR plus 2.00% to 2.50% or the agent bank's base rate plus 0.00% to 0.50%. The weighted average interest rate on the advances as of December 31, 1999, was 7.88%. The Company had borrowings of $205,000,000 and issued letters of credit for approximately $50,000 under the Primary Revolver as of December 31, 1999. The remaining available credit under the Primary Revolver as of December 31, 1999, was approximately $82,450,000. The Primary Revolver contains certain financial and other covenants, including restrictions on payment of cash dividends on the Company's common stock.

ALLOWANCE FOR DOUBTFUL ACCOUNTS

2.57 Table 2-7 summarizes the captions used by the survey companies to describe an allowance for doubtful accounts. *APB Opinion No. 12* states that such allowances should be deducted from the related receivables and appropriately disclosed.

2.58

TABLE 2-7: DOUBTFUL ACCOUNT CAPTIONS

	1999	1998	1997	1996
Allowance for doubtful accounts	285	284	281	270
Allowance	159	164	167	160
Allowance for losses	20	21	21	23
Allowance for uncollectible accounts	17	14	12	9
Reserve	11	13	13	14
Reserve for doubtful accounts	5	7	6	7
Other caption titles	17	20	20	29
	514	**523**	**520**	**512**
Receivables shown net	24	19	17	20
No reference to doubtful accounts	62	58	63	68
Total Companies	**600**	**600**	**600**	**600**

INVENTORIES

2.59 Chapter 4 of *Accounting Research Bulletin No. 43* states that the "primary basis of accounting for inventories is cost . . ." but "a departure from the cost basis of pricing the inventory is required when the utility of the goods is no longer as great as its costs . . ." Approximately 88% 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.

2.60 Table 2-8 summarizes the methods used by the survey companies to determine inventory costs and indicates the portion of inventory cost determined by LIFO. As indicted in Table 2-8, it is not uncommon for a company to use more than one method in determining the total cost of inventory. Methods of inventory cost determination classified as Other in Table 2-8 include specific identification and accumulated costs for contracts in process.

2.61 Twenty-six companies disclosed that certain LIFO inventory levels were reduced with the result that net income was increased due to the matching of older historical cost with present sales dollars. Fourteen companies disclosed the effect on income from using LIFO rather than FIFO or average cost to determine inventory cost.

2.62 Table 2-9 shows, by industry classification, the number of companies using LIFO and the percentage relationship of those companies using LIFO to the total number of companies in a particular industry classification in the current year.

2.63 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.

2.64 The decrease in the number of survey companies using LIFO was caused in part by the fact that more companies deleted from the survey used LIFO than those companies selected as replacements. One survey company changed from the LIFO method to another method of determining inventory cost.

2.65 Examples of presentations and disclosures for inventories follow.

2.66

TABLE 2-8: INVENTORY COST DETERMINATION

	Number of Companies			
	1999	1998	1997	1996
Methods				
First-in first-out (FIFO)	404	409	415	417
Last-in first-out (LIFO)	301	319	326	332
Average cost	176	176	188	181
Other	34	40	32	37
Use of LIFO				
All inventories	24	30	17	15
50% or more of inventories	159	152	170	178
Less than 50% of inventories	83	95	99	92
Not determinable	35	42	40	47
Companies Using LIFO	**301**	**319**	**326**	**332**

2.67

TABLE 2-9: INDUSTRY CLASSIFICATION OF COMPANIES USING LIFO

	1999		1998	
	No.	%(1)	No.	%(1)
Advertising, marketing	—	—	—	—
Aerospace	6	38	7	41
Apparel	10	56	10	53
Beverages	4	57	4	57
Building materials, glass	9	64	10	63
Chemicals	26	87	26	84
Computer and data services	—	—	—	—
Computer peripherals	—	—	N/C(2)	N/C(2)
Computer software	—	—	N/C(2)	N/C(2)
Computers, office equipment	1	8	2	11
Diversified outsourcing services	—	—	N/C(2)	N/C(2)
Electronics, electrical equipment	15	33	13	28
Engineering, construction	1	11	1	13
Entertainment	1	17	1	20
Food	16	44	16	42
Food and drug stores	11	92	N/C(2)	N/C(2)
Food services	—	—	N/C(2)	N/C(2)
Forest and paper products	23	85	25	93
Furniture	8	89	8	80
General merchandisers	9	82	N/C(2)	N/C(2)
Health care	—	—	N/C(2)	N/C(2)
Hotels, casinos, resorts	—	—	—	—
Industrial and farm equipment	27	68	29	71
Medical products and equipment	5	33	4	36
Metal products	19	83	19	83
Metals	16	70	15	68
Mining, crude-oil production	3	27	5	46
Miscellaneous	2	33	N/C(2)	N/C(2)
Motor vehicles and parts	11	69	15	68
Network communications	—	—	N/C(2)	N/C(2)
Petroleum refining	16	89	16	84
Pharmaceuticals	4	33	6	50
Publishing, printing	13	59	14	64
Retailing–grocery stores	N/C(2)	N/C(2)	11	100
Retailing–other stores	N/C(2)	N/C(2)	16	73
Rubber and plastic products	9	100	9	75
Scientific, photographic, and control equipment	8	35	9	31
Semiconductors	—	—	—	—
Soaps, cosmetics	3	38	4	50
Specialty retailers	5	31	N/C(2)	N/C(2)
Telecommunications	—	—	N/C(2)	N/C(2)
Temporary help	—	—	N/C(2)	N/C(2)
Textiles	8	89	8	80
Tobacco	3	60	2	40
Toys, sporting goods	1	33	N/C(2)	N/C(2)
Transportation equipment	2	50	2	50
Waste management	—	—	—	—
Wholesalers	6	40	5	36
Not otherwise classified	N/C(2)	N/C(2)	7	26
Total Companies	**301**	**50**	**319**	**53**

(1) This represents the percentage of survey companies that use LIFO in a particular industry classification. For example, 1999 data shows that 6 companies in the Aerospace industry use LIFO. Those 6 companies represent 38% of the total number of Aerospace companies surveyed.

(2) Statistics were not compiled (N/C). This industry classification was not included in the annual Fortune 1000 listing in the year shown.

Fifo

2.68

ABBOTT LABORATORIES AND SUBSIDIARIES (DEC)

(Dollars in thousands)	1999	1998
Current assets:		
Cash and cash equivalents	$ 608,097	$ 315,238
Investment securities	115,199	95,827
Trade receivables, less allowances of—1999: $238,956; 1998: $191,352	2,055,839	1,955,866
Inventories:		
Finished products	772,478	697,974
Work in process	338,818	347,150
Materials	384,148	367,616
Total inventories	1,495,444	1,412,740
Prepaid income taxes	918,617	847,154
Other prepaid expenses and receivables	1,226,558	962,936
Total current assets	$6,419,754	$5,589,761

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Inventories

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

2.69

MONSANTO COMPANY (DEC)

(Dollars in millions, except per share amounts)	1999	1998
Current assets:		
Cash and cash equivalents	$ 284	$ 89
Trade receivables, net of allowances of $167 in 1999 and $87 in 1998	2,618	2,119
Miscellaneous receivables, prepaid expenses and other	711	777
Deferred income tax asset	446	488
Inventories	1,728	1,722
Total current assets	$5,787	$5,195

NOTES TO FINANCIAL STATEMENTS

Note 1 (In Part): Significant Accounting Policies

Inventory

Inventories are stated at the lower of cost or market. Actual cost is used to value raw materials and supplies. Standard cost, which approximates actual cost, is used to value finished goods and goods in process. Standard cost includes direct labor and raw materials, and manufacturing overhead based on practical capacity. The cost of certain inventories (32 percent as of Dec. 31, 1999) is determined by using the last-in, first-out (LIFO) method, which generally reflects the effects of inflation or deflation on cost of goods sold sooner than other inventory cost methods do. The cost of other inventories generally is determined by the first-in, first-out (FIFO) method. Inventories at FIFO approximate current cost.

Note 9: Inventories

Inventories at FIFO approximate current cost. The components of inventories were:

	1999	1998
Finished goods	$ 807	$1,064
Goods in process	467	469
Raw materials and supplies	477	224
Inventories, at FIFO cost	1,751	1,757
Excess of FIFO over LIFO cost	(23)	(35)
Total	$1,728	$1,722

Commodity futures and opinions contracts are used to hedge the price volatility of certain commodities, primarily soybeans and corn. This hedging activity is intended to manage the price paid to production growers for corn and soybean seeds. Gains and loses on contracts that are designated and effective as hedges are deferred in inventory and are included in cost of goods sold when the underlying seeds are sold. As of Dec. 31, 1999, Monsanto had futures contracts to purchase $106 million of corn and soybeans. The excess of FIFO over LIFO cost decreased $12 million due to reduced inventory levels and lower average cost of inventory which favorably affected 1999 net income by $7 million.

Lifo

2.70

AMERICAN STANDARD COMPANIES INC. (DEC)

(Dollars in thousands, except share data)	1999	1998
Current assets:		
Cash and cash equivalents	$ 61,223	$ 63,048
Accounts receivable, less allowance for doubtful accounts—1999, $45,903; 1998, $33,264	986,338	895,605
Inventories	504,183	439,475
Future income tax benefits	48,770	41,338
Net assets of discontinued operations held for sale	50,780	138,829
Other current assets	74,253	86,511
Total current assets	$1,725,547	$1,664,806

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2 (In Part): Accounting Policies

Inventories

Inventory costs are determined principally by the use of the last-in, first-out (LIFO) method, and are started at the lower of such cost or realizable value.

Note 9: Inventories

The components of inventories are as follows:

(Dollars in millions)	1999	1998
Finished products	$285.6	$264.9
Products in process	98.9	88.8
Raw materials	119.7	85.8
Inventories at cost	$504.2	$439.5

The carrying cost of inventories approximates current cost.

2.71

CHEVRON CORPORATION (DEC)

(Millions of dollars)	1999	1998
Assets:		
Cash and cash equivalents	$1,345	$ 569
Marketable securities	687	844
Accounts and notes receivables (less allowance: 1999—$36; 1998—$27)	3,688	2,813
Inventories:		
Crude oil and petroleum products	585	600
Chemicals	526	559
Materials, supplies and other	291	296
	1,402	1,455
Prepaid expenses and other current assets	1,175	616
Total current assets	$8,297	$6,297

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

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

Inventories

Crude oil, petroleum products and chemicals are stated at cost, using a Last-In, First-Out (LIFO) method. In the aggregate, these costs are below market. Materials, supplies and other inventories generally are stated at average cost.

2.72

DOVER CORPORATION AND SUBSIDIARIES (DEC)

(In thousands except share and per share figure)	1999	1998
Current assets:		
Cash and cash equivalents	$ 138,038	$ 96,774
Receivables (less allowance for doubtful accounts of $23,375 in 1999, $20,955 in 1998)	750,917	575,630
Inventories	639,379	559,267
Prepaid expenses and other current assets	83,228	72,853
Total current assets	$1,611,562	$1,304,524

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

C. Inventories

Generally domestic net inventory is stated at cost, determined on the last-in, first-out (LIFO) basis, which is less than market value. Inventory of foreign subsidiaries, the Dover Technologies segment and some recently acquired domestic companies are stated at the lower of cost, determined on the first-in, first out (FIFO) basis, or market.

3. Inventories

Summary by components at December 31, (in thousands)	1999	1998
Raw materials	$239,498	$220,467
Work in process	205,792	175,117
Finished goods	233,671	204,123
Total	678,961	599,707
Less LIFO allowance	39,582	40,440
	$639,379	$559,267

At December 31, 1999, domestic inventories determined by the LIFO inventory method amounted to $165,092,000 ($160,705,000 at December 31, 1998).

During each of the years in the two year period ended December 31, 1999, some inventory quantities were reduced. This reduction resulted in a liquidation of certain LIFO inventory quantities carried at lower costs prevailing in prior years as compared with costs at December 31 of each year. The effect of these liquidations increased net earnings by less than 1 per cent per share in both 1999 and 1998.

2.73

MARK IV INDUSTRIES, INC. (FEB)

(Dollars in thousands)	1999	1998
Current assets:		
Cash and short-term investments	$125,700	$ 120,900
Accounts receivable	406,000	466,400
Inventories	297,600	393,400
Other current assets	133,300	105,600
Total current assets	$962,600	$1,086,300

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): The Company and Its Significant Accounting Policies

Inventories

Inventories are stated at the lower cost or market, with cost determined primarily on the last-in, first-out (LIFO) method.

4. Accounts Receivable and Inventories

Accounts receivable are reflected net of allowances for doubtful accounts of $9.6 million and $13.6 million at February 28, 1999 and 1998, respectively. The amount at February 28, 1998 includes $2.4 million related to discontinued operations.

Inventories consist of the following at February 28, 1999 and 1998 (dollars in thousands):

	1999	1998
Raw materials	$ 76,200	$ 86,200
Work in process	51,600	73,000
Finished goods	169,800	234,200
Total	$297,600	$393,400

The total at February 28, 1998 includes $66.0 million related to discontinued operations. As a result of the fair value determination of inventories required by the purchase method of accounting for acquired companies as of their acquisition date, LIFO costs exceed historical FIFO costs by approximately $31.8 million and $38.7 million at February 28, 1999 and 1998, respectively. The excess at February 28, 1998 includes approximately $9.2 million related to discontinued operations.

Average Cost

2.74

BAKER HUGHES INCORPORATED (DEC)

(In millions, except par value)	1999	1998
Current assets:		
Cash and cash equivalents	$ 16.9	$ 19.5
Accounts receivable—less allowance for doubtful accounts: December 31, 1999, $52.6; December 31, 1998, $46.4	1,011.4	1,258.2
Inventories	800.0	994.3
Net assets of discontinued operations	278.3	267.9
Other current assets	223.2	213.3
Total current assets	$2,329.8	$2,753.2

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Inventories

Inventories are stated primarily at the lower of average cost or market.

Note 5: Inventories

Inventories are comprised of the following:

	December 31, 1999	December 31, 1998
		(As Restated—See Note 19)
Finished goods	$651.0	$808.6
Work in process	62.3	67.9
Raw materials	86.7	117.8
Total	$800.0	$994.3

2.75

BMC INDUSTRIES, INC. (DEC)

(In thousands)	1999	1998
Current assets:		
Cash and cash equivalents	$ 1,146	$ 1,028
Trade accounts receivable, less allowances of $3,374 and $2,624	42,025	39,163
Inventories	82,312	82,853
Deferred income taxes	11,588	14,603
Other current assets	12,580	14,347
Total current assets	$149,651	$151,994

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

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. Provision for potentially obsolete or slow-moving inventory is made based on management's analysis of inventory levels and future sales forecasts.

3. Inventories

The following is a summary of inventories at December 31:

	1999	1998
Raw materials	$24,167	$24,845
Work in process	12,564	9,047
Finished goods	45,581	48,961
Total inventories	$82,312	$82,853

Production Cost

2.76

NORTHROP GRUMMAN CORPORATION (DEC)

($ in millions)	1999	1998
Current assets:		
Cash and cash equivalents	$ 142	$ 44
Accounts receivable	1,402	1,507
Inventoried costs	1,190	1,373
Deferred income taxes	23	24
Prepaid expenses	36	85
Total current assets	$2,793	$3,033

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (In Part)

Inventoried Costs

Inventoried costs primarily relate to work in process under fixed-price type contracts (excluding those included in unbilled accounts receivable as previously described). They represent accumulated contract costs less the portion of such costs allocated to delivered items. Accumulated contract costs include direct production costs, factory and engineering overhead, production tooling cost, and allowable administrative and general expenses (except for general corporate expenses and IR&D allocable to commercial contracts, which are charged against income as incurred).

In accordance with industry practice, inventoried costs are classified as a current asset and include amounts related to contracts having production cycles longer than one year.

Inventoried Costs

Inventoried costs were comprised in the following:

($ in millions)	1999	1998
Production costs of contracts in process	$1,320	$1,487
Excess of production cost of delivered items over the estimated average unit cost	161	162
Administrative and general expenses	230	245
	1,711	1,894
Process payments received	(521)	(521)
	$1,190	$1,373

Inventoried costs relate to long-term contracts in process and include expenditures for raw materials and work in process beyond what is required for recorded orders. These expenditures are incurred to help maintain stable and efficient production schedules. The excess of production costs of delivered and in process items over the estimated average costs is carried in inventory under the learning curve concept. Under this concept, production costs per unit are expected to decrease over time due to efficiencies arising from continuous improvement in the performance of repetitive tasks.

The ratio of inventoried administrative and general expenses to total inventoried costs is estimated to be the same as the ratio of total administrative and genial expenses incurred to total contract costs incurred.

According to the provisions of U.S. Government contracts, the customer has title to, or a security interest in, substantially all inventories related to such contracts.

Specific Cost

2.77

INTERSTATE BAKERIES CORPORATION (MAY)

(In thousands)	1999	1998
Current assets:		
Accounts receivable, less allowance for doubtful accounts of $4,240,000 ($4,106,000 in 1998)	$216,984	$198,644
Inventories	65,861	66,427
Other current assets	65,905	69,387
Total current assets	$348,750	$334,458

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Inventories

Inventories are stated at the lower of cost or market. Specific invoiced costs are used with respect to ingredients and average costs are used for other inventory items.

The components of inventories are as follows:

(In thousands)	May 29, 1999	May 30, 1998
Ingredients and packaging	$44,222	$43,534
Finished goods	15,936	16,996
Other	5,703	5,897
	$65,861	$66,427

PREPAID EXPENSES

2.78 Table 2-10 summarizes the number of survey companies disclosing, either on the balance sheet or in the notes to financial statements, an amount for *prepaid expenses* or items identified as prepared expenses. Rarely is the nature of *prepaid expenses* disclosed. Examples of items identified as prepared expenses follow.

2.79

TABLE 2-10: PREPAID EXPENSES

	Number of Companies			
	1999	1998	1997	1996
Prepaid expenses	107	110	129	140
Prepaid expenses and other current assets	187	182	170	166
Prepaid expenses and deferred taxes	9	8	14	11
Prepaid expenses and advances	4	3	5	9
Prepaid expenses and other receivables	3	3	3	3
Advertising costs	8	9	13	12
Employee benefits	3	3	4	6
Other captions indicating prepaid expenses	13	18	19	21

2.80

BRISTOL-MYERS SQUIBB COMPANY (DEC)

(Dollars in millions)	1999	1998
Current assets:		
Cash and cash equivalents	$2,720	$2,244
Time deposits and marketable securities	237	285
Receivables, net of allowances	3,272	3,190
Inventories	2,126	1,873
Prepaid expenses	912	1,190
Total current assets	$9,267	$8,782

2.81

NIKE, INC. (MAY)

	1999	1998
Current assets:		
Cash and equivalents	$ 198.1	$ 108.6
Accounts receivable, less allowance for doubtful accounts of $73.2 and $71.4	1,540.1	1,674.4
Inventories (Note 2)	1,199.3	1,396.6
Deferred income taxes (Notes 1 and 6)	120.6	156.8
Income taxes receivable	15.9	—
Prepaid expenses (Note 1)	190.9	196.2
Total current assets	$3,264.9	$3,532.6

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. Accounting for endorsement contracts, the majority of the Company's promotional expenses, is based upon specific contract provisions. Generally, endorsement payments are expensed uniformly over the term of the contract after giving recognition to periodic performance compliance provisions of the contracts. Contracts requiring prepayments are included in prepaid expenses or other assets depending on the length of the contract. Total advertising and promotion expenses were $978.6 million, $1.13 billion and $978.3 million for the years ended May 31, 1999, 1998 and 1997, respectively. Included in prepaid expenses and other assets was $152.2 million and $175.9 million at May 31, 1999 and 1998, respectively, relating to prepaid advertising and promotion expenses.

2.82

SCOPE INDUSTRIES (JUN)

	1999	1998
Current assets:		
Cash and cash equivalents	$ 3,667,818	$ 755,904
Treasury bills (par value $15,000,000 in 1999 and $44,250,000 in 1998)	14,852,203	43,024,640
Accounts and notes receivable, less allowance for doubtful accounts of $484,885 in 1999 and $205,318 in 1998	4,234,753	1,618,150
Inventories	999,755	662,399
Deferred income taxes	955,000	700,000
Prepaid expenses and other current assets	1,411,455	459,465
Total current assets	$26,120,984	$47,220,558

OTHER CURRENT ASSET CAPTIONS

2.83 Table 2-11 summarizes the nature of accounts (other than cash, marketable securities, inventories, and prepaid expense) appearing in the current asset section of the balance sheets of the survey companies. Examples of such other current asset captions follow.

2.84

TABLE 2-11: OTHER CURRENT ASSET CAPTIONS

	Number of Companies			
	1999	1998	1997	1996
Nature of Asset				
Deferred income taxes	364	400	375	378
Property held for sale	31	28	33	37
Unbilled costs	13	20	14	16
Advances or deposits	9	6	4	6
Other—identified	42	46	29	30

Deferred Taxes

2.85

FMC CORPORATION (DEC)

(In millions, except share and par value data)	1999	1998
Current assets:		
Cash and cash equivalents	$ 64.0	$ 61.7
Trade receivables, net of allowances of $14.9 in 1999 and $11.9 in 1998	635.4	840.6
Inventories (Note 5)	457.7	517.7
Other current assets	172.6	136.4
Deferred income taxes (Note 10)	86.8	125.3
Total current assets	$1,416.5	$1,681.7
Investments	206.8	186.5
Property, plant and equipment, net (Note 8)	1,691.9	1,727.5
Goodwill and intangible assets	505.7	399.1
Other assets	88.8	118.9
Deferred income taxes (Note 10)	86.1	52.7
Total assets	$3,995.8	$4,166.4

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 10 (In Part): Income Taxes

Significant components of the Company's deferred tax assets and liabilities are as follows:

(In millions)	Year Ended December 31 1999	1998
Reserves for discontinued operations and restructuring	$246.9	$226.8
Accrued pension and other postretirement benefits	85.8	86.8
Other reserves	51.4	59.3
Net operating loss carryforwards	54.8	47.3
Alternative minimum tax credit carryforwards	25.8	19.6
Other	22.3	14.2
Deferred tax assets	487.0	454.0
Valuation allowance	(67.5)	(55.3)
Deferred tax assets, net of valuation allowance	$419.5	$398.7
Property, plant and equipment	$243.1	$215.6
Other	3.5	5.1
Deferred tax liabilities	$246.6	$220.7
Net deferred tax assets	$172.9	$178.0

2.86

INTEL CORPORATION (DEC)

(In millions, except per share amounts)	1999	1998
Current assets:		
Cash and cash equivalents	$ 3,695	$ 2,038
Short-term investments	7,705	5,272
Trading assets	388	316
Accounts receivable, net of allowance for doubtful accounts of $67 ($62 in 1998)	3,700	3,527
Inventories	1,478	1,582
Deferred tax assets	673	618
Other current assets	180	122
Total current assets	$17,819	$13,475
• • • • • •		
Total current liabilities	$ 7,099	$ 5,804
Long-term debt	955	702
Deferred tax liabilities	3,130	1,387
Put warrants	130	201

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Provision for Taxes (In Part)

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)	1999	1998
Deferred tax assets:		
Accrued compensation and benefits	$ 111	$ 117
Accrued advertising	66	62
Deferred income	182	181
Inventory valuation and related reserves	91	106
Interest and taxes	48	52
Other, net	175	100
	673	618
Deferred tax liabilities:		
Depreciation	$ (703)	$ (911)
Acquired intangibles	(214)	—
Unremitted earnings of certain subsidiaries	(172)	(152)
Unrealized gain on investments	(2,041)	(324)
	(3,130)	(1,387)
Net deferred tax (liability)	$(2,457)	$ (769)

U.S. income taxes were not provided for on a cumulative total of approximately $2.2 billion of undistributed earnings for certain non-U.S. subsidiaries. The Company intends to reinvest these earnings indefinitely in operations outside the United States.

2.87

PLASMA-THERM, INC. AND SUBSIDIARY (NOV)

	1999	1998
Current assets:		
Cash and cash equivalents	$ 6,913,363	$ 7,170,464
Accounts receivable	9,610,493	14,842,937
Inventories	11,191,676	9,859,914
Prepaid income taxes	553,150	1,405,591
Prepaid expenses and other	756,312	747,234
Deferred tax asset	166,909	244,691
Total current assets	$29,191,903	$34,270,831

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5 (In Part): Income Taxes

The deferred taxes consist of the following:

	November 30, 1999	1998
Assets:		
Vacation accrual	$ 136,456	$ 129,015
Reserves (warranty and other)	181,361	214,189
Deferred compensation	22,802	65,433
Net operating losses	30,762	—
Stock options	11,253	13,435
	382,634	422,072
Liabilities:		
Depreciation	(215,725)	(177,381)
Deferred tax asset, net	$ 166,909	$ 244,691

The Company has approximately $650,000 of net operating losses for state income tax purposes that begin to expire in 2019.

Property Held for Sale

2.88

ALLIED WASTE INDUSTRIES, INC. (DEC)

(In thousands, except per share amount)	1999	1998
Current assets:		
Cash and cash equivalents	$ 121,405	$ 39,742
Accounts receivable, net of allowance of $59,490 and $13,907	867,667	225,087
Prepaid and other current assets	252,187	47,184
Deferred income taxes, net	115,263	44,141
Assets held for sale	891,900	143,750
Total current assets	$2,248,422	$499,904

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3 (In Part): Assets Held for Sale

At December 31, 1999, and 1998, the assets held for sale totaled $891.9 million and $143.8 million, respectively, and are classified as current assets on the Consolidated Balance Sheets and are summarized as follows:

(In thousands)	December 31, 1999	December 31, 1998
Accounts receivable, net	$ 90,396	$ 16,608
Other current assets	16,478	4,460
Property and equipment, net	616,973	55,869
Goodwill, net	247,383	106,214
Other long-term assets	5,405	1,595
Current liabilities	(64,582)	(1,785)
Long-term liabilities	(20,053)	(39,211)
Total net assets	$891,900	$143,750

2.89

A.O. SMITH CORPORATION (DEC)

(Dollars in thousands)	1999	1998
Assets		
Current assets:		
Cash and cash equivalents	$ 14,761	$ 37,666
Receivables	183,442	113,098
Inventories	163,443	87,216
Deferred income taxes	11,323	10,352
Other current assets	5,253	4,328
Net current assets—discontinued operations	10,405	15,218
Total current assets	$ 388,627	$267,878
Net property, plant, and equipment	283,493	204,456
Goodwill and other intangibles	251,085	143,682
Prepaid pension	64,281	51,525
Other assets	24,709	19,777
Net long-term assets—discontinued operations	51,791	49,252
Total assets	$1,063,986	$736,570

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3 (In Part): Discontinued Operations

The components of the net assets of discontinued operations included in the consolidated balance sheets are as follows:

(Dollars in thousands)	December 31, 1999	1998
Current assets:		
Receivables	$ 23,644	$ 20,666
Inventories	11,636	12,768
Other current assets	5,048	5,174
Trade payables	(6,410)	(6,355)
Accrued payroll and benefits	(5,410)	(6,705)
Other	(18,103)	(10,330)
Net current assets	$ 10,405	$ 15,218
Long-term assets:		
Net property, plant, and equipment	$ 47,376	$ 44,314
Other assets	14,724	16,289
Long-term liabilities	(10,309)	(11,351)
Net long-term assets	$ 51,791	$ 49,252

2.90

OGDEN CORPORATION AND SUBSIDIARIES (DEC)

	1999	1998
Current assets:		
Cash and cash equivalents	$ 101,020,000	$ 181,169,000
Marketable securities available for sale		44,685,000
Restricted funds held in trust	103,662,000	110,553,000
Receivables (less allowances: 1999, $17,942,000 and 1998, $18,130,000)	294,051,000	274,307,000
Inventories	10,767,000	20,162,000
Deferred income taxes	36,189,000	47,921,000
Other	65,713,000	49,448,000
Net assets of discontinued operations	568,146,000	455,726,000
Total current assets	$1,179,548,000	$1,183,971,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 (In Part): 1999 Discontinued Operations

Net assets of discontinued operations (expressed in thousands of dollars) were as follows:

	December 31 1999	1998
Current assets	$221,200	$226,953
Property, plant and equipment—net	375,211	251,402
Other assets	336,700	253,409
Notes payable and current portion of long-term debt	(51,081)	(53,347)
Other current liabilities	(142,327)	(121,152)
Long-term debt	(108,681)	(42,693)
Other liabilities	(62,876)	(58,846)
Net assets of discontinued operations	$568,146	$455,726

2.91

VENATOR GROUP, INC. (JAN)

(In millions)	1999	1998
Current assets:		
Cash and cash equivalents	$ 162	$ 193
Merchandise inventories	739	837
Assets held for disposal	61	—
Net assets of discontinued operations	13	97
Other current assets	114	148
	$1,089	$1,275

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 (In Part): 1999 Restructuring

The Company plans to close 358 under-performing stores in the United States and Canada including 150 Global Athletic Group stores and 208 Northern Group stores, which includes the disposal of the entire Northern Getaway and Northern Elements formats in the United States. During the fourth quarter 72 stores were closed and the remaining 286 stores are expected to close in 2000. The total charge related to the closed store restructuring program of $62 million included fixed asset impairments of $24 million. The reserve balance of $38 million at January 29, 2000 represents leasehold and real estate disposition costs of $37 million and $1 million in severance costs to eliminate approximately 3,100 store positions. The Company recorded an additional restructuring charge of approximately $6 million in the fourth quarter associated with management's decision to close the Foot Locker stores in Asia, which included fixed asset impairments of $3 million. The reserve remaining of $3 million at January 29, 2000 reflects real estate disposition costs, severance and inventory markdowns.

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. Approximately 400 positions were eliminated at a total cost of $17 million, $3 million of which was spent in 1999, and $14 million of which will be utilized in 2000. In addition, the Company plans to close its Champs Sports distribution center in Maumelle, Arkansas and to consolidate its operations with the Foot Locker facility located in Junction City, Kansas. The charge of $7 million included fixed asset impairments of $2 million. The reserve remaining of $5 million at January 29, 2000 includes severance costs to eliminate approximately 200 positions of $1 million and $4 million, related primarily to estimated lease costs in 2000.

Included in the consolidated results of operations are sales of $402 million and operating losses of $61 million in 1999 for the above non-core businesses and under-performing stores.

Inventory, fixed assets and other long-lived assets of all businesses to be exited have been valued at the lower of cost or net realizable value. These assets, totaling $61 million, have been reclassified as assets held for disposal in the Consolidated Balance Sheet as of January 29, 2000.

Unbilled Costs

2.92

HARRIS CORPORATION (JUN)

(In millions)	1999	1998
Current assets:		
Cash and cash equivalents	$ 85.7	$ 101.5
Marketable securities	15.5	30.0
Receivables	411.7	347.0
Unbilled costs and accrued earnings on fixed-price contracts	184.4	247.0
Inventories	205.7	216.4
Deferred income taxes	128.4	111.3
Total current assets	$1,031.4	$1,053.2

NOTES TO FINANCIAL STATEMENTS

Inventories and Unbilled Costs (In Part)

Unbilled costs and accrued earnings on fixed-price contracts are net of progress payments of $171.1 million at July 2, 1999, and $179.0 million at July 3, 1998.

Put Option Premium

2.93

NEWMONT MINING CORPORATION (DEC)

(In thousands, except shares and per share)	1999	1998
Current assets:		
Cash and cash equivalents	$ 55,314	$ 79,086
Short-term investments	9,414	11,802
Accounts receivable	40,553	52,066
Put option premiums	19,148	—
Inventories	322,614	280,371
Other current assets	87,010	89,755
Total current assets	$534,053	$513,080

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 10: Option Contracts

In late July and early August 1999, the Company purchased put option contracts for 2.85 million ounces of gold, with a strike price of $270 per ounce. This purchase was paid for by selling call option contracts for 2.35 million ounces at the strike prices noted below. Put option contracts for one million ounces were subject to termination if the market price reached $270 per ounce at any time prior to such contracts' expiration date, which was August 2000 through July 2001. These put option contracts were thus terminated in September 1999.

As of December 31, 1999, the following contracts were outstanding:

	Purchased Put Options		Sold Call Options	
	Ozs.	Price	Ozs.	Price
2000	1,183,333	$270	—	—
2004	—	—	250,000	$350
2005	—	—	250,000	$350
2008	—	—	1,000,000	$386
2009	—	—	850,000	$385

The put options qualify for deferral accounting such that gains and losses on the contracts are recognized as the designated production is delivered or as the options expire. The initial fair value of the options of $37.6 million was recorded as *Put option premiums* and is amortized over the term of the options. At December 31, 1999, $18.5 million was amortized in *Sales*, including the premiums associated with terminated options. The call option contracts, with an initial fair value of $37.6 million, are marked to market at each reporting date and on December 31, 1999, had a fair value of $82.4 million, resulting in a non-cash, unrealized loss of $44.8 million. Call options in 2004 and 2005 terminate if the market price is $240 per ounce or lower at any time prior to expiration.

PROPERTY, PLANT, AND EQUIPMENT

2.94 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.

2.95 Tables 2-12 and 2-13 show the assets classified as Property, Plant, and Equipment by the survey companies. Table 2-14 summarizes the descriptive captions used to describe the accumulated allowance for depreciation.

2.96 Examples of Property, Plant, and Equipment disclosures follow.

2.97

TABLE 2-12: LAND CAPTIONS

	1999	1998	1997	1996
Land	359	357	368	373
Land and improvements	132	140	131	126
Land and buildings	47	49	46	42
Land combined with other identified assets	15	11	10	13
No caption with term land	26	17	18	20
	579	**574**	**573**	**574**
Lines of business classification	21	26	27	26
Total Companies	**600**	**600**	**600**	**600**

2.98

TABLE 2-13: DEPRECIABLE ASSET CAPTIONS

	1999	1998	1997	1996
Buildings				
Buildings	234	233	239	244
Buildings and improvement	225	224	224	225
Building and land or equipment	85	85	81	68
Buildings combined with other identified assets	15	15	9	11
No caption with term buildings	21	16	18	21
	580	**573**	**571**	**569**
Line of business classification	20	27	29	31
Total Companies	**600**	**600**	**600**	**600**
Other Depreciable Asset Captions	**Number of Companies**			
Machinery and/or equipment	437	446	450	454
Machinery and/or equipment combined with other assets	107	104	95	91
Construction in progress	275	273	269	266
Leasehold improvements	115	108	102	104
Lease assets	72	64	65	63
Automobiles, marine equipment, etc.	95	80	74	67
Furniture and fixtures	77	64	58	58
Assets leased to others	17	24	14	19

2.99

TABLE 2-14: ACCUMULATED DEPRECIATION

	1999	1998	1997	1996
Accumulated depreciation	329	339	321	320
Accumulated depreciation and amortization	195	183	185	177
Accumulated depreciation, amortization and depletion	23	24	28	31
Accumulated depreciation and depletion	10	8	10	9
Allowance for depreciation	25	25	33	34
Allowance for depreciation and amortization	9	11	11	14
Other captions	9	10	12	15
Total Companies	**600**	**600**	**600**	**600**

2.100

IBP, INC. AND SUBSIDIARIES (DEC)

(In thousands, except share and per share data)	1999	1998
Property, plant and equipment at cost:		
Land and land improvements	$ 120,658	$ 106,492
Buildings and stockyards	646,907	544,711
Equipment	1,287,358	1,096,571
	2,054,923	1,747,774
Accumulated depreciation and amortization	(937,283)	(843,937)
	1,117,640	903,837
Construction in progress	127,264	168,256
	1,244,904	1,072,093
Other assets:		
Goodwill, net of accumulated amortization of $184,088 and $158,808	893,064	724,089
Other	108,342	115,099
Total other assets	1,001,406	839,188
Total assets	$3,713,239	$3,008,096

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Property, Plant and Equipment

Depreciation is provided for property, plant and equipment on the straight-line method over the estimated useful lives of the respective classes of assets as follows:

Land improvements	8 to 20 years
Buildings and stockyards	10 to 40 years
Equipment	3 to 12 years

Leasehold improvements, included in the equipment class, are amortized over the life of the lease or the life of the asset, whichever is shorter.

2.101

LANCE, INC. AND SUBSIDIARIES (DEC)

(In thousands, except share data)	1999	1998
Total current assets	$ 97,038	$ 87,480
Property, plant and equipment, net	183,782	161,683
Goodwill, net	35,451	—
Other intangible assets, net	11,064	—
Other assets	3,327	2,240
Total assets	$330,662	$251,403

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Property, Plant and Equipment

Depreciation is computed using the straight-line method over the estimated useful lives of depreciable property ranging from 3 to 45 years. Property is recorded at cost less accumulated depreciation with the exception of assets held for disposal, which are recorded at their estimated fair value. Upon retirement or disposal of any item of property, the cost is removed from the property account and the accumulated depreciation applicable to such item is removed from accumulated depreciation. Major renewals and betterments are capitalized, maintenance and repairs are expensed as incurred, and gains and losses on dispositions are reflected in income. Assets under capital leases are amortized over the estimated useful life of the related property.

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less cost to sell.

5. Property, Plant and Equipment

Property at December 25, 1999 and December 26, 1998 consisted of the following (in thousands):

	1999	1998
Land and land improvements	$ 12,462	$ 11,414
Buildings	68,865	64,339
Machinery, equipment and systems	170,787	132,086
Vending machines	96,016	90,746
Trucks and automobiles	32,419	30,794
Furniture and fixtures	3,859	3,620
Assets held for disposal	1,125	1,520
Construction in progress	12,949	22,864
	398,482	357,383
Accumulated depreciation and amortization	(214,700)	(195,700)
Property, plant and equipment, net	$183,782	$161,683

During 1996, the Company concluded a restructuring of its operations. Certain buildings and equipment were considered impaired and were written down to their net realizable value. These assets are classified as assets held for disposal. During 1998 and 1997, the Company sold impaired assets which resulted in gains of approximately $303,000 and $868,000, respectively. There was no gain or loss realized in 1999.

2.102

THE LUBRIZOL CORPORATION (DEC)

(In thousands of dollars)	1999	1998
Total current assets	$ 780,442	$ 687,470
Property and equipment—at cost	1,598,264	1,608,500
Less accumulated depreciation	927,752	889,650
Property and equipment—net	670,512	718,850
Goodwill and intangible assets—net	149,779	166,957
Investments in non-consolidated companies	30,441	26,490
Other assets	51,180	43,470
Total	$1,682,354	$1,643,237

NOTES TO FINANCIAL STATEMENTS
(In thousands of dollars unless otherwise indicated)

Note 2 (In Part): Accounting Policies

Property and Equipment

Property and equipment are carried at cost. Repair and maintenance costs are charged against income while renewals and betterments are capitalized as additions to the related assets. Costs incurred for computer software developed or obtained for internal use are capitalized for application development activities and immediately expensed for preliminary project activities or post-implementation activities. Accelerated depreciation methods are used in computing depreciation on certain machinery and equipment, which comprise approximately 21% of the depreciable assets. The remaining assets are depreciated using the straight-line method. The estimated useful lives are 10 to 40 years for buildings and land improvements and range from 3 to 20 years for machinery and equipment.

Note 5 (In Part): Other Balance Sheet Information

	1999	1998
Property and equipment—at cost:		
Land and improvements	$ 105,984	$ 107,712
Buildings and improvements	305,505	299,024
Machinery and equipment	1,145,936	1,145,471
Construction in progress	40,839	56,293
	$1,598,264	$1,608,500

Depreciation and amortization of property and equipment was $88.3 million in 1999, $79.7 million in 1998 and $82.7 million in 1997.

2.103

SONOCO PRODUCTS COMPANY (DEC)

(Dollars and shares in thousands)	1999	1998
Property, plant and equipment, net	$1,032,503	$1,013,843
Cost in excess of fair value of assets purchased, net	254,580	170,361
Other assets	286,856	237,363

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

6. Property, Plant and Equipment

Plant assets represent the original cost of land, buildings and equipment less depreciation computed under the straight-line method over the estimated useful life of the asset. Equipment lives range from 3 to 11 years, buildings from 20 to 30 years.

Timber resources are stated at cost. Depletion is charged to operations based on the number of units of timber cut during the year.

Depreciation and depletion expense amounted to $135,146 in 1999, $136,170 in 1998, and $136,925 in 1997.

Details of property, plant and equipment at December 31 are as follows:

	1999	1998
Land	$ 36,656	$ 35,372
Timber resources	34,022	33,714
Buildings	296,828	298,283
Machinery and equipment	1,614,283	1,433,531
Construction in progress	104,149	155,773
	2,085,938	1,956,673
Accumulated depreciation and depletion	(1,053,435)	(942,830)
	$1,032,503	$1,013,843

Estimated costs for completion of authorized capital additions under construction totaled approximately $103,000 at December 31, 1999.

Certain operating properties and equipment are leased under non-cancelable operating leases. Total rental expense under operating leases was approximately $38,500 in 1999 and $36,000 in both 1998 and 1997. Future minimum rentals under non-cancelable operating leases with terms of more than one year are as follows: 2000—$21,300, 2001—$16,900, 2002—$13,300, 2003—$10,300, 2004—$9,600, and 2005 and thereafter—$19,200.

2.104

TYLER TECHNOLOGIES, INC. (DEC)

(In thousands, except par value and number of shares)	1999	1998
Net assets of discontinued operations	$ —	$ 2,848
Property and equipment, net	21,789	14,147
Other assets:		
Investment securities available-for-sale	33,713	—
Goodwill and other intangibles, net	160,665	95,996
Sundry	1,991	938
Other receivables	3,358	3,612
	$272,535	$150,094

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

1 (In Part): Summary of Significant Accounting Policies

Property and Equipment

Property, equipment and purchased software are recorded at cost. Depreciation and amortization are computed for financial reporting purposes primarily utilizing the straight-line method over the estimated useful lives of the related assets, or for leasehold improvements and capital leases, the shorter of the base lease term or estimated useful life. For income tax purposes accelerated depreciation methods are primarily used with the establishment of deferred income tax liabilities for the resulting temporary differences.

Maintenance and repairs are charged to expense as incurred. Costs of renewals and betterments are capitalized. The cost and accumulated depreciation and amortization applicable to assets sold or otherwise disposed of are removed from the asset accounts, and any net gain or loss is included in the statement of operations.

5. Property and Equipment

Property and equipment consists of the following at December 31:

	Useful Lives (years)	1999	1998
Land	—	$ 2,556	$ 2,450
Transportation equipment	5	484	334
Computer equipment and purchased software	3–7	11,433	5,650
Furniture and fixtures	3–10	4,198	2,842
Building and leasehold improvements	3–35	4,518	3,529
Computer equipment under capital lease	3	4,622	1,874
		27,811	16,679
Accumulated depreciation and amortization		(6,022)	(2,532)
Property and equipment, net		$21,789	$14,147

Depreciation expense and capital lease related amortization expense totaled $3,820,000, $2,146,000 and $29,000 during the years ended December 31, 1999, 1998 and 1997, respectively. The Company entered into capital leases for equipment of approximately $2,040,000 and $338,000 during 1999 and 1998, respectively. Additionally the Company acquired a building for $652,000, of which $476,000 was financed through a term note with a bank.

2.105

WOLVERINE WORLD WIDE, INC. (DEC)

(Thousands of dollars)	1999	1998
Total current assets	$349,301	$340,978
Property, plant and equipment:		
Land	1,177	1,177
Buildings and improvements	64,848	63,006
Machinery and equipment	117,524	108,094
Software	29,217	22,097
	212,766	194,374
Less accumulated depreciation	96,483	83,239
	116,283	111,135
Other assets:		
Goodwill and other intangibles, less accumulated amortization (1999—$3,565; 1998—$2,447)	16,178	19,931
Cash value of life insurance	16,443	14,725
Prepaid pension costs	19,099	15,242
Assets held for exchange	7,706	7,942
Notes receivable	4,736	4,921
Other	4,649	6,604
	68,811	69,365
Total assets	$534,395	$521,478

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Property, Plant and Equipment

Property, plant and equipment are stated on the basis of cost and include expenditures for new facilities, major renewals, betterments and software. Normal repairs and maintenance are expensed as incurred.

Depreciation of plant, equipment and software is computed using the straight-line method. The depreciable lives for buildings and improvements range from five to forty years; from three to ten years for machinery and equipment; and from three to ten years for software.

As required, the Company adopted the American Institute of Certified Public Accountants Statement of Position (SOP) 98-1, *Accounting for the Costs of Computer Software Developed and Obtained for Internal Use*, in 1999. The SOP provides guidelines for determining whether costs should be expensed or capitalized for computer software developed or purchased for internal use. The Company's accounting policies for such items were already in substantial compliance with SOP 98-1 and, therefore, the adoption did not have a material effect on its 1999 consolidated financial position or results of operations.

INVESTMENTS

2.106 *APB Opinion No. 18* stipulates that the equity method should be used to account for investments in corporate joint ventures and certain other companies when an investor has "the ability to exercise significant influence over operating and financial policies of an investee even though the investor holds 50% or less of the voting stock." *Opinion No. 18* considers an investor to have the ability to exercise significant influence when it owns 20% or more of the voting stock of an investee. *FASB Interpretation No. 35,* issued to clarify the criteria for applying the equity method of accounting to 50% or less owned companies, lists circumstances under which, despite 20% ownership, an investor may not be able to exercise significant influence.

2.107 In addition to investments accounted for by the equity method, many survey companies disclosed investments in equity and debt securities subject to the requirements of *Statement of Financial Accounting Standards No. 115. SFAS No. 115* 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 *Statement of Financial Accounting Standards No. 133,* state the disclosure requirements for such investments. *SFAS No. 115* does not apply to investments accounted for by the equity method.

2.108 *Statement of Financial Accounting Standards No. 107,* as amended by *SFAS No. 133,* requires that the bases for estimating the fair value of investments subject to the requirements of *SFAS No. 115* be disclosed. 162 survey companies made 199 fair value disclosures. 8 disclosures stated that it was not practicable to estimate fair value; 48 disclosures stated that fair value approximated the carrying amounts of investments; 107 disclosures stated that market or broker quotes were used to estimate fair value; 24 disclosures stated that discounted cash flows were used to estimate fair value; and 12 disclosures stated the amount of fair value but not the basis for estimating fair value.

2.109 Table 2-15 lists the balance sheet carrying bases for investments presented as noncurrent assets. Examples of presentations and disclosures for such investments follow.

2.110

TABLE 2-15: INVESTMENTS—CARRYING BASES

	Number of Companies			
	1999	**1998**	**1997**	**1996**
Equity	236	279	260	260
Fair value	98	77	59	74
Cost	75	90	87	80
Lower of cost or market	—	3	1	2

Equity Method

2.111

ANHEUSER-BUSCH COMPANIES AND SUBSIDIARIES (DEC)

Consolidated Balance Sheets

(In millions)	1999	1998
Total current assets	$1,600.6	$1,640.4
Investments in affiliated companies	2,012.5	1,880.6

Consolidated Statement of Income

(In millions)	1999	1998	1997
Sales	$13,723.3	$13,207.9	$12,832.4
Excise taxes	(2,019.6)	(1,962.1)	(1,766.2)
Net sales	11,703.7	11,245.8	11,066.2
Cost of products and services	(7,254.4)	(7,162.5)	(7,096.9)
Gross profit	4,449.3	4,083.3	3,969.3
Marketing, distribution and administrative expenses	(2,147.0)	(1,958.0)	(1,916.3)
Operating income	2,302.3	2,125.3	2,053.0
Interest expense	(307.8)	(291.5)	(261.2)
Interest capitalized	18.2	26.0	42.1
Interest income	4.3	5.8	7.9
Other expense, net	(9.4)	(13.0)	(9.3)
Income before income taxes	$ 2,007.6	$ 1,852.6	$ 1,832.5

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Principles of Consolidation

The Consolidated Financial Statements include the accounts of the Company and all its subsidiaries. The Company generally consolidates all majority-owned and controlled subsidiaries, accounts for investments below the 20% level under the cost method, and applies the equity method of accounting for investments between 20% and 50%. All significant intercompany transactions have been eliminated. Minority interests in consolidated subsidiaries are not material.

2 (In Part): International Investments

Grupo Modelo

In 1993, Anheuser-Busch purchased a 17.7% direct and indirect equity interest in Diblo, S.A. de C.V. (Diblo), the operating subsidiary of Grupo Modelo, S.A. de C.V. (Modelo), Mexico's largest brewer and producer of the Corona brand, for $447 million. In May 1997, the Company increased its direct and indirect equity ownership in Diblo to 37% for an additional $605 million. Effective with the increase in equity ownership to 37%, the Company received expanded minority rights, increased its representation on Modelo's Board of Directors to 10 of 21 members and adopted the equity method of accounting for the investment. In September 1998, the Company completed its purchase of an additional 13.25% equity interest in Diblo for $557 million, and now owns a 50.2% direct and indirect interest in Diblo. Anheuser-Busch does not have voting or other effective control of either Diblo or Modelo and therefore continues to account for its investment using the equity method.

The difference between income recognized on the cost basis prior to 1997 and what would have been recognized had the company applied equity accounting in those years is not material. In 1997, the Company recorded a $189.4 million adjustment to the carrying value of the investment for cumulative Mexican peso depreciation between 1993 and 1996 prior to the adoption of equity accounting in 1997. The offset for the adjustment was to "foreign currency translation," a component of other comprehensive income in shareholders equity.

Included in the carrying amount of the Modelo investment is goodwill of $541.4 million and $553.6 million, respectively, at December 31, 1999 and 1998 which is being amortized over 40 years. Accumulated amortization was $29.2 million and $15 million, respectively, at December 31, 1999 and 1998. Dividends received from Grupo Modelo in 1999 totaled $2.9 million, compared to $50.3 million in 1998 and $16.4 million in 1997.

For foreign operations in countries whose economies are considered highly inflationary, foreign currency translation practice under FAS No. 52, "Foreign Currency Translation," requires that property, other long-lived assets, long-term liabilities and related profit and loss accounts be translated at historical rates of exchange. Additionally, net monetary asset and liability related translation adjustments must be included in earnings in the current period. Mexico's economy was considered highly inflationary for accounting purposes for all of calendar 1997 and 1998. Accordingly, all monetary translation gains and losses related to the Modelo investment were recognized in equity income during 1997 and 1998.

Summary financial information for Grupo Modelo as of, and for the two years ended December 31, is presented in the following table (in millions). The amounts shown represent consolidated Grupo Modelo operating results and financial position based on U.S. generally accepted accounting principles, and include the impact of Anheuser-Busch's purchase accounting adjustments.

	1999	1998
Current assets	$1,156.3	$ 859.8
Noncurrent assets	3,322.3	3,008.4
Current liabilities	262.3	200.6
Noncurrent liabilities	328.0	172.0
Gross sales	2,576.3	1,748.3
Net sales	2,405.4	1,632.0
Gross profit	1,209.8	809.2
Minority interest	48.7	32.8
Net income	333.5	180.3

Other International Investments

In April 1996, the Company purchased a 5% equity stake in a subsidiary controlling approximately 75% of the operations of the Brazilian brewer Antarctica for $52.5 million, with options to increase its equity interest to approximately 30%. Because Anheuser-Busch had the ability to exercise significant influence as a result of rights granted in its investment agreement, the Company applied the equity method of accounting for the investment in Antarctica in 1997, 1998 and 1999.

In originally approving the partnership, the Brazilian antitrust agency, CADE, required Aheuser-Busch's options to be mandatorily exercised at specified dates. The first of the required fixed-dollar investment options was set to expire in September 1999, but was determined to be no longer economically attractive for Anheuser-Busch. Accordingly, the company exercised its right to end its equity partnership with Antarctica in July 1999. There was no impact on earnings associated with the divestiture.

CADE also required Anheuser-Busch to discontinue its joint venture with Antarctica for the production, sale and distribution of Budweiser in Brazil. The pretax cost of discontinuing Budweiser production in Brazil was approximately $6 million. In December 1999, the Company entered into a distribution agreement with Expand Group and now exports Budweiser to Brazil.

2.112

MEDIA GENERAL, INC. (DEC)

Consolidated Balance Sheets

(In thousands)	1999	1998
Total current assets	$796,734	$176,226
Investments in unconsolidated affiliates	87,871	146,702

Consolidated Statements of Operations

(In thousands)	1999	1998	1997
Revenues	$795,408	$816,936	$756,685
Operating costs:			
Production	386,987	399,396	381,815
Selling, distribution and administrative	218,535	216,461	205,347
Depreciation and amortization	79,520	75,789	72,184
Total operating costs	685,042	691,646	659,346
Operating income	110,366	125,290	97,339
Other income (expense):			
Interest expense	(46,554)	(62,584)	(60,691)
Investment income—unconsolidated affiliates	9,067	22,193	21,037
Gain on sale of Denver Newspapers, Inc. common stock	30,983	—	—
Other, net	11,548	(980)	1,270
Total other income (expense)	5,044	(41,371)	(38,384)
Income from continuing operations before income taxes and extraordinary item	115,410	83,919	58,955

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3: Investments in Unconsolidated Affiliates

In June 1999, the Company sold 20% of the outstanding common stock of Denver Newspapers, Inc. (DNI), the parent Company of The Denver Post (a Colorado daily newspaper), to MediaNews, Inc., for $39 million, resulting in a $19 million after-tax gain. Subsequently, DNI's name was changed to the Denver Post Corporation (Denver). The Company still retains 20% ownership of the common stock of Denver and, for the three year period ending June 2002, will share in any realized appreciation in value of its previously owned 20% interest if that stock is sold to a third party or publicly offered. Additionally, the Company's preferred stock investment in Denver was redeemed in June 1999 for $34 million plus $19.2 million of accrued but unpaid dividends. The Company recognizes its share of Denver's net income applicable to common stockholders on a one month lag. In 1997, Denver's net sales totaled $224.8 million while gross profit was $111.3 million; net income was $19.4 million, of which $16.7 million was net income applicable to common stock. The Company's equity in Denver's 1997 net income amounted to $6.7 million.

The Company also has a one-third partnership interest in SP Newsprint Company (SPNC), formerly Southeast Paper Manufacturing Company, a domestic newsprint manufacturer which also pays licensing fees to the Company. In November 1999, SPNC acquired Smurfit Newsprint Corporation's Newberg, Oregon mill. Summarized financial information for the Company's investment in SPNC, accounted for by the equity method, follows:

SP Newsprint Company:

(In thousands)		1999	1998
Current assets		$ 97,823	$ 79,434
Noncurrent assets		487,859	294,628
Current liabilities		52,336	66,946
Noncurrent liabilities		301,393	74,765
(In thousands)	1999	1998	1997
Net sales	$258,225	$255,248	$246,468
Gross profit	45,092	66,945	56,183
Net income	19,701	38,493	25,002
Company's equity in net income	6,567	12,831	8,334

Other

Retained earnings of the Company at December 26, 1999, included $23.9 million related to undistributed earnings of unconsolidated affiliates. During 1999, the Company invested approximately $2.5 million for a 7.14% ownership interest in AdOne, L.L.P., a national online database of classified advertising, which is being accounted for under the equity method.

2.113

TWIN DISC, INCORPORATED AND SUBSIDIARIES (JUN)

Consolidated Balance Sheets

(Dollars in thousands)	1999	1998
Total current assets	$ 97,747	$ 93,580
Property, plant and equipment, net	38,935	35,728
Investment in affiliates	6,663	8,727
Goodwill, net	15,235	1,435
Deferred income taxes	4,349	1,241
Intangible pension asset	3,385	4,082
Other assets	10,586	16,161
	$176,900	$160,954

Consolidated Statements of Operations

(In thousands)	1999	1998	1997
Net sales	$168,142	$202,643	$189,942
Cost of goods sold	132,061	152,515	146,123
Gross profit	36,081	50,128	43,819
Marketing, engineering and administrative expenses	32,755	34,092	31,219
Earnings from operations	3,326	16,036	12,600
Other income (expense):			
Interest income	237	550	1,335
Interest expense	(2,070)	(1,505)	(1,781)
Equity in net (loss) earnings of affiliates	(945)	651	307
Gain on partial sale of affiliate	1,355	—	—
Loss on closure of subsidiary	(1,140)	—	—
Other, net	(749)	313	219
	(3,312)	9	80
Earnings before income taxes	14	16,045	12,680

NOTES TO CONSOLIDATED STATEMENTS

A (In Part): Significant Accounting Policies

Investments in Affiliates

The majority of the Company's investments in 20% to 50%-owned affiliates are accounted for using the equity method. Investments in less than 20%-owned affiliates are accounted for using the cost method.

D. Investments in Affiliates

The Company's investments in affiliates consists of a 25% interest in a domestic distributor of Twin Disc products and an investment in Niigata Converter Company, LTD., Japan ("Niigata"), a manufacturer of power transmission equipment. In March of 1999, the Company sold a portion of its investment in Niigata in exchange for a $1.7 million note receivable due in various annual amounts commencing December 31, 2002, through December 31, 2008. The sale was a non-cash transaction for purposes of the consolidated statement of cash flows. As a result, a pre-tax gain of $1,355,000 was recognized in 1999.

Prior to the sale the Company accounted for its 25% interest Niigata using the equity method. The Company recognized its share of Niigata's loss from April 1, 1998, through the date of sale of $1.5 million. After the sale, the Company accounted for its 19.5% interest using the cost method.

Undistributed earnings of the affiliates included in consolidated retained earnings approximated $1,713,000 and $3,283,000 at June 30, 1999 and 1998, respectively.

Combined condensed financial data for investments in affiliates accounted for under the equity method of accounting are summarized below (in thousands). The balance sheet information for 1999 includes the domestic distributor balances only and the 1998 information includes both the domestic distributor and Niigata balances. The statement of operations information for 1999 includes the domestic distributor results from June 1, 1998, through May 31, 1999, and Niigata results from April 1, 1998, through the date of sale; the 1998 information includes the domestic distributor results from June 1, 1997, through May 31, 1998, and Niigata results from April 1, 1997, through March 31, 1998.

	1999	1998
Current assets	$ 8,734	$ 78,214
Other assets	5,463	40,171
	$14,197	$118,385
Current liabilities	$ 6,530	$ 83,066
Other liabilities	210	412
Shareholders' equity	7,457	34,907
	$14,197	$118,385

	1999	1998	1997
Net sales	$116,115	$152,558	$166,171
Gross profit	13,008	20,897	19,911
Net (loss) earnings	(3,780)	2,606	1,228

Fair Value

2.114

BURLINGTON INDUSTRIES, INC. AND SUBSIDIARY COMPANIES (SEP)

(Amounts in thousands)	1999	1998
Total current assets	$ 633,859	$ 659,313
Fixed assets, at cost:		
Land and land improvements	31,807	39,374
Buildings	419,569	442,828
Machinery, fixtures and equipment	644,765	636,439
	1,096,141	1,118,641
Less accumulated depreciation and amortization	454,909	475,885
Fixed assets—net	641,232	642,756
Other assets:		
Investments and receivables	68,103	61,455
Intangibles and deferred charges	40,452	35,211
Excess of purchase cost over net assets acquired	492,629	514,152
Total other assets	601,184	610,818
	$1,876,275	$1,912,887

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note A (In Part): Summary of Accounting Policies

Investments

The Company classifies all of its investments as available-for-sale. Available-for-sale securities are carried at fair value, with the unrealized gains and losses reported as a component of shareholders' equity in comprehensive income (loss), net of income taxes. Investments available for current operations are classified in the consolidated balance sheet as current assets; investments held for long-term purposes are classified as noncurrent assets. Interest income and realized gains and losses on securities are included in "Other expense (income)—net" in the consolidated statements of operations. The cost of securities sold is based on the specific identification method.

Note C (In Part): Investments

The Company's investments in marketable securities at October 2, 1999 consisted of U.S. municipal bonds due after five years through ten years, international bond funds, equity securities and money market funds with an amortized cost basis of $20.3 million, $3.7 million, $4.4 million and $8.3 million, respectively. The aggregate estimated fair value was $39.2 million, including gross unrealized gains of $2.8 million and gross unrealized losses of $0.3 million. The Company's investments in marketable securities at October 3, 1998 consisted of U.S. municipal bonds due after five years through ten years, international bond funds, equity securities an money market funds with an amortized cost basis of $20.4 million, $3.7 million, $4.5 million and $6.6 million, respectively. The aggregate estimated fair value approximated amortized cost at October 3, 1998. Proceeds from sales of available-for-sale securities were $19.8 million and $20.2 million during the 1999 and 1998 fiscal years, respectively, and gross purchases were $20.7 million and $24.4 million, respectively. Gross gains (losses) realized on these sales in fiscal year 1999 and 1998 were not significant. Approximately $23.3 million of marketable securities are required to be maintained in conjunction with insurance programs.

Note P (In Part): Financial Instruments

Fair Value of Financial Instruments

It is estimated that the carrying value of the Company's financial instruments approximated fair value at October 2, 1999 and October 3, 1998, unless indicated otherwise below. The following methods and assumptions were used in estimating the fair values of financial instruments:

Cash and Cash Equivalents: The carrying amount approximates fair value because of the short maturity of those instruments.

Short-term Investments: The fair values are estimated based on quoted market prices for these or similar instruments.

Long-term Investments and Receivables: The fair values are estimated based on one of the following methods: (i) quoted market prices; (ii) current rates for similar issues; (iii) recent transactions for similar issues; or (iv) present value of expected cash flows.

Short-term and Long-term Debt: The fair value is estimated by obtaining quotes from brokers or based on current rates offered for similar debt. At October 2, 1999, long-term debt with a carrying value of $881.4 million had an estimated fair value of $795.5 million. At October 3, 1998, long-term debt with a carrying value of $802.0 million had an estimated fair value of $804.3 million.

Interest Rate Instruments: The fair values are the estimated amounts that the Company would receive or pay to terminate the agreements at the reporting date, taking into account current interest rates and the current creditworthiness of the counterparties. At October 2, 1999 and October 3, 1998, the carrying amounts of these instruments were a $0.9 million liability and a $0.7 million liability, respectively. At October 2, 1999 and October 3, 1998, the Company estimates it would have paid $1.6 and $16.0 million to terminate the agreements, respectively.

Foreign Currency Contracts: The fair values of foreign currency contracts (used for hedging purposes) are estimated by obtaining quotes from brokers. At October 2, 1999 and October 3, 1998, carrying amounts related to foreign currency contracts in the consolidated balance sheets were not material. At October 2, 1999, foreign currency contracts to pay $6.2 million had an estimated fair value of $6.1 million, and foreign currency contracts to receive $17.4 million had an estimated fair value of $17.6 million. At October 3, 1998, foreign currency contracts to pay $31.1 million had an estimated fair value of $27.8 million, and foreign currency contracts to receive $29.7 million had an estimated fair value of $31.6 million.

2.115

CMI CORPORATION AND SUBSIDIARIES (DEC)

(Dollars in thousands)	1999	1998
Total current assets	$174,132	$150,981
Property, plant, and equipment:		
Land	2,109	2,109
Buildings	18,600	16,870
Machinery and equipment	48,204	49,725
Other	1,070	535
	69,983	69,239
Less accumulated depreciation and amortization	38,815	39,692
Net property, plant, and equipment	31,168	29,547
Long-term receivables	642	356
Marketable securities, at fair value	1,417	1,605
Deferred tax asset	600	1,900
Other assets, principally patents and goodwill	7,516	5,322
Total assets	$215,475	$189,711

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Fair Value of Financial Instruments

The carrying amounts of cash and cash equivalents, receivables, accounts payable, and accrued liabilities approximate fair value because of the short maturity of these instruments. The carrying amounts of long-term receivables approximates fair value as the effective rates for these instruments are comparable to market rates at year-end. The carrying amount of investments approximates fair market value. The carrying amount of long-term debt is approximately $99.1 million and $77.3 million and the estimated fair value is $98.0 million and $77.3 million at December 31, 1999 and 1998, respectively. The estimated fair value of debt is based on borrowing rates currently available with similar terms and average maturities.

2.116

TIME WARNER INC. (DEC)

(Millions)	1999 Historical[(a)]	1998 Pro Forma[(a)]	1998 Historical[(a)]
Total current assets	$ 9,861	$ 8,769	$ 5,449
Noncurrent inventories	4,201	4,219	1,900
Investments in and amounts due to and from Entertainment Group	—	—	4,980
Other investments	2,096	1,665	794
Property, plant and equipment	8,728	8,037	1,991
Music catalogues, contracts and copyrights	782	876	876
Cable television and sports franchises	8,472	6,943	2,868
Goodwill	15,458	15,830	11,919
Other assets	1,641	1,612	863
Total assets	$51,239	$47,951	$31,640

(a) The 1999 financial statements reflect the consolidation of the Entertainment Group, which substantially consists of TWE, retroactive to the beginning of 1999. Time Warner's historical financial statements for 1998 have not been changed; however, in order to enhance comparability, pro forma financial statements for 1998 reflecting the consolidation of the Entertainment Group are presented supplementally (Note 1).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Basis of Consolidation and Accounting for Investments

The consolidated financial statements include 100% of the assets, liabilities, revenues, expenses, income, loss and cash flows of Time Warner and all companies in which Time Warner has a controlling voting interest ("subsidiaries"), as if Time Warner and its subsidiaries were a single company. Significant intercompany accounts and transactions between the consolidated companies have been eliminated.

Investments in companies in which Time Warner has significant influence, but less than a controlling voting interest, are accounted for using the equity method. Under the equity method, only Time Warner's investment in and amounts due to and from the equity investee are included in the consolidated balance sheet; only Time Warner's share of the investee's earnings is included in the consolidated operating results; and only the dividends, cash distributions, loans other cash received from the investee, less any additional cash investments, loan repayments or other cash paid to the investee, are included in the consolidated cash flows.

Investments in companies in which Time Warner does not have a controlling interest, or an ownership and voting interest so large as to exert significant influence, are accounted for at market value if the investments are publicly traded and there are no resale restrictions greater than one year. If there are resale restrictions greater than one year, or if the investment is not publicly traded, then the investment is accounted for at cost. Unrealized gains and losses on investments accounted for at market value are reported net-of-tax as a component of accumulated other comprehensive income (loss) in accumulated deficit until the investment is sold, at which time the realized gain or loss is included in income. Dividends and other distributions of earnings from both market-value and cost-method investments are included in income when declared.

The effect of any changes in Time Warner's ownership interests resulting from the issuance of equity capital by consolidated subsidiaries or equity investees to unaffiliated parties is included in income.

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Financial Instruments

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

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

5 (In Part): Other Investments

Time Warner's other investments consist of:

	December 31,		
(Millions)	1999 Historical	1998 Pro Forma	1998 Historical
Equity-method investments	$1,012	$1,042	$483
Cost-method investments	73	177	12
Fair-value investments[a]	1,011	446	299
Total	$2,096	$1,665	$794

[a] Principally includes investments in Internet-related and digital media businesses and investments relating to Time Warner's deferred compensation plans.

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Other Instruments

Time Warner has a number of other fair value method investments, including interests in Internet-related and digital media businesses. These interests generally consist of common equity and common equity equivalents. As of December 31, 1999, Internet-related and digital media investments included 2,252,252 of common share equivalents in OpenTV Corp., a designer and marketer of digital interactive television software and components; 349,612 of common share equivalents in Intervu Inc., a service provider for Internet audio and video delivery solutions; 2,486,742 of common share equivalents in Healtheon/WebMD Corp., an end-to-end Internet healthcare company connecting physicians and consumers to the entire healthcare industry; 5,170,509 of common share equivalents in Fortune City, an international online community; and 2,627,080 of common share equivalents in Hoover's Inc., an Internet provider of news, financial and other information on various companies and industries.

Time Warner's ownership and voting interests in these companies are generally less than 20%, which is not large enough to exert significant influence. As such, these publicly traded investments are accounted for at market value. As of December 31, 1999, the aggregate market value of these publicly traded investments approximated $450 million, resulting in unrealized pretax gains of approximately $350 million included as a component of other comprehensive income in shareholders' equity.

2.117

UNION CARBIDE CORPORATION AND SUBSIDIARIES (DEC)

(Millions of dollars)	1999	1998
Total current assets	$2,150	$1,906
Property, plant and equipment	9,057	8,409
Less: accumulated depreciation	4,536	4,228
Net fixed assets	4,521	4,181
Companies carried at equity	756	624
Other investments and advances	75	141
Total investment and advances	831	765
Other assets	455	439
Total assets	$7,957	$7,291

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

Principles of Consolidation

The consolidated financial statements include the accounts of all significant subsidiaries. All significant intercompany transactions have been eliminated in consolidation. Investments in 20 percent- to 50 percent-owned partnerships and corporate investments (joint ventures) are reported under the equity method of accounting. Other investments are generally carried at cost.

The consolidated financial statements have been prepared in conformity with generally accepted accounting principles, which require the corporation to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 10: Financial Instruments

Fair values of financial instruments are estimated by using a method that indicates the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The fair values of the financial instruments included on the Consolidated Balance Sheet were estimated as follows:

Cash, Short-Term Receivables and Accounts Payable—At Dec. 31, 1999 and 1998, the carrying amounts approximate fair values because of the short maturity of these instruments.

Outstanding foreign currency forward contracts and options used as a means of offsetting fluctuations in the dollar value of other foreign currency accounts receivable and payable and earnings fluctuations from anticipated foreign currency cash flows totaled $186 million at Dec. 31, 1999 ($220 million at Dec. 31, 1998). There were unrealized losses of $1 million and $13 million on these contracts at Dec. 31, 1999 and 1998, respectively, which were generally offset by changes in the U.S. dollar value equivalents of underlying foreign currency transactions.

In addition to the above, at Dec. 31, 1999, the corporation held foreign currency options in the amount of $67 million ($199 million at Dec. 31, 1998) (U.S. dollar equivalent) to hedge a commitment to lend money to fund construction of operating facilities at specific future dates by one of its foreign subsidiaries. Such commitment is supported by commitments to third parties. The premiums on the options and any gains or losses are being capitalized as part of the intercompany loan and amortized to income as an adjustment to the effective interest yield of such loan over its repayment term. At Dec. 31, 1999, a $3 million gain ($3 million loss at Dec. 31, 1998) had been capitalized.

Investments—The corporation's investments in joint ventures and companies carried under the cost method generally involve entities for which it is not practicable to determine fair values.

Long-Term Receivables—The fair values of long-term receivables are calculated using current interest rates and consideration of underlying collateral where appropriate. The fair values approximate the carrying values of $25 million and $27 million included in Other assets on the Consolidated Balance Sheet at Dec. 31, 1999 and 1998, respectively.

Debt—The corporation uses various types of financial instruments, including interest rate swaps and forward rate agreements, to manage exposure to financial market risk caused by interest rate fluctuations. The corporation held no such instruments at Dec. 31, 1999. An interest rate swap held at Dec. 31, 1998 had a nominal carrying amount and fair value.

Carrying Amounts and Fair Values—The carrying amounts and fair values of the corporation's Other investments and advances long-term receivables and debt financial instruments at Dec. 31, 1999 and 1998, are summarized in the table below. Fair values are based on quoted market values, where available, or discounted cash flows (principally long-term debt).

	1999		1998	
Millions of dollars, at December 31,	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets (liabilities):				
Investments and receivables	$ 100	$ 100	$ 168	$ 168
Short- and long-term debt	(2,651)	(2,592)	(2,222)	(2,266)

Cost

2.118

STEEL TECHNOLOGIES INC. (SEP)

(In thousands, except shares)	1999	1998
Total current assets	$150,492	$131,577
Property, plant and equipment, at cost:		
Land and improvements	5,829	5,632
Buildings and improvements	50,418	44,796
Machinery and equipment	119,148	113,354
Construction in progress	4,553	4,224
	179,948	168,006
Less accumulated depreciation and amortization	71,995	61,375
	107,953	106,631
Investments in corporate joint ventures	19,858	18,163
Goodwill, net of amortization	9,664	9,060
Other assets	1,138	1,050
	$289,105	$266,481

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of Steel Technologies Inc. and its majority-owned subsidiaries (the Company). The Company's investments in corporate joint ventures are accounted for by the cost or equity method based on the percentage of common ownership and control. All significant intercompany transactions have been eliminated.

4 (In Part): Investments in Unconsolidated Corporate Joint Ventures

The Company maintains an investment of approximately $1,000,000, principally in preferred stock of Processing Technology, Inc., a corporate joint venture accounted for by the cost method.

NONCURRENT RECEIVABLES

2.119 Chapter 3A of *Accounting Research Bulletin No. 43*, states that the concept of current assets excludes "receivables arising from unusual transactions (such as the sale of capital assets, or loans or advances to affiliates, officers, or employees) which are not expected to be collected within twelve months."

2.120 When a noncurrent receivable is a financial instrument, as defined by *Statement of Financial Accounting Standards No. 105, Statement of Financial Accounting Standards No. 107* requires that the fair value of the noncurrent receivable and the basis for estimating fair value be disclosed. *Statement of Financial Accounting Standards No. 133,* effective for fiscal years beginning after June 15, 1999 (deferred to all fiscal years beginning after June 15, 2000 by *SFAS No.* 137 and amended by *SFAS No.* 138), supersedes *SFAS No. 105* and amends *SFAS No. 107.* 53 survey companies made 67 fair value disclosures. 16 disclosures stated that fair value approximated the carrying amounts of the receivables; 35 disclosures stated that discounted cash flows were used to estimate fair value; and 12 disclosures stated that market quotes were used to estimate fair value.

2.121 Table 2-16 summarizes the balance sheet captions used to describe noncurrent receivables. Examples of noncurrent receivable presentations and disclosures follow.

2.122

TABLE 2-16: NONCURRENT RECEIVABLES

	1999	1998	1997	1996
Caption Title				
Notes Receivable	23	27	38	26
Long-Term Receivables	20	32	31	31
Other	27	28	28	29
Receivables combined with other investments, deposits, etc.	50	29	23	31
Total Presentations	**120**	**116**	**120**	**117**
Number of Companies				
Presenting noncurrent receivables	111	100	116	110
Not presenting noncurrent receivables	489	500	484	490
Total Companies	**600**	**600**	**600**	**600**

2.123

AMERADA HESS CORPORATION AND CONSOLIDATED SUBSIDIARIES (DEC)

(Thousands of dollars)	1999	1998
Total current assets	$1,827,570	$1,886,706
Investments and advances:		
HOVENSA L.L.C.	709,569	702,581
Other	282,599	232,826
Total investments and advances	992,168	935,407
Property, plant and equipment:		
Exploration and production	9,974,117	9,718,424
Refining and marketing	980,806	1,193,353
Shipping	109,962	115,462
Total—at cost	11,064,885	11,027,239
Less allowance for depreciation, depletion, amortization and lease impairment	7,013,233	6,835,301
Property, plant and equipment—net	4,051,652	4,191,938
Note receivable	538,500	538,500
Deferred income taxes and other assets	317,822	330,432
Total assets	$7,727,712	$7,882,983

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

14 (In Part): Financial Instruments, Hedging and Trading Activities

Fair Value Disclosure

The carrying amounts of cash and cash equivalents, short-term debt and long-term, variable-rate debt approximate fair value. The Corporation estimates the fair value of its long-term, fixed-rate note receivable and debt generally using discounted cash flow analysis based on current interest rates for instruments with similar maturities. Interest-rate conversion agreements and foreign currency exchange contracts are valued based on current termination values or quoted market prices of comparable contracts. The Corporation's valuation of commodity contracts considers quoted market prices, time value, volatility of the underlying commodities and other factors.

The carrying amounts of the Corporation's financial instruments and commodity contracts, including those used in the Corporation's hedging and trading activities, generally approximate their fair values at December 31, 1999, except as follows:

2.124

CMI CORPORATION AND SUBSIDIARIES (DEC)

(Dollars in thousands)	1999	1998
Total current assets	$174,132	$150,981
Property, plant and equipment:		
Land	2,109	2,109
Buildings	18,600	16,870
Machinery and equipment	48,204	49,725
Other	1,070	535
	69,983	69,239
Less accumulated depreciation and amortization	38,815	39,692
Net property, plant, and equipment	31,168	29,547
Long-term receivables	642	356
Marketable securities, at fair value	1,417	1,605
Deferred tax asset	600	1,900
Other assets, principally patents and goodwill	7,516	5,322
Total assets	$215,475	$189,711

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Fair Value of Financial Instruments

The carrying amounts of cash and cash equivalents, receivables, accounts payable, and accrued liabilities approximate fair value because of the short maturity of these instruments. The carrying amounts of long-term receivables approximates fair value as the effective rates for these instruments are comparable to market rates at year-end. The carrying amount of investments approximates fair market value. The carrying amount of long-term debt is approximately $99.1 million and $77.3 million and the estimated fair value is $98.0 million and $77.3 million at December 31, 1999 and 1998, respectively. The estimated fair value of debt is based on borrowing rates currently available with similar terms and average maturities.

2.125

HERMAN MILLER, INC. AND SUBSIDIARIES (MAY)

(In thousands, except share and per share data)	1999	1998
Total current assets	$350,102	$400,135
Property and equipment:		
Land and improvements	25,073	27,279
Buildings and improvements	137,367	156,605
Machinery and equipment	428,867	364,817
Construction in progress	55,356	47,171
	646,663	595,872
Less: accumulated depreciation	329,944	305,208
Net property and equipment	316,719	290,664
Notes receivable, less allowance of $5,469 in 1999 and $8,430 in 1998	17,400	27,522
Other assets	77,285	66,025
Total assets	$761,506	$784,346

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Significant Accounting and Reporting Policies (In Part)

Notes Receivable

The notes receivable are primarily from certain independent contract office furniture dealers. The notes are collateralized by the assets of the dealers and bear interest based on the prevailing prime rate. Interest income relating to these notes was $3.0, $4.3, and $4.8 million in 1999, 1998, and 1997, respectively.

Fair Value of Financial Instruments

The carrying amount of the Company's financial instruments included in current assets and current liabilities approximates their fair value due to their short-term nature. The fair value of the notes receivable is estimated by discounting expected future cash flows using current interest rates at which similar loans would be made to borrowers with similar credit ratings and remaining maturities. As of May 29, 1999, and May 30, 1998, the fair value of the notes receivable approximated the carrying value. The Company intends to hold these notes to maturity and has recorded allowances to reflect the terms negotiated for carrying value purposes. As of May 29, 1999, and May 30, 1998, the carrying value approximated the fair value of the Company's long-term debt.

2.126

SERVICE CORPORATION INTERNATIONAL (DEC)

(Dollars in thousands, except share amounts)	1999	1998
Total current assets	$ 996,151	$ 1,209,080
Investments—insurance operations	1,318,635	1,234,678
Prearranged funeral contracts	2,898,139	2,588,806
Long-term receivables	1,562,418	1,408,076
Cemetery property, at cost	2,182,410	2,035,897
Property, plant and equipment, at cost (net)	1,881,525	1,824,979
Deferred charges and other assets	1,286,967	1,151,430
Names and reputations (net)	2,475,356	1,813,212
	$14,601,601	$13,266,158

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

Note Ten (In Part): Credit Risk and Fair Value of Financial Instruments

The following disclosure of the estimated fair value of financial instruments has been determined using available market information and appropriate valuation methodologies. The carrying amounts of cash and cash equivalents, trade receivables and accounts payable approximate fair values due to the short-term maturities of these instruments. It is not practicable to estimate the fair value of receivables due on cemetery contracts or prearranged funeral contracts (other than cemetery merchandise trust funds and prearranged funeral trust funds, see notes four and six to the consolidated financial statements) without incurring excessive costs because of the large number of individual contracts with varying terms. The investments of the Company's insurance subsidiaries are reported at fair value in the consolidated balance sheet. Due to the decision by the Company to indefinitely suspend the operations of the lending subsidiary, impairment charges have been recorded to reduce the carrying value of certain loans to their fair value. Additionally, a provision for loan losses has been recorded against certain other loans (see note eighteen to the consolidated financial statements).

Note Sixteen (In Part): Supplementary Information

The detail of certain balance sheet accounts was as follows:

	December 31, 1999	1998
Cash and cash equivalents:		
Cash	$ 43,422	$ 80,782
Commercial paper and temporary investments	44,799	277,428
	$ 88,221	$ 358,210
Receivables and allowances:		
Current:		
Trade accounts	$ 329,104	$ 336,213
Cemetery contracts	294,893	225,449
Loans and other	93,368	101,444
	717,365	663,106
Less:		
Allowance for contract cancellations and doubtful accounts	77,080	53,292
Unearned finance charges	35,158	44,262
	112,238	97,554
	$605,127	$565,552
Long-term:		
Cemetery contracts	$ 591,489	$ 534,801
Trusted cemetery merchandise sales	800,306	613,917
Loans and other	355,517	360,776
	1,747,312	1,509,494
Less:		
Allowance for contract cancellations and doubtful accounts	97,285	38,707
Unearned finance charges	87,609	62,711
	184,894	101,418
	$1,562,418	$1,408,076

Interest rates on cemetery contracts and loans and other notes receivable range from 7.0% to 14.5% at December 31, 1999 (3.2% to 15.7% at December 31, 1998). Included in long-term loans and other notes receivable at December 31, 1999, are $10,392 in notes with officers, employees and former employees of the Company ($15,054 at December 31, 1998), the majority of which are collateralized by real estate, and $19,796 in notes with other related parties ($28,323 at December 31, 1998).

2.127

SUPERVALU INC. (FEB)

(In thousands, except per share data)	1999	1998
Total current assets	$1,582,527	$1,612,060
Long-term notes receivable	48,697	83,401
Long-term investment in direct financing leases	112,576	95,291
Property, plant and equipment:		
Land	139,120	138,615
Buildings	990,331	929,975
Property under construction	26,601	54,175
Leasehold improvements	167,122	150,745
Equipment	1,245,134	1,147,626
Assets under capital leases	352,104	286,762
	2,920,412	2,707,898
Less accumulated depreciation and amortization:		
Owned property, plant and equipment	1,156,921	1,052,521
Assets under capital leases	64,467	65,776
Net property, plant and equipment	1,699,024	1,589,601
Goodwill	567,890	498,438
Other assets	255,235	214,219
Total assets	$4,265,949	$4,093,010

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (In Part)

Fair Value Disclosures of Financial Instruments

The estimated fair value of notes receivable approximates the net carrying value at February 27, 1999 and February 28, 1998. Notes receivable are valued based on comparisons to publicly traded debt instruments of similar credit quality.

At February 27, 1999 and February 28, 1998 the estimated fair market value of the Company's long-term debt (including current maturities) exceeded the carrying value by approximately $34 and $42 million, respectively. The estimated fair value was based on market quotes where available, discounted cash flows and market yields for similar instruments. The estimated fair market value of the Company's commercial paper outstanding as of February 27, 1999 and February 28, 1998 approximates the carrying value.

Notes Receivable

Notes receivable arise from fixture and other financing activities related to independently owned retail food customers. Loans to independent retailers, as well as trade accounts receivable, are primarily collateralized by the retailers' inventory, equipment and fixtures. The notes range in length from 1 to 10 years with the average being 7 years, and may be non-interest bearing or bear interest at rates ranging from 5 to 11 percent.

Included in current receivables are notes receivable due within one year totaling $8.6 and $16.7 million at February 27, 1999 and February 28, 1998, respectively.

INTANGIBLE ASSETS

2.128 *APB Opinion No. 17* sets forth requirements as to accounting for intangible assets. *Opinion No. 17* stipulates that all intangible assets acquired after October 31, 1970 or recognized in business combinations initiated after October 31, 1970 be amortized over a period not to exceed 40 years and that "financial statements should disclose the method and period of amortization."

2.129 Table 2-17 lists those intangible assets being amortized which are most frequently disclosed by the survey companies. Table 2-17 does not reflect intangible assets not being amortized because such assets were acquired prior to the effective date of *Opinion No. 17.* Table 2-17 also does not include intangible pension assets recognized when an entity records a minimum pension liability in accordance with *Statement of Financial Accounting Standards No. 87.* In 1999, 20 survey companies disclosed an amount for intangible assets acquired prior to the effective date of *Opinion No. 17* and 75 survey companies disclosed an amount for intangible pension assets.

2.130 Table 2-18 summarizes the amortization periods used by the survey companies to amortize intangible assets. It is not uncommon for a company to use more than one period for one type of intangible. For instance, a company may disclose in the Summary of Accounting Policies that it amortizes goodwill over a period not exceeding 40 years and in a subsequent note disclose that it amortizes goodwill related to a certain acquisition over a specified number of years.

2.131 Examples of intangible asset presentations and disclosures follows.

2.132

TABLE 2-17: INTANGIBLE ASSETS

	Number of Companies			
	1999	**1998**	**1997**	**1996**
Goodwill recognized in a business combination	477	453	439	421
Trademarks, brand names, copyrights	96	96	83	67
Patents, patent rights	79	73	74	70
Technology	40	34	23	21
Licenses, franchises, memberships	34	34	28	23
Noncompete covenants	25	28	25	20
Customer lists	19	20	17	15
Other—described	63	53	29	28

2.133

TABLE 2-18: AMORTIZATION PERIOD—1999

			Number of Companies				
Period	**Goodwill**	**Trademarks**	**Patents**	**Licenses**	**Technology**	**Noncompete**	**Lists**
40	144	12	1	5	0	1	0
"Not exceeding 40"	146	19	10	4	1	1	2
25-30	24	3	1	0	2	0	1
20	18	6	2	2	0	0	0
10-15	24	0	2	1	0	1	1
Legal/estimated life	23	18	26	8	10	10	3
Other	136	38	37	14	27	12	12

Goodwill

2.134

AMERICAN STANDARD COMPANIES INC. (DEC)

(Dollars in thousands)	1999	1998
Total current assets	$1,725,547	$1,664,806
Facilities, at cost, net of accumulated depreciation	1,414,183	1,211,025
Other assets:		
Goodwill, net of accumulated amortization—1999, $278,162; 1998, $246,707	991,120	759,857
Debt issuance costs, net of accumulated amortization—1999, $15,315; 1998, $9,542	42,079	40,225
Other	513,058	430,632
	$4,685,987	$4,106,545

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2 (In Part): Accounting Policies

Financial Statement Presentation

The consolidated financial statements include the accounts of majority-owned subsidiaries; intercompany transactions are eliminated. Investments in unconsolidated joint ventures are included at cost plus the Company's equity in undistributed earnings.

Goodwill

Goodwill is amortized over 40 years. The carrying value is reviewed if the facts and circumstances, such as significant declines in sales, earnings or cash flows or material adverse changes in the business climate, suggest that it may be impaired. If this review indicates that goodwill will not be recoverable, as determined based on the estimated undiscounted cash flows of the entity acquired, impairment is measured by comparing the carrying value of goodwill to fair value. Fair value is determined based on quoted market values, discounted cash flows or appraisals. In addition, the Company assesses long-lived assets for impairment under Statement of Financial Accounting Standards No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of.* Under those rules, goodwill associated with assets acquired in a purchase business combination is included in impairment evaluations when events or circumstances indicate that the carrying amount of those assets may not be recoverable.

2.135

AMETEK, INC. (DEC)

(Dollars in thousands)	1999	1998
Total current assets	$256,101	$267,840
Property, plant and equipment, net	219,571	214,411
Goodwill, net of accumulated amortization	248,304	149,219
Investments and other assets	44,174	68,355
Total assets	$768,150	$699,825

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Significant Accounting Policies

Intangible Assets

The excess of cost over net assets acquired (goodwill) is being amortized on a straight-line basis over periods of 20 to 30 years. Patents are being amortized on a straight-line basis over their estimated useful lives of 9 to 17 years. Other acquired intangibles are being amortized on a straight-line basis over their estimated useful lives of 5 to 30 years. The Company reviews the carrying value of intangibles for impairment whenever events in circumstances indicate that the carrying amount may not be recoverable.

4 (In Part): Other Balance Sheet Information

(In thousands)	1999	1998
Goodwill, at cost	$266,377	$160,941
Less accumulated amortization	(18,073)	(11,722)
	$248,304	$149,219

2.136

BMC INDUSTRIES, INC. (DEC)

(In thousands)	1999	1998
Total current assets	$149,651	$151,994
Property, plant and equipment, net	151,238	162,594
Deferred income taxes	9,221	5,431
Intangible assets, net	68,232	73,178
Other assets, net	5,211	6,268
Total assets	$383,553	$399,465

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Intangible Assets

Consist primarily of goodwill and other acquisition-related intangible assets which are stated at cost or at fair value as of the date acquired in a business acquisition accounted for as a purchase, less accumulated amortization. Amortization is computed on a straight-line basis over estimated useful lives of 7 to 30 years. Management periodically assesses the amortization period and recoverability of the carrying amount of goodwill based upon an estimate of future cash flows from related operations. Amortization expense was $3,453, $2,034 and $303 in 1999, 1998 and 1997, respectively.

5. Intangible Assets

The following is a summary of intangible assets at December 31:

(In thousands)	1999	1998
Goodwill	$61,559	$64,113
Other	12,941	11,877
Total	74,500	75,990
Less accumulated amortization	(6,268)	(2,812)
Total intangible assets	$68,232	$73,178

2.137

MANDALAY RESORT GROUP AND SUBSIDIARIES (JAN)

(In thousands)	2000	1999
Total current assets	$ 281,539	$ 161,278
Property, equipment and leasehold interests, at cost, net	3,335,071	3,000,822
Other assets:		
Excess of purchase price over fair market value of net assets acquired, net	396,433	367,076
Notes receivable	1,605	10,895
Investments in unconsolidated affiliates	264,995	271,707
Deferred charges and other assets	49,833	57,929
Total other assets	712,866	707,607
Total assets	$4,329,476	$3,869,707

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Goodwill

On December 14, 1999, the Company purchased an additional ownership interest in a joint venture which operates MotorCity Casino, a temporary casino in Detroit, Michigan, bringing its total ownership interest to 53.5%. On June 1, 1995, the Company completed its acquisition of Gold Strike Resorts, in which it acquired two hotel/casino facilities in Jean, Nevada, one in Henderson, Nevada, a 50% interest in a joint venture which owns Grand Victoria, a riverboat casino and land-based entertainment complex in Elgin, Illinois, and a 50% interest in a joint venture which owns the Monte Carlo, a major hotel/casino on the Las Vegas Strip. On February 1, 1983, the Company purchased the Edgewater Hotel and Casino in Laughlin, Nevada and on November 1, 1979, the Company purchased the Slots-A-Fun Casino in Las Vegas. The excess of the purchase price over the fair market value of the net assets acquired amounted to $38.4 million for the purchase of the additional ownership interest in MotorCity Casino, $394.5 million for the purchase of Gold Strike Resorts, $9.7 million for the purchase of the Edgewater and $4.2 million for the purchase of Slots-A-Fun, and each is being amortized over a period of 40 years with the exception of the MotorCity Casino interest which is being amortized over a period of 25 years.

Trademarks

2.138

NEWELL RUBBERMAID INC. (DEC)

(In thousands)	1999	1998
Total current assets	$2,738,569	$2,450,649
Marketable equity securities	10,799	19,317
Other long-term investments	65,905	57,967
Other assets	335,699	267,073
Property, plant and equipment, net	1,548,191	1,627,090
Trade names and goodwill, net	2,024,925	1,867,059
Total assets	$6,724,088	$6,289,155

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Significant Accounting Policies

Trade Names and Goodwill

The cost of trade names and goodwill represents the excess of cost over identifiable net assets of businesses acquired. The Company does not allocate such excess cost to trade names separate from goodwill. In addition, the Company may allocate excess cost to other identifiable intangible assets and record such intangible assets in Other Assets (long-term). Trade names and goodwill are amortized over 40 years and other identifiable intangible assets are amortized over 5 to 40 years. Trade names and goodwill and other identifiable intangible assets, respectively, consisted of the following:

Net Trade Names and Goodwill

December 31, (In millions)	1999	1998	1997
Cost	$2,270.5	$2,068.7	$1,669.3
Accumulated amortization	(245.6)	(201.6)	(152.4)
	$2,024.9	$1,867.1	$1,516.9

Net Other Identifiable Intangible Assets[1]

December 31, (In millions)	1999	1998	1997
Cost	$93.0	$131.2	$118.6
Accumulated amortization	(34.3)	(37.6)	(37.9)
	$58.7	$ 93.6	$ 80.7

[1] Recorded in Other Assets

2.139

WARNER-LAMBERT COMPANY AND SUBSIDIARIES (DEC)

(Dollars in millions)	1999	1998
Total current assets	$ 5,690.1	$4,248.9
Investments and other assets	793.4	718.9
Property, plant and equipment, net	3,341.9	2,821.9
Intangible assets	1,616.1	1,730.4
	$11,441.5	$9,520.1

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars in millions)

Note 1 (In Part): Significant Accounting Policies

Intangible Assets

Intangible asses are recorded at cost and are amortized on the straight-line method over appropriate periods not exceeding 40 years. The Company continually reviews goodwill and other intangible assets to evaluate whether events or changes have occurred that would suggest an impairment of carrying value. An impairment would be recognized when expected future operating cash flows are lower than the carrying value.

Note 10: Intangible Assets

	December 31, 1999	1998
Goodwill	$1,234.5	$1,299.0
Trademarks and other intangibles	655.7	666.4
	1,890.2	1,965.4
Less accumulated amortization	(274.1)	(235.0)
	$1,616.1	$1,730.4

Amortization expense, which is reflected primarily in Other expense, net, totaled $63.3, $60.4 and $57.1 in 1999, 1998 and 1997, respectively.

At December 31, 1999 and 1998, goodwill is being amortized primarily over 40 years and trademarks and other intangibles are being amortized over a weighted average of approximately 33 years.

Patents

2.140

BECTON, DICKINSON AND COMPANY (SEP)

(Thousands of dollars)	1999	1998
Total current assets	$1,683,725	$1,542,762
Property, plant and equipment, net	1,431,149	1,302,650
Goodwill, net	526,942	412,070
Core and developed technology, net	329,460	214,167
Other intangibles, net	178,285	120,108
Other	287,397	254,281
Total assets	$4,436,958	$3,846,038

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Intangibles

Goodwill and core and developed technology arise from acquisitions. Goodwill is amortized over periods principally ranging from 10 to 40 years, using the straight-line method. Core and developed technology is amortized over periods ranging from 15 to 20 years, using the straight-line method. Other intangibles, which include patents and other, are amortized over periods principally ranging from three to 40 years, using the straight-line method. Intangibles are periodically reviewed to assess recoverability from future operations using undiscounted cash flows. To the extent carrying values exceed fair values, an impairment loss is recognized in operating results.

8 (In Part): Supplemental Balance Sheet Information

Goodwill	1999	1998
Goodwill	$636,362	$498,012
Less accumulated amortization	109,420	85,942
	$526,942	$412,070

Core and Developed Technology	1999	1998
Core and developed technology	$353,207	$222,800
Less accumulated amortization	23,747	8,633
	$329,460	$214,167

Other Intangibles	1999	1998
Patents and other	$337,871	$266,069
Less accumulated amortization	159,586	145,961
	$178,285	$120,108

Licenses and Franchises

2.141

INTERSTATE BAKERIES CORPORATION (MAY)

(In thousands)	1999	1998
Total current assets	$ 348,750	$ 334,458
Property and equipment:		
Lands and buildings	385,495	343,339
Machinery and equipment	942,748	849,671
	1,328,243	1,193,010
Less accumulated depreciation	(425,327)	(344,130)
Net property and equipment	902,916	848,880
Intangibles	429,109	366,648
	$1,680,775	$1,549,986

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Intangibles

Included in intangibles, which are being amortized using the straight-line method, are the following:

(In thousands)	Life	May 29, 1999	May 30, 1998
Licenses and patents	9 years	$ 2,510	$ 2,510
Trademarks and trade names	25-40 years	202,345	144,555
Excess of purchase cost over net assets acquired	40 years	314,699	296,473
Deferred financing cost and other—net	Term of loans	6,679	7,505
		526,233	451,043
Accumulated amortization		(97,124)	(84,395)
		$429,109	$366,648

2.142

WHITMAN CORPORATION AND SUBSIDIARIES (DEC)

(In millions)	1999	1998
Total current assets	$ 538.0	$ 429.1
Investments	47.9	160.0
Property (at cost):		
Land	30.6	22.0
Buildings and improvements	253.7	183.3
Machinery and equipment	1,100.2	801.2
Total property	1,384.5	1,006.5
Accumulated depreciation and amortization	(552.8)	(507.2)
Net property	831.7	499.3
Intangible assets, net of accumulated amortization of $168.0 million—1999 and $155.5 million—1998	1,416.3	447.0
Other assets	30.4	33.9
Total assets	$2,864.3	$1,569.3

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Significant Accounting Policies

Intangible Assets

Intangible assets principally represent franchise rights, which are the excess of cost over fair market values of net tangible and identifiable intangible assets of acquired businesses. Such amounts generally are being amortized on a straight-line basis over 40 years. The principal factors considered in determining the use of a 40 year amortization period include: 1) the franchise agreements with PepsiCo are granted in perpetuity and provide the exclusive right to manufacture and sell PepsiCo branded products within the territories prescribed in the agreements, and 2) the existing and projected cash flows are adequate to support the carrying values of intangible assets. Intangible assets associated with international operations are not significant.

Technology

2.143

FEDERAL-MOGUL CORPORATION (DEC)

(Millions of dollars)	1999	1998
Total current assets	$2,026.5	$2,599.6
Property, plant and equipment, net	2,503.7	2,477.5
Goodwill	3,547.8	3,398.4
Other intangible assets	796.3	886.4
Asbestos-related insurance recoverable	325.8	—
Other noncurrent assets	745.0	578.2
Total assets	$9,945.2	$9,940.1

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Accounting Policies

Goodwill and Other Intangible Assets

At December 31, goodwill and other intangible assets, which result principally from acquisitions, consisted of the following:

(Millions of dollars)	Estimated Useful Life	1999	1998
Goodwill	40 years	$3,725.7	$3,481.8
Accumulated amortization		(177.9)	(83.4)
Total Goodwill		$3,547.8	$3,398.4

(Millions of dollars)	Estimated Useful Life	1999	1998
Trademarks	40 years	$ 415.7	$ 417.6
Developed technology	12-30 years	368.1	390.1
Assembled workforce	15 years	76.9	88.1
Other	5-20 years	14.4	39.9
		875.1	935.7
Accumulated amortization		(78.8)	(49.3)
Total other intangible assets		$ 796.3	$ 886.4

Intangible assets are periodically reviewed for impairment based on an assessment of future cash flows, or fair value for assets held for sale. Intangible assets are amortized on a straight-line basis over their estimated useful lives. Impairment charges recorded in 1999, 1998 and 1997 related primarily to assets held for sale.

2.144

INTEL CORPORATION (DEC)

(In millions)	1999	1998
Total current assets	$17,819	$13,475
Property, plant and equipment:		
Land and buildings	7,246	6,297
Machinery and equipment	14,851	13,149
Construction in progress	1,460	1,622
	23,557	21,068
Less accumulated depreciation	11,842	9,459
Property, plant and equipment, net	11,715	11,609
Marketable strategic equity securities	7,121	1,757
Other long-term investments	790	3,608
Goodwill and other acquisition-related intangibles	4,934	111
Other assets	1,470	911
Total assets	$43,849	$31,471

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Accounting Policies (In Part)

Goodwill and Other Acquisition-Related Intangibles

Goodwill is recorded when the consideration paid for acquisitions exceeds the fair value of net tangible and intangible assets required. Goodwill and other acquisition-related intangibles are amortized on a straight-line basis over the periods indicated below. Reviews are regularly performed to determine whether facts or circumstances exist which indicate that the carrying values of assets are impaired. The Company assesses the recoverability of its assets by comparing the projected undiscounted net cash flows associated with those assets against their respective carrying amounts. Impairment, if any, is based on the excess of the carrying amount over the fair value of those assets. No impairment has been indicated to date.

Net goodwill and other acquisition-related intangibles at fiscal year-ends were as follows:

(In millions)	Life in years	1999	1998
Goodwill	2-6	$4,124	$ 52
Developed technology	3-6	612	33
Other intangibles	2-6	198	26
		$4,934	$111

Other intangibles include items such as trademarks, workforce-in-place and customer lists. The total balances presented above are net of total accumulated amortization of $471 million and $60 million at December 25, 1999 and December 26, 1998, respectively.

Amortization of goodwill and other acquisition-related intangibles of $411 million for 1999 consisted of $307 million of amortization of goodwill and $104 million of amortization of other acquisition-related intangibles, a majority of which was related to developed technology.

Covenants Not to Compete

2.145

BOWNE & CO., INC. (DEC)

(In thousands)	1999	1998
Total current assets	$309,439	$276,064
Property, plant and equipment at cost, less accumulated depreciation of $192,757 (1999) and $157,725 (1998)	173,293	166,367
Other assets:		
Goodwill and other intangible assets, net of accumulated amortization of $26,244 (1999) and $14,725 (1998)	183,846	188,619
Deferred income taxes	4,420	2,807
Other	7,626	8,441
Total assets	$678,624	$642,298

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (In thousands, except per share information and where noted)

Note 1 (In Part): Summary of Accounting Policies

Intangible Assets

Intangible assets acquired in business combinations accounted for by the purchase method of accounting are capitalized and amortized over their expected useful life as a non-cash charge against future results of operations.

The Company amortizes goodwill using the straight-line method over forty years for its printing acquisitions, thirty years for its out-sourcing acquisitions, twenty-five years for its globalization acquisitions, and fifteen years for its Internet solutions acquisitions. The non-compete agreements are amortized over the life of the agreement, which is three to five years. The realizability of goodwill and other intangibles is evaluated periodically to determine the recoverability of carrying amounts. The evaluation, based on various analyses including cash flow and profitability projections, addresses the impact on the existing Company business. The evaluation necessarily involves significant management judgment.

Customer Lists

2.146

TYLER TECHNOLOGIES, INC. (DEC)

(In thousands, except par value and number of shares)	1999	1998
Total current assets	$ 51,019	$ 32,553
Net assets of discontinued operations	—	2,848
Property and equipment, net	21,789	14,147
Other assets:		
Investment securities available-for-sale	33,713	—
Goodwill and other intangibles, net	160,665	95,996
Sundry	1,991	935
Other receivables	3,358	3,612
	$272,535	$150,094

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Goodwill and Other Intangible Assets

The cost of acquired companies is allocated first to identifiable assets based on estimated fair values. Costs allocated to identifiable intangible assets are amortized on a straight-line basis over the remaining estimated useful lives of the assets, as determined principally by underlying contract terms or independent appraisals. The excess of the purchase price over the fair value of identifiable assets acquired, net of liabilities assumed, is recorded as goodwill and amortized on a straight-line basis over the estimated useful life. The useful life is determined based on the individual characteristics of the acquired entity and ranges from five to forty years.

The Company periodically evaluates the carrying amounts of goodwill, as well as the related amortization periods, to determine whether adjustments to these amounts or useful lives are required based on current events and circumstances. The evaluation is based on the Company's projection of the undiscounted future operating cash flows of the acquired operation over the remaining useful lives of the related goodwill. To the extent such projections indicate that future undiscounted cash flows are not sufficient to recover the carrying amounts of related goodwill, the underlying assets are written down by charges to expense so that the carrying amount is equal to fair value, primarily determined based on future discounted cash flows. The assessment of recoverability of goodwill will be affected if estimated future operating cash flows are not achieved.

Title plants consist of title records relating to a particular region and are generally stated at cost. Expenses associated with current maintenance, such as salaries and supplies, are charged to expense in the year incurred. The costs of acquired title plants and costs of building new title plants, prior to the time that a plant is put into operation, are capitalized. In accordance with SFAS No. 61, "Accounting for Title Plant," properly maintained title plants are not amortized because there is no indication of diminution in their value.

Costs incurred after a title plant is operational to convert the information from one storage and retrieval system to another have not been capitalized as title plant. Those costs have been capitalized separately and are being amortized over an estimated useful life of twenty years.

8. Goodwill and Other Intangible Assets

Goodwill, other intangible assets and related accumulated amortization are as follows:

	Useful Lives (years)	1999	1998
Goodwill	5-40	$108,009	$71,948
Title plants	—	13,100	13,100
Title plant modification	20	547	357
Customer lists	20-35	16,832	5,035
Software acquired	5	14,715	5,020
Software development costs	3	6,995	142
Workforce	5-10	6,970	3,301
Database under development	10	4,634	266
		171,802	99,169
Accumulated amortization		(11,137)	(3,173)
Goodwill and other intangibles, net		$160,665	$95,996

Functional Items in Aerospace Industry

2.147

B/E AEROSPACE, INC. (FEB)

(Dollars in thousands, except share data)	1999	1998
Total current assets	$313,615	$382,213
Property and equipment, net	138,730	103,821
Intangibles and other assets, net	450,900	195,723
Deferred income taxes	1,054	—
	$904,299	$681,757

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

7. Intangibles and Other Assets

Intangibles and other assets consist of the following:

	Straight-Line Amortization Period (Years)	1999	1998
Goodwill	30	$233,463	$ 77,452
Developed technologies	16-17	69,438	—
Product technology, production plans and drawings	7-20	56,163	60,577
Replacement parts annuity	20	24,188	29,652
Product approvals and technical manuals	20	23,677	22,942
Trademarks and patents	20	20,380	10,491
Other intangible assets	5-20	12,192	16,540
Covenants not-to-compete	14	11,694	10,195
Assembled workforce	10	7,000	—
Debt issue costs	5-10	23,507	16,789
Other assets		12,455	4,277
Investment in and advances to Sextant In-Flight Systems		28,025	—
		522,182	248,915
Less accumulated amortization		(71,282)	(53,192)
		$450,900	$195,723

OTHER NONCURRENT ASSET CAPTIONS

2.148 Table 2-19 summarizes the nature of assets (other than property, investments, noncurrent receivables, and intangible assets) classified as noncurrent assets on the balance sheets of the survey companies. Examples of other noncurrent asset presentations and disclosures, except assets leased to others, follow. Examples of assets leased to others are presented under "Lessor Leases" in the "Long-Term Leases" section.

2.149

TABLE 2-19: OTHER NONCURRENT ASSETS

	Number of Companies			
	1999	**1998**	**1997**	**1996**
Deferred income taxes	165	177	177	172
Prepaid pension costs	100	88	101	101
Software	85	65	53	47
Debt issue costs	48	55	48	48
Property held for sale	37	41	43	36
Segregated cash or securities	32	38	34	33
Cash surrender value of life insurance	30	24	29	25
Assets leased to others	8	11	20	14
Assets of nonhomogeneous operations	5	10	9	15
Estimated insurance recoveries	4	10	13	—
Start-up costs	1	5	12	12
Other identified noncurrent assets	45	43	40	45

Deferred Income Taxes

2.150

POLAROID CORPORATION AND SUBSIDIARY COMPANIES (DEC)

(In millions)	1998	1999
Current assets:		
Cash and cash equivalents	$ 105.0	$ 92.0
Receivables, less allowances of $42.0 in 1998 and $23.9 in in 1999 (Note 6)	459.6	489.7
Inventories	533.3	395.6
Prepaid expenses and other assets (Note 4)	195.5	139.6
Total current assets	1,293.4	1,116.9
Property, plant and equipment:		
Land	29.4	14.7
Buildings	351.4	322.7
Machinery and equipment	1,450.5	1,620.1
Construction in progress	144.6	65.5
Total property, plant and equipment	1,975.9	2,023.0
Less accumulated depreciation	1,409.4	1,423.8
Net property, plant and equipment	566.5	599.2
Deferred tax assets (Note 4)	208.2	243.7
Other assets	129.6	80.2
Total assets	$2,197.7	$2,040.0

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4 (In Part): Income Taxes

Prepaid income taxes and deferred income taxes result from future tax benefits and expenses related to the difference between the tax basis of assets and liabilities and the amounts reported in the financial statements. These differences predominantly relate to U.S. operations. Carryforwards and tax overpayments are also included in prepaid income taxes. The net of deferred income tax assets and deferred income tax liabilities reflected on the consolidated balance sheet was a net asset of $330.0 million and $330.4 million as of December 31, 1998 and 1999, respectively. Significant components of those amounts shown on the balance sheet as of December 31 were as follows:

(In millions)	1998	1999
Deferred tax assets:		
Property, plant and equipment and trademarks	$ (2.8)	$ (22.8)
Inventory	34.8	35.2
Compensation and benefits	85.6	41.6
Postretirement and postemployment benefits	113.4	10.6
Loss and credit carryforwards	139.0	202.6
All other	3.3	4.8
	373.3	372.0
Valuation allowance	(30.3)	(30.3)
Total deferred tax assets	343.0	341.7
Deferred tax liabilities:		
Property, plant and equipment and trademarks	7.2	6.6
Inventory	3.5	4.9
Compensation and benefits	2.7	1.5
All other	(.4)	(1.7)
Total deferred tax liability	13.0	11.3
Net deferred tax asset	$330.0	$330.4

Valuation allowances of $30.3 million were established at both December 31, 1998 and 1999 for the prepaid taxes primarily associated with foreign tax credits. Foreign tax credits may be used to offset the U.S. income taxes due on income earned from foreign sources. However, the credit is limited by the total income included on the U.S. income tax return as well as the ratio of foreign source income to total income. Excess foreign tax credits may be carried back two years and forward five years. As of December 31, 1999 and 1998, the Company did not believe it was more likely than not that it would generate a sufficient level and proper mix of taxable income within the appropriate period to utilize all the foreign tax credits.

Management believes that it will obtain the full benefit of other deferred tax assets on the basis of its evaluation of the Company's anticipated profitability over the period of years that the temporary differences are expected to become tax deductions. It believes that sufficient book and taxable income will be generated to realize the benefit of these tax assets. This assessment of profitability takes into account the Company's present and anticipated split of domestic and international earnings and the fact that the temporary differences related to postretirement and other postemployment benefits are deductible over a period of 30 to 40 years.

2.151

REYNOLDS METALS COMPANY (DEC)

(Millions)	1999	1998
Current assets:		
Cash and cash equivalents	$ 55	$ 94
Receivables:		
Customers, less allowances of $10 (1998—$14)	561	710
Other	93	184
Total receivables	654	894
Inventories	519	500
Prepaid expenses and other	61	114
Total current assets	1,289	1,602
Unincorporated joint ventures and associated companies	1,692	1,478
Property, plant and equipment—net	2,016	2,024
Deferred taxes	419	363
Other assets	534	667
Total assets	$5,950	$6,134

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In the tables, dollars are in millions)

11 (In Part): Taxes on Income

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. At December 31, 1999, the Company had $822 million (1998—$844 million) of deferred tax assets and $675 million (1998—$694 million) of deferred tax liabilities that have been netted with respect to tax jurisdictions for presentation purposes. The significant components of these amounts were:

	1999		1998	
	Asset	Liability	Asset	Liability
Retiree health benefits	$374	$ —	$381	$ —
Tax carryforward benefits	170	—	141	—
Environmental and restructuring costs	86	(2)	116	(2)
Other	60	95	39	78
Tax over book depreciation	(236)	194	(235)	196
Valuation reserve relating to tax carryforward benefits	(20)	—	(20)	—
Total deferred tax assets and liabilities	434	287	422	272
Amount included as current in balance sheet	15	—	59	—
Noncurrent deferred tax assets and liabilities	$419	$287	$363	$272

The tax carryforward benefits can be carried forward indefinitely except for $68 million that will expire primarily between 2004 and 2014. A valuation reserve of $20 million relating to certain of these benefits has been recorded. Alternatives continue to be evaluated that may result in the ultimate realization of a portion of these reserved assets.

Prepaid Pension Cost

2.152

THE LAMSON & SESSIONS CO. AND SUBSIDIARIES (DEC)

(Dollars in thousands, except per share data)	1999	1998
Current assets:		
Cash and cash equivalents	$ 2,724	$ 1,937
Accounts receivable, less allowances; 1999—$2,078 and 1998—$2,924	40,676	35,080
Inventories:		
Finished goods and work-in-process	36,778	33,873
Raw materials	5,783	5,289
	42,561	39,162
Deferred tax assets	4,963	6,057
Prepaid expenses and other	3,780	1,739
Total current assets	94,704	83,975
Pension assets	19,046	15,347
Deferred tax assets	15,787	5,693
Other assets	5,689	4,917
Property, plant and equipment:		
Land	3,588	3,588
Buildings	22,251	21,592
Machinery and equipment	92,893	88,662
	118,732	113,842
Less allowances for depreciation and amortization	70,639	63,107
Total net property, plant and equipment	48,093	50,735
Total assets	$183,319	$160,667

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note C (In Part): Pension and Other Post-Retirement Benefit Plans

The Company sponsors several qualified and nonqualified pension plans and other post-retirement benefit plans for its current and former employees. The following table provides a reconciliation of the changes in the benefit obligations and fair value of plan assets over each of the two years in the period ended January 1, 2000 and a statement of the funded status for both year ends:

	Pension Benefits		Other Benefits	
(Dollars in thousands)	1999	1998	1999	1998
Change in Benefit Obligation				
Obligation at beginning of year	$83,151	$78,821	$18,403	$18,287
Service cost	1,277	1,164	329	289
Interest cost	5,179	5,306	1,132	1,206
Plan participants' contribution	—	—	100	93
Plan amendment	—	—	(2,630)	—
Actuarial (gain) loss	(8,679)	4,788	(1,304)	368
Benefits paid	(6,849)	(6,928)	(1,990)	(1,840)
Obligation at end of year	$74,079	$83,151	$14,040	$18,403

Effective January 1, 2000, the Company amended its salaried associates retirement benefits program by phasing out certain medical benefits.

	Pension Benefits		Other Benefits	
(Dollars in thousands)	1999	1998	1999	1998
Change in Plan Assets				
Fair value of plan assets at beginning of year	$83,899	$76,747		
Actual return on plan assets	9,210	9,257		
Employer contributions	2,419	4,823	$1,890	$1,747
Plan participants' contributions			100	93
Benefits paid	(6,849)	(6,928)	(1,990)	(1,840)
Fair value of plan assets at end of year	$88,679	$83,899	$ —	$ —

Plan assets include Company common shares with a fair market value at January 1, 2000 and January 2, 1999 of $3.3 million and $3.5 million, respectively.

	Pension Benefits		Other Benefits	
(Dollars in thousands)	1999	1998	1999	1998
Funded Status				
Fund status at end of year	$14,600	$ 748	$(14,040)	$(18,403)
Unrecognized actuarial loss (gain)	1,565	12,007	(2,517)	(1,328)
Unrecognized transition (asset)	(1,340)	(1,429)		
Unrecognized prior service cost (gain)	230	299	(2,630)	
Net amount recognized at end of year	$15,055	$11,625	$(19,187)	$(19,731)

The pension benefits table above provides information relating to the funded status of all defined benefit pension plans on an *aggregate basis*. 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 $4.2 million, $3.9 million and $0, respectively, as of January 1, 2000 and $4.5 million, $4.1 million and $0, respectively, as of January 2, 1999.

The following table provides the amounts recognized in the consolidated balance sheets for both years:

	Pension Benefits		Other Benefits	
(Dollars in thousands)	1999	1998	1999	1998
Prepaid benefit cost	$19,046	$15,347		
Accrued benefit liability	(4,085)	(4,250)	$(19,187)	$(19,731)
Intangible asset	37	92		
Accumulated other comprehensive income	57	436		
	$15,055	$11,625	$(19,187)	$(19,731)

2.153

SAFEWAY INC. AND SUBSIDIARIES (DEC)

(In millions)	1999	1998
Total current assets	$ 3,052.1	$ 2,319.9
Property:		
Land	996.2	794.1
Buildings	2,502.3	2,069.9
Leasehold improvements	1,784.3	1,498.3
Fixtures and equipment	3,852.4	3,282.6
Property under capital leases	591.4	379.2
	9,726.6	8,024.1
Less accumulated depreciation and amortization	(3,281.9)	(2,841.5)
Total property, net	6,444.7	5,182.6
Goodwill, net of accumulated amortization of $314.4 and $211.0	4,786.6	3,348.0
Prepaid pension costs	405.6	369.6
Investment in unconsolidated affiliate	131.6	115.2
Other assets	79.7	54.3
Total assets	$14,900.3	$11,389.6

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note H (In Part): Employee Benefit Plans and Collective Bargaining Agreements

Retirement Plans (In Part)

The following tables provide a reconciliation of the changes in the retirement plans' benefit obligation and fair value of assets over the two-year period ending January 1, 2000 and a statement of the funded status as of year-end 1999 and 1998 (in millions):

	1999	1998
Change in benefit obligation:		
Beginning balance	$1,165.7	$1,056.8
Service cost	54.4	52.5
Interest cost	81.6	69.7
Plan amendments	17.5	18.2
Actuarial (gain) loss	(129.4)	65.1
Acquisition of Randall's	28.1	—
Benefit payments	(87.3)	(79.8)
Change in assumption	(23.4)	(0.5)
Currency translation adjustment	12.5	(16.3)
Ending balance	$1,119.7	$1,165.7

	1999	1998
Change in fair value of plan assets:		
Beginning balance	$1,766.1	$1,662.6
Actual return on plan assets	432.4	193.2
Acquisition of Randall's	27.6	—
Employer contributions	0.9	6.8
Benefit payments	(87.3)	(79.8)
Currency translation adjustment	13.7	(16.7)
Ending balance	$2,153.4	$1,766.1

	1999	1998
Funded status:		
Fair value of plan assets	$2,153.4	$1,766.1
Projected benefit obligation	(1,119.7)	(1,165.7)
Funded status	1,033.7	600.4
Adjustment for difference in book and tax basis of assets	(165.1)	(165.1)
Unamortized prior service cost	97.2	95.5
Unrecognized gain	(560.2)	(161.2)
Prepaid pension cost	$ 405.6	$ 369.6

Software Development Costs

2.154

THE DUN & BRADSTREET CORPORATION AND SUBSIDIARIES (DEC)

(Dollar amounts in millions)	1999	1998
Total current assets	$ 785.0	$ 764.0
Property, plant and equipment, net	280.0	298.3
Prepaid pension costs	266.9	224.3
Computer software, net	156.2	148.6
Goodwill, net	167.5	191.8
Other non-current assets	130.1	162.2
Total non-current assets	1,000.7	1,025.2
Total assets	$1,785.7	$1,789.2

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Tabular dollar amounts in millions)

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

Computer Software, Goodwill and Intangible Assets (In Part)

Effective January 1, 1999, the Company adopted Statement of Position ("SOP") 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." Among other provisions, SOP 98-1 requires that entities capitalize certain internal-use software costs once certain criteria are met. Under SOP 98-1, overhead, general and administrative and training costs are not capitalized. In addition, certain computer software costs are capitalized in accordance with SFAS No. 86, "Accounting for the Costs of Computer Software to Be Sold, Leased or Otherwise Marketed," and are reported at the lower of unamortized cost or net realizable value. Costs incurred in connection with business process reengineering are expensed as incurred.

Other intangibles result from acquisitions and database enhancements. Computer software and other intangibles are being amortized, using the straight-line method, over three to five years and three to 15 years, respectively. Goodwill represents the excess purchase price over the fair value of identifiable net assets of businesses acquired and is amortized on a straight-line basis over five to 40 years.

In accordance with SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," the Company reviews for impairment of long-lived assets and certain identifiable intangibles whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In general, the Company will recognize an impairment loss when the sum of undiscounted expected future cash flows is less than the carrying amount of such assets. The measurement for such an impairment loss is then based on the fair value of the asset.

Note 15 (In Part): Supplemental Financial Data

Computer Software and Goodwill—Net:

	Computer Software	Goodwill
January 1, 1998	$128.0	$194.6
Additions at cost	86.0	5.1
Amortization	(55.6)	(6.1)
Other deductions and reclassifications	(9.8)	(1.8)
December 31, 1998	148.6	191.8
Additions at cost	73.9	.3
Amortization	(5.3)	(6.3)
Other deductions and reclassifications	(1.0)	(18.3)
December 31, 1999	$156.2	$167.5

2.155

PEOPLESOFT, INC. (DEC)

(In thousands)	1998	1999
Total current assets	$1,318,213	$1,359,376
Property and equipment, at cost		
Computer equipment and software	208,702	218,221
Furniture and fixtures	51,650	55,686
Leasehold improvements	42,109	39,576
Land	46,066	46,066
	348,527	359,549
Less accumulated depreciation and amortization	(139,228)	(187,056)
	209,299	172,493
Investments	31,616	67,852
Deferred income taxes	7,814	18,774
Capitalized software, less accumulated amortization	37,393	27,286
Other assets	19,190	42,097
Total assets	$1,623,525	$1,687,878

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): The Company and Significant Accounting Policies

Capitalized Software

The Company capitalizes software purchased from third parties if the related software product under development has reached technological feasibility or if there are alternative future uses for the purchased software provided that capitalized amounts will be realized over a period not exceeding five years. Technological feasibility is attained when software products reach Beta release. Costs incurred prior to the establishment of technological feasibility are charged to product development expense. The establishment of technological feasibility and the ongoing assessment of recoverability of capitalized software development costs require considerable judgment by management with respect to certain external factors, including, but not limited to, anticipated future revenues, estimated economic life and changes in software and hardware technologies. Upon the general release of the software product to customers, capitalization ceases and such costs are amortized (using the straight-line method) on a product-by-product basis over the estimated life, which is generally three years. All research and development expenditures are charged to research and development expense in the period incurred.

In addition, the Company capitalizes costs of materials, consultants, interest, and payroll and payroll-related costs for employees incurred in developing internal-use computer software once technological feasibility is attained. Costs incurred prior to the establishment of technological feasibility are charged to general and administrative expense.

Capitalized software costs and accumulated amortization at December 31, 1998 and 1999 were as follows (in thousands):

	1998	1999
Capitalized software		
Internal development costs	$18,786	$20,296
Obtained through business combinations	34,332	32,032
Purchased from third parties	300	300
	53,418	52,628
Accumulated amortization	(16,025)	(25,342)
	$37,393	$27,286

Capitalized software amortization expense for 1997, 1998 and 1999 was $4.0 million, $5.7 million and $9.3 million.

Debt Issue Costs

2.156

ALLIANT TECHSYSTEMS INC. (MAR)

(Amounts in thousands)	1999	1998
Total current assets	$343,108	$373,030
Net property, plant, and equipment	335,751	333,538
Goodwill	127,799	131,600
Prepaid and intangible pension assets	77,552	61,667
Deferred charges and other non-current assets	10,108	8,474
Total assets	$894,318	$908,309

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands unless otherwise indicated)

5. Goodwill and Deferred Charges

Goodwill and deferred charges consist of the following:

	1999	1998
Goodwill, net of accumulated amortization: 1999—$15,670, 1998—$10,769	$127,799	$131,600
Debt issuance costs, net of accumulated amortization:[1] 1999—$593, 1998—$8,569	$ 8,518	$ 6,280
Other	1,590	2,194
Total deferred charges and other non-current assets	$ 10,108	$ 8,474

[1] See Note 7 for discussion of the fiscal 1999 early extinguishment of debt.

7 (In Part): Long-Term Debt

The components of the Company's long-term debt are as follows:

	1999	1998
Bank term loan with quarterly principal and interest payments	$342,493	$48,648
11.75% senior subordinated notes with semi-annual interest payments, maturing 2003	—	150,000
Total long-term debt	342,493	198,648
Less current portion	(36,500)	(17,838)
Long-term portion	$305,993	$180,810

On September 16, 1998, the Company completed a tender offer and consent solicitation related to its $150 million outstanding 11.75 percent Senior Subordinated Notes due March 1, 2003 (the "Notes"). Under the tender offer (the "Offer"), the Company accepted all validly tendered Notes for payment under the Offer, and accordingly paid approximately $153 million to purchase the Notes from noteholders holding approximately $140 million principal amount of the Notes. The purchase of the Notes was financed under the Company's revolving credit facility. In February 1999, the Company completed the early extinguishment of debt by calling the remaining Notes, par value of $10 million, for $10.6 million.

In conjunction with the early extinguishment of the Notes, the Company refinanced its bank borrowings under a new bank credit facility, described below. In connection with these early extinguishments of debt, the Company recorded a $16.8 million extraordinary charge (after a $3.0 million tax benefit). The extraordinary charge included a $13.6 million cash premium paid to acquire the Notes, as well as a write-off of approximately $6.2 million, of which $6.0 million represented the unamortized portion of debt issuance costs associated with the original borrowings.

Property Held for Sale

2.157

IMC GLOBAL INC. (DEC)

(In millions)	1999	1998
Current assets:		
Cash and cash equivalents	$ 80.8	$ 110.6
Receivables, net	254.2	421.5
Inventories, net	439.6	580.6
Net assets of discontinued operations held for sale	—	273.3
Deferred income taxes	135.3	91.1
Other current assets	18.0	5.5
Total current assets	927.9	1,482.6
Property, plant and equipment, net	3,250.7	3,697.4
Net assets of discontinued operations held for sale	301.5	—
Other assets	715.8	1,276.9
Total assets	$5,195.9	$6,456.9

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars in millions)

4. Discontinued Operations

IMC Chemicals

In December 1998, the Company signed a definitive agreement to sell its Chemicals business unit with the Company retaining an ongoing minority economic interest, and based on the terms of the agreement, recorded a pre-tax charge of $44.1 million for the estimated loss on sale. The sale was not completed during 1999, and in December 1999, the Company received Board of Director approval for a plan to sell the entire business unit. The Company is in discussion with potential buyers, and anticipates a sale to be completed by mid 2000. An adjustment to the estimated loss on disposal of $138.1 million, $85.6 million after tax, was recorded in the fourth quarter of 1999. The Consolidated Statement of Operations has been restated to report the operating results of Chemicals as discontinued operations in accordance with Accounting Principles Board (APB) Opinion No. 30, "Reporting the Results of Operations." Interest expense has been allocated to discontinued operating results based on the portion of third party debt that is specifically attributable to Chemicals and amounted to $27.6 million and $14.9 million in 1999 and 1998, respectively. In addition, $13.7 million of allocated interest expected to be incurred in 2000 was included in the estimated loss on sale.

The discontinued operations of Chemicals resulted in a tax benefit of $24.9 million in 1999 and tax expense of $1.3 million in 1998. For 1999 and 1998, Chemicals' revenues were $402.8 million and $311.8 million, respectively.

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 the Exploration Program. The Company sold its interest, through PLP, in the Exploration Program for proceeds of $32.0 million. The 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. The Consolidated Statement of Operations has been restated to report the operating results of the oil and gas business as discontinued operations in accordance with APB No. 30.

The discontinued oil and gas business resulted in tax benefits of $8.1 million and $4.1 million in 1999 and 1998, respectively. For 1999 and 1998, the revenues from oil and gas operations were $7.0 million and $1.3 million, respectively. In addition, $18.3 million, $10.8 million after tax, of environmental exit costs were recorded in 1999 as a result of additional information which became available to the Company in the fourth quarter concerning the Company's obligations with respect to previously owned oil and gas properties.

IMC AgriBusiness

In April 1999, the Company sold its AgriBusiness retail and wholesale distribution business unit and received $263.9 million of proceeds which were used to reduce the amount of the Company's outstanding indebtedness. In accordance with APB No. 30, an estimated loss on disposal of $74.2 million, after tax, was recorded in the fourth quarter of 1998. The Company recorded an adjustment to the loss on disposal of $19.4 million, after tax, in the fourth quarter of 1999. The operating results of AgriBusiness are included in the Consolidated Statement of Operations as discontinued operations. Interest expense has been allocated to discontinued operations based on the portion of the Company's short-term borrowing program that is specifically attributable to AgriBusiness and amounted to $13.2 million and $13.3 million in 1998 and 1997, respectively.

Income taxes associated with the discontinued operations of AgriBusiness were $2.9 million and $13.1 million for 1998 and 1997, respectively. For 1998 and 1997, AgriBusiness' revenues were $787.0 million and $872.6 million, respectively.

For financial reporting purposes, the assets and liabilities of discontinued operations to be sold, net of the estimated loss on disposal, have been classified as Net assets of discontinued operations held for sale. See the table below for the detail of these assets and liabilities.

	1999[a]	1998[b]
Assets:		
Receivables, net	$106.0	$ 63.7
Inventories, net	50.7	157.1
Other current assets	4.0	0.5
Property, plant and equipment, net	231.7	130.4
Other assets	6.5	6.0
Total assets	398.9	357.7
Liabilities:		
Accounts payable	55.9	69.8
Accrued liabilities	31.9	11.1
Other noncurrent liabilities	9.6	3.5
Total liabilities	97.4	84.4
Net assets of discontinued operations held for sale	$301.5	$273.3

[a] Represents net assets of Chemicals held for sale.
[b] Represents nets assets of AgriBusiness held for sale.

2.158

K2 INC. (DEC)

(In thousands)	1999	1998
Total current assets	$345,809	$335,570
Property, plant and equipment:		
Land and land improvements	1,637	992
Buildings and leasehold improvements	32,219	29,814
Machinery and equipment	124,421	111,872
Construction in progress	4,176	8,393
	162,453	151,071
Less allowance for depreciation and amortization	89,858	84,480
	72,585	66,591
Other assets:		
Intangibles, principally goodwill, net	38,928	19,564
Net assets of discontinued operations	24,706	27,511
Other	5,840	3,759
Total assets	$487,878	$452,995

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3: Discontinued Operations

On September 10, 1998, K2 adopted a plan to dispose of its Simplex building products division as part of K2's strategic focus on the core sporting goods and other recreational businesses. Accordingly, Simplex is shown in the accompanying consolidated financial statements as a discontinued operation.

Income from discontinued operations are net of taxes of $718,000, $525,000 and $1,400,000 for the years ended December 31, 1999, 1998 and 1997, respectively. Net assets of discontinued operations were segregated in the accompanying consolidated balance sheets and consisted primarily of accounts receivable, inventories and fixed assets, offset by accounts payable, accrued payroll and related items and other accruals. Net sales of $72,985,000, $86,616,000 and $87,903,000 for the years ended December 31, 1999, 1998 and 1997, respectively, were excluded from consolidated net sales in the accompanying consolidated statements of income.

Segregated Funds

2.159

LYNCH CORPORATION AND SUBSIDIARIES (DEC)

(In thousands)	1999	1998
Total current assets	$ 79,674	$162,622
Restricted cash	56,026	—
Property, plant and equipment:		
Land	672	672
Buildings and improvements	11,015	12,585
Machinery and equipment	54,529	51,306
	66,216	64,563
Accumulated depreciation	(22,137)	(17,534)
	44,079	47,029
Excess of cost over fair value of net assets acquired, net	22,020	21,075
Other assets	9,393	7,328
Net non-current assets of subsidiaries distributed to shareholders	—	170,295
Net non-current assets of discontinued operations	—	71,651
Total assets	$211,192	$480,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Accounting and Reporting Policies

Restricted Cash

At December 31, 1999 the Company had $56 million of Restricted Cash. See discussion of Restricted Cash in Note 6—Notes Payable and Long-Term Debt.

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

Spinnaker completed the sale of Central Products on August 10, 1999 and $18.2 million of the proceeds were used to repay the working capital revolver debt. Any net cash proceeds from the sale of Central Products ("Restricted Proceeds") not invested in any business within 270 days after the sale of Central Products or not used within that time to permanently reduce indebtedness (other than subordinated debt) shall be deemed to be excess proceeds. At December 31, 1999, the amount of net cash proceeds, which are restricted in their future use, has been classified as Restricted Cash on the Company's balance sheet. If any excess proceeds exist 270 days after the sale of Central Products, Spinnaker is obligated to utilize those proceeds to make an offer to purchase the Senior Notes at par plus accrued interest.

2.160

OGDEN CORPORATION AND SUBSIDIARIES (DEC)

	1999	1998
Current assets:		
Cash and cash equivalents	$ 101,020,000	$ 181,169,000
Marketable securities available for sale		44,685,000
Restricted funds held in trust	103,662,000	110,553,000
Receivables (less allowances: 1999, $17,942,000 and 1998, $18,130,000	294,051,000	274,307,000
Inventories	10,767,000	20,162,000
Deferred income taxes	36,189,000	47,921,000
Other	65,713,000	49,448,000
Net assets of discontinued operations	568,146,000	455,726,000
Total current assets	1,179,548,000	1,183,971,000
Property, plant, and equipment—net	1,841,811,000	1,736,241,000
Restricted funds held in trust	166,784,000	180,922,000
Unbilled service and other receivables	159,457,000	159,409,000
Unamortized contract acquisition costs	102,137,000	69,260,000
Goodwill and other intangible assets	12,520,000	41,935,000
Investments in and advances to investees and joint ventures	180,523,000	149,663,000
Other assets	84,368,000	126,153,000
Total assets	$3,727,148,000	$3,647,554,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Restricted Funds

Restricted funds represent proceeds from the financing and operations of energy facilities. Funds are held in trust and released as expenditures are made or upon satisfaction of conditions provided under the respective trust agreements.

5. Restricted Funds Held in Trust

Funds held by trustees include proceeds received from financing the construction of waste-to-energy facilities; debt service reserves for payment of principal and interest on project debt; lease reserves for lease payments under operating leases; and deposits of revenues received. Such funds are invested principally in United States Treasury bills and notes and United States government agencies securities.

Fund balances (expressed in thousands of dollars) were as follows:

	1999		1998	
	Current	Non-current	Current	Non-current
Construction funds	$ 1,074		$ 14,604	
Debt service funds	56,624	$121,929	24,871	$131,873
Revenue funds	23,932		13,626	
Lease reserve funds	4,112	22,774	10,075	14,488
Other funds	17,920	22,081	47,377	34,561
Total	$103,662	$166,784	$110,553	$180,922

Cash Value of Life Insurance

2.161

THE ROWE COMPANIES (NOV)

(In thousands)	1999	1998
Total current assets	$ 88,161	$ 56,018
Property and equipment	36,186	26,530
Other assets:		
Cash value of life insurance (Note 7)	3,874	3,750
Investment property (net of accumulated depreciation of $2,657,000 in 1999 and $2,403,000 in 1998)	7,629	7,844
Goodwill (net of amortization of $977,000 in 1999 and $161,000 in 1998)	27,938	12,612
Miscellaneous	4,792	3,708
Total other assets	44,233	27,914
	$168,580	$110,462

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 7 (In Part): Deferred Compensation Plans

The Company also has deferred compensation agreements with key employees. Vesting is based upon age and years of service. Life insurance contracts have been purchased which may be used to fund these agreements. The charges to expense were $140,000 in 1999, $140,000 in 1998 and $107,000 in 1997.

Assets Leased to Others

2.162

THE BOEING COMPANY AND SUBSIDIARIES (DEC)

	1999	1998
Cash and cash equivalents	$ 3,354	$ 2,183
Short-term investments	100	279
Accounts receivable	3,453	3,288
Current portion of customer and commercial financing	799	781
Deferred income taxes	1,467	1,495
Inventories, net of advances and progress billings	6,539	8,584
Total current assets	15,712	16,610
Customer and commercial financing	5,205	4,930
Property, plant and equipment, net	8,245	8,589
Deferred income taxes		411
Goodwill	2,233	2,312
Prepaid pension expense	3,845	3,513
Other assets	907	659
	$36,147	$37,024

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars in millions)

Note 10: Customer and Commercial Financing

Customer and commercial financing at December 31 consisted of the following:

	1999	1998
Aircraft financing:		
Notes receivable	$ 781	$ 859
Investment in sales-type/ financing leases	1,497	1,325
Operating lease equipment, at cost, less accumulated depreciation of $304 and $195	2,357	2,201
Commercial equipment financing:		
Notes receivable	730	534
Investment in sales-type/ financing leases	506	548
Operating lease equipment, at cost, less accumulated depreciation of $92 and $129	408	510
Less valuation allowance	(275)	(266)
	$6,004	$5,711

Customer and commercial financing assets that are leased by the Company under capital leases and have been subleased to others totaled $502 and $333 as of December 31, 1999 and 1998. Commercial equipment financing under operating lease consists principally of real property, highway vehicles, machine tools and production equipment.

Scheduled payments on customer and commercial financing are as follows:

Year	Principal Payments on Notes Receivable	Sales-type/ Financing Lease Payments Receivable	Operating Lease Payments Receivable
2000	$230	$587	$294
2001	175	416	267
2002	108	212	249
2003	102	195	236
2004	152	175	216
Beyond 2004	744	797	2,045

The components of investment in sales-type/financing leases at December 31 were as follows:

	1999	1998
Minimum lease payments receivable	$2,382	$2,362
Estimated residual value of leased assets	479	438
Unearned income	(858)	(927)
	$2,003	$1,873

The Company has entered into interest rate swaps with third-party investors whereby the interest rate terms differ from the terms in the original receivable. These interest rate swaps related to $58 of customer financing receivables as of December 31, 1999. These swaps have a receive rate that is floating and a pay rate that is fixed. Interest rate swaps on financing receivables are settled on the same dates interest is due on the underlying receivables.

Interest rates on fixed-rate notes ranged from 6.41% to 15.00%, and effective interest rates on variable-rate notes ranged from 0.15% to 5.50% above the London Interbank Offered Rate (LIBOR).

Financing for aircraft is collateralized by security in the related asset, and historically the Company has not experienced a problem in accessing such collateral. The operating lease aircraft category includes new and used jet and commuter aircraft, spare engines and spare parts.

The valuation allowance is subject to change depending on estimates of collectability and realizability of the customer financing balances.

Lease Acquisition Costs

2.163

STAPLES, INC. AND SUBSIDIARIES (JAN)

(Dollar amounts in thousands)	2000	1999
Total current assets	$2,193,451	$2,064,100
Property and equipment:		
Land and buildings	328,994	231,378
Leasehold improvements	442,119	372,451
Equipment	547,309	400,225
Furniture and fixtures	286,260	239,755
Total property and equipment	1,604,682	1,243,809
Less accumulated depreciation and amortization	509,920	403,520
Net property and equipment	1,094,762	840,289
Other assets:		
Lease acquisition costs, net of amortization	68,832	75,127
Investments	34,755	—
Goodwill, net of amortization	387,595	148,201
Deferred income taxes	34,912	28,735
Other	31,769	22,814
Total other assets	557,863	274,877
	$3,846,076	$3,179,266

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Lease Acquisition Costs

Lease acquisition costs are recorded at cost and amortized on the straight-line method over the respective lease terms, including option renewal periods if renewal of the lease is probable, which range from 5 to 40 years. Accumulated amortization at January 29, 2000 and January 30, 1999 totaled $28,729,000 and $24,674,000, respectively.

Foreign Currency Contracts

2.164

CK WITCO CORPORATION AND SUBSIDIARIES (DEC)

(In thousands of dollars)	1999	1998
Total current assets	$1,119,753	$ 597,756
Non-current assets:		
Property, plant and equipment	1,262,345	473,403
Cost in excess of acquired net assets	969,625	166,184
Other assets	374,895	171,550
	$3,726,618	$1,408,893

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Financial Instruments (In Part)

The Company purchases foreign currency forward contracts that are designated and effective as hedges of recorded transactions (principally foreign currency trade receivables and payables, as well as intercompany debt), which otherwise would expose the Company to foreign currency risk. The Company uses foreign currency swap contracts to reduce its exposure to foreign currency fluctuations from its net investment (including long-term intercompany loans) in its international subsidiaries. The Company also enters into interest rate swap contracts to modify the interest characteristics of its outstanding debt. Further information is provided in the Market Risk and Risk Management Policies section of Management's Discussion and Analysis of Financial Condition and Results of Operations.

At December 31, 1999, the Company had outstanding foreign currency forward contracts with aggregate notional amounts of approximately $138 million, to hedge foreign currency risk on accounts receivable and payable and intercompany debt. These forward contracts are generally outstanding for one to six months and are primarily denominated in German marks, Italian lira, Dutch guilders, Swiss and French francs, Hong Kong dollars, and British pounds.

At December 31, 1999, the Company had outstanding foreign currency swap contracts with aggregate notional amounts of approximately $170.8 million, to hedge its foreign net investments. At December 31, 1999 the swap contracts are primarily in German marks, which expire in March 2003.

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All contracts have been entered into with major financial institutions. The risk associated with these transactions is the cost of replacing these agreements, at current market rates, in the event of default by the counterparties. Management believes the risk of incurring such losses is remote.

The carrying amounts for cash, accounts receivable, accounts payable and other current liabilities approximate their fair value because of the short-term maturities of these instruments. The fair value of the note receivable is estimated by discounting the future cash flows using the interest rates at which similar loans would be made under current conditions. The fair value of the long-term payable is estimated by discounting the future cash flows using the Company's incremental borrowing rate. The fair value of long-term debt is based on quoted market values. For all other long-term debt which have no quoted market values, the fair value is estimated by discounting projected future cash flows using the Company's incremental borrowing rate. The fair value of interest rate swap and foreign currency forward and swap contracts is the amount at which the contracts could be settled based on quotes provided by investment banking firms.

The following table presents the carrying amounts and estimated fair values of material financial instruments used by the Company in the normal course of its business.

	1999	
(In thousands)	Carrying Amount	Fair Value
Note receivable	$ 8,767	$ 8,694
Long-term payable	$ 7,427	$ 7,720
Long-term debt	$1,309,812	$1,280,936
Interest rate swap contracts	$ 1,389	$ 635
Foreign currency forward and swap contracts	$ 16,732	$ 21,607

	1998	
(In thousands)	Carrying Amount	Fair Value
Long-term debt	$ 646,857	$ 685,900
Interest hedge	$ —	$ 17,000

At December 31, 1999, the carrying amount of the note receivable is included in other current assets, the carrying amounts of the long-term payable and the interest rate swap contracts are included in other liabilities, and the carrying amounts of the foreign currency forward and swap contracts are included in other assets.

Deferred Advertising Costs

2.165

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

($ in millions)	1999	1998
Total current assets	$ 8,472	$11,007
Property and equipment:		
Land and buildings	3,089	3,109
Furniture and fixtures	3,955	4,045
Leasehold improvements	1,151	1,179
Accumulated depreciation	(2,883)	(2,875)
Property and equipment, net	5,312	5,458
Investments, principally held by Direct Marketing	1,827	1,961
Deferred policy acquisition costs	929	847
Goodwill and other intangible assets, net (accumulated amortization of $340 and $227)	3,056	2,941
Other assets	1,292	1,294
Total assets	$20,888	$23,508

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Accounting Policies

Deferred Charges

Deferred policy acquisition and advertising costs, principally solicitation and marketing costs and commissions, incurred by Direct Marketing to secure new business, are amortized over the expected premium-paying period of the related policies and over the expected period of benefits for membership.

12. Advertising Costs

Advertising costs consist principally of newspaper, television, radio and catalog book costs. In 1999, the total cost of advertising was $1,054 million compared with $1,077 million in 1998, and $977 million in 1997. The consolidated balance sheets include deferred advertising costs, primarily catalog book costs, of $84 million as of January 29, 2000, and $87 million as of January 30, 1999, classified as Other Assets.

Deferred Compensation Funding

2.166

FLOWSERVE CORPORATION (DEC)

(Amounts in thousands)	1999	1998
Total current assets	$453,788	$487,290
Property, plant and equipment, net	209,976	209,032
Intangible assets, net	96,435	99,875
Other assets	77,952	74,000
Total assets	$838,151	$870,197

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollar amounts in thousands)

Note 6 (In Part): Details of Certain Consolidated Balance Sheet Captions

Other Assets

Other assets were:

December 31,	1999	1998
Pension assets	$ —	$11,461
Deferred tax assets	33,914	22,098
Deferred compensation funding	13,773	10,408
Investments in unconsolidated affiliates	7,091	5,331
Prepaid financing fees	2,882	935
Long-term notes receivable	1,978	2,914
Other	18,314	20,853
Total	$77,952	$74,000

Note 8: Deferred Compensation—Rabbi Trust

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

CURRENT LIABILITIES

2.167 Paragraphs 7 and 8 of Chapter 3A of *Accounting Research Bulletin No. 43,* as amended by *Statement of Financial Accounting Standards No. 6* and *Statement of Financial Accounting Standards No. 78,* discuss the nature of current liabilities. Examples of the various types of current liabilities follow.

SHORT-TERM DEBT

2.168 Table 2-20 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.

2.169 *Statement of Financial Accounting Standards No. 107,* as amended by *Statement of Financial Accounting Standards No. 133,* requires that the fair value of short-term notes payable, loans payable, and commercial paper be disclosed if it is practicable to estimate fair value. 267 survey companies made 284 fair value disclosures for short-term debt. 211 disclosures stated that fair value approximated carrying amount; 40 disclosures stated that market quotes were used to estimate fair value; and 33 disclosures stated that discounted cash flows were used to estimate fair value.

2.170 Examples of short-term debt presentations and disclosures follow.

2.171

TABLE 2-20: SHORT-TERM DEBT

	1999	1998	1997	1996
Description				
Notes or loans				
Payee indicated	54	49	68	65
Payee not indicated	150	160	149	152
Short-term debt or borrowings	103	125	115	115
Commercial paper	70	65	60	69
Other	38	33	23	26
Total Presentations	**415**	**432**	**415**	**427**
Number of Companies				
Showing short-term debt	383	377	376	371
Not showing short-term debt	217	223	224	229
Total Companies	**600**	**600**	**600**	**600**

2.172

BRUNSWICK CORPORATION (DEC)

(In millions)	1999	1998
Current liabilities:		
Short-term debt, including current maturities of long-term debt	$ 107.7	$ 170.1
Accounts payable	310.7	286.1
Accrued expenses	670.0	574.6
Accrued income taxes	—	5.6
Current liabilities	$1,088.4	$1,036.4

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7 (In Part): Financial Instruments

The Company enters into various financial instruments in the normal course of business and in connection with the management of its assets and liabilities. The Company does not hold or issue financial instruments for trading or speculative purposes. The Company prepares periodic analyses of its positions in derivatives to assess the current and projected status of these agreements. The Company monitors and controls market risk from financial instrument activities by utilizing floating rates that historically have moved in tandem with each other, matching positions and limiting the terms of contracts to short durations. The effect of financial instruments transactions is not material to the Company's results of operations.

The carrying values of the Company's short-term financial instruments, including cash and cash equivalents, accounts and notes receivable and short-term debt, approximate their fair values because of the short maturity of these instruments. At December 31, 1999 and 1998, the fair value of the Company's long-term debt was $556.6 million and $622.7 million, respectively, as estimated using quoted market prices or discounted cash flows based on market rates for similar types of debt. The fair market value of derivative financial instruments is determined through dealer quotes and may not be representative of the actual gains or losses that will be recorded when these instruments mature due to future fluctuations in the markets in which they are traded.

9. Debt

Short-term debt at December 31 consisted of the following:

(In millions)	1999	1998
Commercial paper	$ 95.0	$156.3
Notes payable	1.6	—
Current maturities of long-term debt	11.1	13.8
Short-term debt	$107.7	$170.1

The weighted-average interest rate for commercial paper borrowings during 1999 and 1998 was 5.43 percent and 5.74 percent, respectively.

2.173

THE L.S. STARRETT COMPANY (JUN)

(In thousands)	1999	1998
Current liabilities:		
Notes payable and current maturities	$ 3,600	$ 1,001
Accounts payable and accrued expenses	13,783	14,371
Accrued salaries and wages	6,026	8,059
Taxes payable	484	1,475
Employee deposits for stock purchase plan	429	528
Total current liabilities	$24,322	$25,434

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Significant Accounting Policies (In Part)

Fair market value of financial instruments

The Company's financial instruments consist primarily of current assets, current liabilities, and long-term debt. Current assets, except invertories (see Invertories) and except investments, and current liabilities are stated at cost, which approximates fair market value. Long-term debts, which are at current market interest rates, also approximate fair market value. The Company does not purchase derivative financial instruments.

2.174

UNIVERSAL FOODS CORPORATION (SEP)

(Dollars in thousands except per share amounts)	1999	1998
Current liabilities:		
Short-term borrowings	$ 51,464	$ 42,773
Accounts payable and accrued expenses	140,119	122,297
Salaries, wages and withholdings from employees	16,777	15,744
Current maturities of long-term debt	9,484	6,940
Total current liabilities	$241,693	$209,820

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

6 (In Part): Financial Instruments and Risk Management

Fair Values

The carrying amount of cash and cash equivalents, trade receivables, investments, financial instruments, accounts payable and short-term borrowings approximated fair value as of September 30, 1999 and 1998.

The fair value of the Company's long-term debt, including current maturities, is estimated using discounted cash flows based on the Company's current incremental borrowing rates for similar types of borrowing arrangements. The fair value at September 30, 1999 and 1998 was approximately $383,357,000 and $314,669,000, respectively.

TRADE ACCOUNTS PAYABLE

2.175 All the survey companies disclosed the existence of amounts owed to trade creditors. As shown in Table 2-21, such amounts were usually described as *Accounts Payable* or *Trade Accounts Payable.*

2.176 Fair value information disclosed by the survey companies consisted of 180 companies stating that the carrying amount of trade payables approximated fair value. Such a disclosure is not required by *Statement of Financial Accounting Standards No. 107.*

2.177 Examples of trade accounts payable presentations follow.

2.178

TABLE 2-21: TRADE ACCOUNTS PAYABLE

	1999	1998	1997	1996
Accounts payable	448	442	445	442
Trade accounts payable	112	98	110	117
Accounts payable combined with accrued liabilities or accrued expenses	31	55	27	28
Other captions	9	5	18	13
Total Companies	**600**	**600**	**600**	**600**

2.179

CROWN CORK & SEAL COMPANY, INC. AND SUBSIDIARIES (DEC)

(In millions, except share data)	1999	1998
Current liabilities:		
Short-term debt—Note O	$1,362	$2,331
Current maturities of long-term debt—Note O	169	135
Accounts payable and accrued liabilities—Note G	1,803	2,181
United States and foreign income taxes	80	63
Total current liabilities	$3,414	$4,710

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (In millions, except per share, employee, shareholder and statistical date; per share earnings are quoted as diluted)

G. Accounts Payable and Accrued Liabilities

	1999	1998
Trade accounts payable	$1,127	$1,315
Salaries, wages and other employee benefits	204	261
Litigation	70	42
Deferred taxes	53	85
Interest	50	63
Restructuring	21	128
Environmental	3	3
Other	275	284
	$1,803	$2,181

2.180

THE EASTERN COMPANY (DEC)

	1999	1998
Current liabilities:		
Accounts payable	$3,467,058	$3,015,259
Accrued compensation	1,903,804	2,057,235
Other accrued expenses	1,570,009	2,469,480
Current portion of long-term debt	272,367	72,878
Total current liabilities	$7,213,238	$7,614,852

EMPLOYEE-RELATED LIABILITIES

2.181 Table 2-22 shows the nature of employee related liabilities disclosed by the survey companies as current liabilities. Examples of employee related liability presentations and disclosures follow.

2.182

TABLE 2-22: EMPLOYEE RELATED LIABILITIES

	1999	1998	1997	1996
Description				
Salaries, wages, payrolls, commissions	287	295	295	295
Compensation	211	208	199	194
Benefits	61	62	64	63
Pension or profit-sharing contributions	44	53	65	71
Compensated absences	17	16	20	19
Other	37	41	41	35
Total Presentations	**657**	**675**	**684**	**677**
Number of Companies				
Disclosing employee related liabilities	504	511	506	500
Not disclosing	96	89	94	100
Total Companies	**600**	**600**	**600**	**600**

2.183

AULT INCORPORATED (MAY)

	1999	1998
Current liabilities:		
Notes payable to bank (Note 3)	$1,427,614	$ 236,468
Current maturities of long-term debt	401,910	213,233
Accounts payable	5,557,255	3,426,989
Accrued expenses:		
Compensation	416,693	391,670
Commissions	536,105	475,886
Other	85,956	118,810
Income tax payable	—	197,554
Total current liabilities	$8,425,533	$5,060,610

2.184

PRAB INC. (OCT)

	1999	1998
Current liabilities:		
Notes payable—Bank (Note 5)	$ 300,000	$ 200,000
Current portion of long-term debt (Note 4)	—	360,000
Accounts payable	887,267	986,312
Customer deposits	139,842	342,282
Salaries, wages and vacation	361,138	475,270
Commissions	474,289	377,980
Other accrued expenses	360,691	378,993
Total current liabilities	$2,523,227	$3,120,837

2.185

SHAW INDUSTRIES, INC. (DEC)

	1999	1998
Current liabilities:		
Current maturities of long-term debt	$ 4,294,000	$ 8,000
Accounts payable	217,332,000	194,352,000
Accrued liabilities	272,341,000	260,450,000
Total current liabilities	$493,967,000	$454,810,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (In Part): Summary of Accounting Policies

Accrued Liabilities

Accrued liabilities include $34,124,000 and $32,877,000 for workers' compensation claims and $28,253,000 and $31,652,000 for returns and allowances at January 1, 2000 and January 2, 1999, respectively.

2.186

SIMPSON INDUSTRIES, INC. (DEC)

(In thousands, except share amounts)	1999	1998
Current liabilities:		
Current installments of long-term debt	$ 6,079	$ 4,829
Notes payable	10,908	—
Accounts payable	62,654	52,039
Compensation and amounts withheld	12,614	11,694
Taxes, other than income taxes	3,797	2,483
Other current liabilities	10,261	11,298
Total current liabilities	$106,313	$82,343

INCOME TAX LIABILITY

2.187 Table 2-23 summarizes the descriptive balance sheet captions used to describe the current liability for income taxes.

2.188

TABLE 2-23: CURRENT INCOME TAX LIABILITY

	1999	1998	1997	1996
Income taxes	306	285	315	316
Taxes—type not specified	50	44	48	44
Federal and state income taxes	16	21	18	15
Federal, state, and foreign income taxes	9	23	10	9
Federal and foreign income taxes	5	5	7	8
U.S. and foreign income taxes	5	8	7	9
Federal income taxes	4	5	6	5
Other captions	12	18	17	19
No current income tax liability	193	191	172	175
Total Companies	**600**	**600**	**600**	**600**

2.189

AMERADA HESS CORPORATION AND CONSOLIDATED SUBSIDIARIES (DEC)

(Thousands of dollars)	1999	1998
Current liabilities:		
Accounts payable—trade	$ 771,797	$ 713,831
Accrued liabilities	621,334	554,632
Deferred revenue	3,846	251,328
Taxes payable	158,852	100,686
Notes payable	17,912	3,500
Current maturities of long-term debt	5,109	172,820
Total current liabilities	$1,578,850	$1,796,797

2.190

PERKINELMER, INC. (DEC)

(Dollars in thousands except per share data)	1999	1998
Current liabilities:		
Short-term debt (Note 15)	$382,162	$157,888
Accounts payable	152,920	73,420
Accrued restructuring costs (Note 3)	41,759	34,569
Accrued expenses (Note 16)	275,657	218,600
Total current liabilities	$852,498	$484,477

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 16: Accrued Expenses

Accrued expenses as of January 2, 2000 and January 3, 1999 consisted of the following:

(In thousands)	1999	1998
Payroll and incentives	$ 32,720	$ 22,463
Employee benefits	49,293	31,171
Federal, non-U.S. and state income taxes	45,324	36,211
Other accrued operating expenses	148,320	128,755
	$275,657	$218,600

The increase in other accrued operating expenses resulted primarily from the acquisition of PEAI in 1999, partially offset by payment of accruals related to the Lumen acquisition and recognition of gains on dispositions from previously deferred sales proceeds.

CURRENT AMOUNT OF LONG-TERM DEBT

2.191 Table 2-24 summarizes the descriptive balance sheet captions used to describe the amount of long-term debt payable during the next year. 178 survey companies made 216 fair value disclosures for the current amount of long-term debt, 48 disclosures stated that fair value approximated carrying amount; 66 disclosures stated that market quotes were used to estimate fair value; and 102 disclosures stated that discounted cash flows were used to estimate fair value.

2.192

TABLE 2-24: CURRENT AMOUNT OF LONG-TERM DEBT

	Number of Companies			
	1999	**1998**	**1997**	**1996**
Current portion of long-term debt.......	227	232	220	220
Current maturities of long-term debt ..	185	173	180	179
Current amount of long-term leases...	32	48	36	43
Long-term debt due or payable within one year	32	42	45	38
Current installment of long-term debt..	22	23	24	22
Other captions...................................	10	6	14	15

2.193

MERRIMAC INDUSTRIES, INC. (DEC)

	1999	1998
Current liabilities:		
Current portion of long-term debt	$2,627,267	$ —
Accounts payable	1,164,584	1,479,284
Accrued liabilities	1,311,791	1,499,917
Total current liabilities	$5,103,642	$2,979,201

2.194

THOMAS & BETTS CORPORATION AND SUBSIDIARIES (DEC)

(In thousands)	1999	1998
Current liabilities:		
Notes payable	$ 31,921	$ 75,068
Current maturities of long-term debt	3,774	22,589
Accounts payable	300,242	262,483
Accrued liabilities	159,401	155,815
Income taxes	1,917	55,674
Dividends payable	16,190	15,920
Total current liabilities	$513,445	$587,549

OTHER CURRENT LIABILITIES

2.195 Table 2-25 summarizes other identified current liabilities. The most common types of other current liabilities are taxes not combined with federal income taxes, accrued interest payable, and costs related to discontinued operations.

2.196

TABLE 2-25: OTHER CURRENT LIABILITIES

	Number of Companies			
	1999	1998	1997	1996
Taxes other than federal income taxes	111	107	116	123
Interest	107	112	110	119
Estimated costs related to discontinued operations	100	93	87	92
Deferred revenue	86	74	69	67
Warranties	67	64	66	67
Insurance	64	64	63	71
Dividends payable	62	69	69	71
Advertising	60	57	56	51
Customer advances, deposits	54	52	50	56
Environmental costs	48	55	49	49
Deferred taxes	45	47	39	47
Due to affiliated companies	19	19	21	15
Billings on uncompleted contracts	18	21	16	23
Royalties	17	18	15	15
Litigation	14	17	16	14
Other—described	145	92	91	85

Taxes Other Than Federal Income Taxes

2.197

MASCO CORPORATION AND CONSOLIDATED SUBSIDIARIES (DEC)

	1999	1998
Current liabilities:		
Notes payable	$ 62,300,000	$309,320,000
Accounts payable	243,810,000	196,930,000
Accrued liabilities	540,320,000	470,090,000
Total current liabilities	$846,430,000	$976,340,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Accrued Liabilities

(In thousands)	1999	1998
Salaries, wages and related benefits	$162,900	$116,130
Advertising and sales promotion	110,450	87,830
Insurance	49,860	55,360
Income taxes	33,130	49,460
Dividends payable	53,220	37,330
Interest	39,570	34,280
Property, payroll and other taxes	24,260	27,900
Other	66,930	61,800
	$540,320	$470,090

2.198

TOKHEIM CORPORATION (NOV)

(Amounts in thousands)	1999	1998
Current liabilities:		
Current maturities of long-term debt	$ 10,731	$ 2,520
Cash overdrafts	12,321	15,064
Accounts payable	84,511	95,322
Accrued expenses	111,507	129,139
Total current liabilities	$219,070	$242,045

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

4. Accrued Expenses

Accrued expenses consisted of the following at November 30, 1999 and 1998:

	1999	1998
RPS Division integration and rationalization plan	$ 8,598	$ 20,294
Schlumberger Limited	6,507	6,507
Sofitam integration plan	—	1,923
Restructuring plan	3,040	2,300
Compensated absences	11,480	14,644
Salaries, wages, and commissions	10,522	14,871
Retirement benefits and profit sharing	5,755	7,426
Interest	11,612	4,984
Warranty	8,442	10,627
Legal and professional	5,092	3,788
Employee payroll taxes	3,730	5,634
Deferred revenue	7,478	5,645
Taxes (sales, VAT, and other)	16,288	11,072
Other	12,963	19,424
	$111,507	$129,139

Costs/Liabilities Related to Discontinued Operations

2.199

ANACOMP, INC. AND SUBSIDIARIES (SEP)

(Dollars in thousands, except share amounts)	1999	1998
Current liabilities:		
Current portion of long-term debt	$ 9,987	$ 1,152
Accounts payable	34,058	28,961
Accrued compensation, benefits and withholdings	17,229	17,327
Accrued income taxes	16,509	15,197
Accrued interest	17,061	18,158
Other accrued liabilities	38,798	39,064
Total current liabilities	$133,642	$119,859

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 8: Restructuring Reserves

In connection with the acquisition of First Image, the Company recorded certain reserves associated with the restructuring of the Company's existing business and the acquired business. The reserves associated with costs to be incurred related to restructuring the Company's existing business are charged to expense while the reserves associated with restructuring costs to be incurred related to the acquired business are recorded as a purchase accounting adjustment and does not effect the operating results of the Company.

Included in the Company's operating results for the year ended September 30, 1998, are restructuring charges of $8.5 million. These charges result from the Company's acquisition of the First Image Businesses and the Company's plans to close down Anacomp sites with multiple market presence in certain cities and convert First Image customers to Anacomp equipment. The majority of these restructuring activities were completed during fiscal year 1999. In 1999, $4.4 million was charged against the reserve. As of September 30, 1999, a balance of $2.6 million remains, consisting primarily of reserves for idle leased facilities.

The Company also recorded $15.2 million in reserves in 1998 related to the restructuring of the First Image Businesses and the Company's plans to integrate the First Image corporate functions into Anacomp's and to close down certain First Image sites where the Company had a multiple market presence. The majority of these restructuring activities were completed during fiscal year 1999. In 1999 and 1998, $9.2 and $1.9 million, respectively was charged against the reserve. As of September 30, 1999, a balance of $4.1 million remains, consisting primarily of reserves for idle leased facilities and personnel severance.

Note 10 (In Part): Composition of Certain Financial Statement Captions

(Dollars in thousands)	1999	1998
Other accrued liabilities:		
Restructuring reserves (see Note 8)	$ 6,651	$20,302
EPA reserve	2,789	3,331
Deferred revenues	11,892	7,297
Sales tax and VAT liability	3,837	3,560
Other	13,629	4,574
	$38,798	$39,064

2.200

THE DIXIE GROUP, INC. (DEC)

(Dollars in thousands, except per share data)	1999	1998
Current liabilities:		
Accounts payable	$53,590	$39,264
Accrued expenses	26,241	24,028
Accrued liabilities of discontinued operations	3,461	12,649
Current portion of long-term debt	13,460	9,645
Total current liabilities	$96,752	$85,586

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

Note C: Discontinued Operations

In 1998, the Company decided to discontinue its textile products operations and completed the sale of the related assets in June 1999. Cash proceeds from disposal of the Company's textile products operations were approximately $11,025 in 1998 and $47,396 in 1999, excluding accounts receivable, accounts payable and accrued expenses retained by the Company. Additionally, the Company received an $8,000 face value note as part of the consideration from one of the purchasers in 1999. The note matures in 2003, has a stated interest rate of 10.5% with interest payable monthly and is subordinated to the maker's senior indebtedness. The value of the note included in the proceeds was estimated to be $5,049 with an effective discount rate of 25%.

Following is summary financial information for the Company's discontinued textile products operations:

	1999	1998	1997
Net sales	$11,832	$184,122	$229,757
Income (loss) from discontinued operations:			
Before income taxes	—	(2,697)	4,776
Income tax provision (benefit)	—	(844)	1,969
Net	$ —	$ (1,853)	$ 2,807
Estimated income (loss) on disposal:			
Before income taxes	$ 7,855	$(39,325)	$ —
Income tax provision (benefit)	3,063	(11,068)	—
Net	$ 4,792	$(28,257)	$ —

The gain on disposal in 1999 resulted from favorable adjustments to amounts accrued as of the end of the preceding year for exit costs and estimated future operating results. The textile products operations had operating income of $1,622 (net of tax) from the beginning of 1999 through the disposal date, versus a previously accrued estimated loss for such period of $1,586 (net of tax).

The loss on disposal in 1998 includes the write-off of intangible assets of $8,877 and estimated operating losses subsequent to the decision to discontinue the textile products operations to the anticipated disposal date of $944 (net of tax). The effect of liquidating inventories carried at lower costs prevailing in prior years under the LIFO method was to reduce the loss on disposal by approximately $5,461 in 1998. Interest cost charged to discontinued operations was $3,325 for 1998 and $3,697 for 1997. Interest cost for periods subsequent to the decision to discontinue the textile product operations included in the loss on disposal was $1,996.

At December 26, 1998 assets of the textile products operations to be sold consisted of accounts receivable, inventories, and property, plant and equipment amounting to approximately $77,212 after deducting an allowance for the estimated losses on disposal and liabilities were $22,354 including estimated operating losses to the anticipated disposal date. At December 25, 1999, the remaining liabilities of the textile products operations consisted of accrued exit costs of $3,461 and no significant assets were remaining.

Deferred Revenue

2.201

HARRIS CORPORATION (JUN)

(In millions)	1999	1998
Current liabilities:		
Short-term debt	$323.7	$180.0
Accounts payable	154.3	121.7
Compensation and benefits	103.2	126.9
Other accrued items	113.9	117.8
Unearned income and advance payments by customers	84.9	102.9
Income taxes	26.8	81.1
Current portion of long-term debt	.5	54.2
Total current liabilities	$807.3	$784.6

NOTES TO FINANCIAL STATEMENTS

Significant Accounting Policies (In Part)

Revenue Recognition

Revenue is recognized from sales other than on long-term contracts when a product is shipped, from rentals as they accrue, and from services when performed. Unearned income on service contracts is amortized by the straight-line method over the term of the contracts.

Revenue and anticipated profits under long-term contracts are recorded on a percentage-of-completion basis, generally using the cost-to-cost method of accounting where sales and profits are recorded based on the ratio of costs incurred to estimated total costs at completion. Contracts are combined when specific aggregation criteria are met. Criteria generally include closely interrelated activities performed for a single customer within the same economic environment. Contracts generally are not segmented.

Amounts representing contract change orders, claims or other items are included in sales only when they can be reliably estimated and realization is probable. Incentives or penalties and awards applicable to performance on contracts are considered in estimating sales and profit rates, and are recorded when there is sufficient information to assess anticipated contract performance. Incentive provisions which increase or decrease earnings based solely on a single significant event are generally not recognized until the event occurs.

When adjustments in contract value or estimated costs are determined, any changes from prior estimates are reflected in earnings in the current period. Anticipated losses on contracts or programs in progress are charged to earnings when identified.

Royalty income is included as a component of "Other-income" and is recognized on the basis of terms of specified in contractual settlement agreements.

2.202

TYLER TECHNOLOGIES, INC. (DEC)

(In thousands, except par value and number of shares)	1999	1998
Current liabilities:		
Accounts payable	$5,163	$1,190
Accrued wages and commissions	7,262	1,903
Other accrued liabilities	6,524	3,249
Current portion of long-term obligations	3,747	1,876
Deferred revenue	24,303	10,148
Total current liabilities	$46,999	$18,366

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

1 (In Part): Summary of Significant Accounting Policies

Revenue Recognition

The Company's software systems and services segment derives revenue from software licenses, postcontract customer support ("PCS"), and services. PCS includes telephone support, bug fixes, and rights to upgrade on a when-and-if available basis. Services 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, the Company allocates the total arrangement fee among each deliverable based on the relative fair value of each of the deliverables, determined based on vendor-specific objective evidence.

In October 1997, the American Institute of Certified Public Accountants ("AICPA") issued Statement of Position ("SOP") 97-2, "Software Revenue Recognition" which supersedes SOP 91-1. The Company was required to adopt SOP 97-2 for software transactions entered into beginning January 1, 1998.

The Company recognizes revenue in accordance with SOP 97-2 as amended, as follows:

Software Licenses—The Company recognizes the revenue allocable to software licenses and specified upgrades upon delivery and installation of the software product or upgrade to the end user, unless the fee is not fixed or determinable or collectibility is not probable. If the fee is not fixed or determinable, 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 functionality of other elements of the arrangement.

A majority of the Company's software arrangements involve "off-the-shelf" software and the other elements are not considered essential to the functionality of the software. For those software arrangements in which services are not considered essential, the software license fee is recognized as revenue after delivery and installation have occurred, training has commenced, customer acceptance is reasonably assured, the fee is billable and probable of collection and the remaining services other than training are considered nominal.

Software Services—When software services are considered essential, revenue under the entire arrangement is 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 the services are performed.

Computer Hardware Equipment—Revenue allocable to equipment based on vendor specific evidence of fair value is recognized when the equipment is delivered and collection is probable.

Postcontract Customer Support—PCS agreements are generally entered into in connection with initial license sales and subsequent renewals. 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.

Contract Accounting—For arrangements that include customization or modification of the software, or where software services are otherwise considered essential, or for real estate mass appraisal projects, revenue is recognized using contract accounting. Revenue from these arrangements are recognized on a percentage-of-completion method with progress-to-completion measured based primarily upon labor hours incurred or units completed.

Deferred revenue consists primarily of payments received in advance of revenue being earned under software licensing, software and hardware installation, support and maintenance contracts.

Through its information and property records services segment, the Company provides computerized indexing and imaging of real property records, records management and micrographic reproduction, as well as information management outsourcing and professional services required by county and local government units and agencies. The Company also provides title plant update services to title companies and sales of copies of title plants. The Company recognizes service revenue when services are performed and equipment sales when the products are shipped.

Title Plants—Sales of copies of title plants are usually made under long-term installment contracts. The contract with the customer is generally bundled with a long-term title plant update service arrangement. The bundled fees are payable on a monthly basis over the respective contract period and revenue is recognized on an as-billable basis over the terms of the arrangement.

The Company also receives royalty revenue relating to the current activities of two operating companies. Royalty revenue is recognized as earned upon receipt of royalty payments.

Product Warranties

2.203

FEDDERS CORPORATION (AUG)

(Amounts in thousands, except par value data)	1999	1998
Current liabilities:		
Current portion of long-term debt	$ 4,598	$ 2,065
Accounts payable	35,432	25,769
Income taxes payable	13,049	14,406
Accrued expenses	46,463	32,101
Total current liabilities	$99,542	$74,341

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

1 (In Part): Summary of Significant Accounting Policies

Warranty and Return Policy

The Company's warranty policy generally provides five-year coverage for sealed systems including compressors, two-year coverage on motors and one-year coverage on all other parts and labor related to air conditioners sold in North America. The Company's policy is to accrue the estimated cost of warranty coverage and returns at the time the sale is recorded. The policy with respect to sales returns generally provides that a customer may not return inventory except at the Company's option.

Accrued Expenses

Accrued expenses consist of the following at August 31:

	1999	1998
Warranty	$ 4,269	$ 3,271
Marketing programs	9,812	9,508
Salaries and benefits	12,389	8,465
Restructuring, principally lease terminations	2,310	4,768
Insurance and taxes	3,115	1,952
Acquisition costs	4,999	—
Other	9,569	4,137
	$46,463	$32,101

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Insurance

2.204

NATIONAL PRESTO INDUSTRIES, INC. AND SUBSIDIARIES (DEC)

(Dollars in thousands)	1999	1998
Current liabilities:		
Accounts payable	$14,395	$11,447
Federal and state income taxes	6,064	6,216
Accrued liabilities	23,602	22,694
Total current liabilities	$44,061	$40,357

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. Accrued Liabilities

At December 31, 1999, accrued liabilities consisted of payroll $2,590,000, insurance $14,442,000, environmental $3,642,000, and other $2,928,000. At December 31, 1998, accrued liabilities consisted of payroll $2,467,000, insurance $13,304,000, environmental $3,646,000, and other $3,277,000.

Dividend

2.205

OXFORD INDUSTRIES, INC. AND SUBSIDIARIES (MAY)

($ in thousands, except share amounts)	1999	1998
Current liabilities:		
Notes payable	$ 33,000	$ 11,500
Trade accounts payable	61,397	57,105
Accrued compensation	12,897	12,020
Other accrued expenses	22,429	18,883
Dividends payable	1,694	1,765
Current maturities of long-term debt	351	449
Total current liabilities	$131,768	$101,722

Advertising

2.206

ALBERTO-CULVER COMPANY AND SUBSIDIARIES (SEP)

(In thousands, except share data)	1999	1998
Current liabilities:		
Short-term borrowings	$ 2,992	$ 2,279
Current maturities of long-term debt	727	959
Accounts payable	198,887	177,564
Accrued expenses	114,382	112,015
Income taxes	19,413	20,808
Total current liabilities	$336,401	$313,625

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Accrued Expenses

Accrued expenses consist of the following:

(In thousands)	1999	1998
Compensation and benefits	$ 50,005	$ 48,854
Advertising and promotions	32,193	26,250
Other	32,184	36,911
	$114,382	$112,015

Advances/Deposits

2.207

TERRA INDUSTRIES INC. (DEC)

(In thousands)	1999	1998
Liabilities		
Debt due within one year	$ 17,152	$ 9,470
Accounts payable	88,413	98,082
Accrued and other liabilities	35,158	97,678
Total current liabilities	$140,723	$205,230

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11. Accrued and Other Liabilities

Accrued and other liabilities consisted of the following at December 31:

(In thousands)	1999	1998
Customer deposits	$10,346	$ 4,833
Payroll and benefit costs	3,220	22,816
Income taxes—state	1,360	3,498
Other	20,232	66,531
Total	$35,158	$97,678

Environmental Costs

2.208

FANSTEEL INC. (DEC)

	1999	1998
Current liabilities:		
Accounts payable	$ 9,415,399	$11,185,587
Accrued liabilities	11,756,110	10,733,582
Income taxes	229,311	707,772
Current maturities of long-term debt	265,915	306,578
Total current liabilities	$21,666,735	$22,933,519

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. Accrued Liabilities

Accrued liabilities at December 31, 1999 and 1998 include the following:

	1999	1998
Payroll and related costs	$ 4,033,931	$ 3,907,148
Taxes, other than income	393,002	337,076
Profit sharing	845,958	1,142,492
Insurance	2,634,858	3,075,719
Environmental	2,764,366	1,363,462
Professional fees	423,383	248,524
Other	660,612	659,161
	$11,756,110	$10,733,582

4 (In Part): Discontinued Operations, Contingent Liabilities, and Other Liabilities

At December 31, 1999 and 1998, the Company had recorded liabilities of $7.8 million and $8.4 million, respectively, for estimated environmental investigatory and remediation costs based upon an evaluation of currently available facts with respect to each individual site, including the results of environmental studies and testing conducted in 1997, and considering existing technology, presently enacted laws and regulations, and prior experience in remediation of contaminated sites. Actual costs to be incurred in future periods at identified sites may vary from the estimates, given the inherent uncertainties in evaluating environmental exposures. Future information and developments will require the Company to continually reassess the expected impact of these environmental matters. The Company does not expect that any sums it may have to pay in connection with these environmental liabilities would have a materially adverse effect on its consolidated financial position.

Deferred Taxes

2.209

JOHNSON CONTROLS, INC. (SEP)

(In millions, except par value and share data)	1999	1998
Liabilities and shareholders' equity		
Short-term debt	$ 477.0	$1,289.5
Current portion of long-term debt	94.8	39.4
Accounts payable	1,998.5	1,625.2
Accrued compensation and benefits	446.9	376.1
Accrued income taxes	231.2	119.6
Billings in excess of costs and earnings on uncompleted contracts	159.2	127.5
Other current liabilities	859.0	711.1
Current liabilities	$4,266.6	$4,288.4

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

13. Income Taxes

An analysis of effective income tax rates for continuing operations is shown below:

	Year ended September 30,		
	1999	1998	1997
Federal statutory rate	35.0%	35.0%	35.0%
State income taxes, net of federal benefit	2.9	2.8	3.9
Federal tax expense at different rates and foreign losses without tax benefits	1.3	3.7	4.4
Goodwill	1.5	1.9	2.8
Other	(0.2)	(1.9)	(3.6)
	40.5%	41.5%	42.5%

The effective income tax rate for discontinued operations was 49% for 1997.

Deferred taxes for continuing operations were classified in the Consolidated Statement of Financial Position as follows:

	September 30,	
(In millions)	1999	1998
Other current assets	$221.4	$195.2
Other noncurrent assets	120.4	70.9
Accrued income taxes	(5.2)	(2.1)
Other noncurrent liabilities	(33.0)	(39.3)
Net deferred tax asset	$303.6	$224.7

Temporary differences and carryforwards which gave rise to deferred tax assets and liabilities for continuing operations included:

	September 30,	
(In millions)	1999	1998
Deferred tax assets		
Accrued expenses and reserves	$364.5	$303.0
Postretirement and postemployment benefits	80.8	79.6
Net operating loss and foreign tax credit carryforwards	64.5	71.2
Other	16.1	14.1
	525.9	467.9
Valuation allowance	(65.2)	(58.6)
	460.7	409.3
Deferred tax liabilities		
Property, plant and equipment	45.3	83.7
Employee benefits	6.0	6.5
Inventories	7.9	6.3
Long-term contracts	21.2	22.1
Joint ventures	12.2	10.8
Intangible assets	43.7	52.0
Other	20.8	3.2
	157.1	184.6
Net deferred tax asset	$303.6	$224.7

The valuation allowance primarily represents foreign operating loss carryforwards and foreign tax credit carryforwards for which utilization is uncertain. The utilization of foreign operating loss carryforwards is uncertain because it is unlikely that the losses will be utilized within the carryforward periods prescribed by the applicable foreign taxing jurisdictions. Cumulative tax losses in recent years (particularly in emerging market countries), and limited carryforward periods in certain countries are factors considered in making this determination.

Components of the provision for income taxes on continuing operations were as follows:

	Year ended September 30,		
(In millions)	1999	1998	1997
Current			
Federal	$280.0	$215.6	$162.8
State	44.2	31.7	32.2
Foreign	98.2	50.0	31.3
	422.4	297.3	226.3
Deferred			
Federal	(75.2)	(34.6)	(41.1)
State	(9.9)	(4.5)	(5.3)
Foreign	(25.6)	(2.2)	1.0
	(110.7)	(41.3)	(45.4)
Provision for income taxes	$311.7	$256.0	$180.9

Consolidated domestic income from continuing operations before income taxes and minority interests was $590.4 million in 1999, $545.3 million in 1998 and $386.8 million in 1997. The corresponding amounts for foreign operations were $179.5 million in 1999, $71.5 million in 1998 and $38.8 million in 1997.

Income taxes paid during 1999, 1998 and 1997 were $279 million, $246 million and $291 million, respectively.

Domestic income taxes have not been provided on undistributed earnings of foreign subsidiaries of $418 million which are considered to be permanently invested. If undistributed earnings were remitted, foreign tax credits would substantially offset any resulting domestic tax liability.

Royalties

2.210

MATTEL, INC. AND SUBSIDIARIES (DEC)

(In thousands, except per share data)	1999	1998
Current liabilities:		
Short-term borrowings	$ 369,549	$ 199,006
Current portion of long-term liabilities	3,173	33,666
Accounts payable	360,609	362,467
Accrued liabilities	825,874	748,837
Income taxes payable	258,319	299,058
Total current liabilities	$1,817,524	$1,643,034

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 10 (In Part): Supplemental Financial Information

	As of Year End	
(In thousands)	1999	1998
Accrued liabilities include the following:		
Advertising and promotion	$186,558	$164,543
Restructuring and other charges	170,845	85,623
Royalties	109,399	112,839
Other	359,072	385,832
	$825,874	$748,837

Litigation

2.211

ARMSTRONG WORLD INDUSTRIES, INC. (DEC)

(Millions except for numbers of shares and per-share data)	1999	1998
Current liabilities:		
Short-term debt	$ 70.9	$149.9
Current installments of long-term debt	36.1	32.9
Accounts payable and accrued expenses	670.7	544.8
Income taxes	7.3	25.7
Total current liabilities	$785.0	$753.3

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 11: Accounts Payable and Accrued Expenses

(Millions)	1999	1998
Payables, trade and other	$308.4	$235.2
Asbestos-related claims, current portion (note 26)	175.0	80.0
Employment costs	71.3	82.5
Reorganization and severance payments	12.1	30.6
Other	103.9	116.5
Total	$670.7	$544.8

Note 26 (In Part): Litigation and Related Matters

Asbestos-Related Litigation

Armstrong is a defendant in personal injury claims and property damage claims related to asbestos-containing products.

Personal Injury Claims

Nearly all claims seek general and punitive damages arising from alleged exposures, at various times, from World War II onward, to asbestos-containing products. Claims against Armstrong, which can involve allegations of negligence, strict liability, breach of warranty and conspiracy, primarily relate to Armstrong's involvement with asbestos-containing insulation products. Armstrong discontinued the sale of all such insulation products in 1969. In addition, other Armstrong products, such as gasket materials, have been named in some litigation. Claims may arise many years after first exposure to asbestos in light of the long latency period (up to 40 years) for asbestos-related injury. Product identification and determining exposure periods are difficult and uncertain. Armstrong believes that many current plaintiffs are unimpaired. Armstrong is involved in all stages of claims resolution and litigation, including individual trials, consolidated trials and appeals.

Over the long history of asbestos litigation involving hundreds of companies, attention has been given by various parties to securing a comprehensive resolution of the litigation. In 1991, the Judicial Panel for Multidistrict Litigation ordered the transfer of federal cases to the Eastern District of Pennsylvania in Philadelphia for pretrial purposes. Armstrong supported this transfer. Some cases are periodically released for trial, although the issue of punitive damages is retained by the transferee court. That court has been instrumental in having the parties resolve large numbers of cases in various jurisdictions and has been receptive to different approaches to the resolution of claims. Claims filed in state courts have not been directly affected by the transfer.

Asbestos Claims Facility ("Facility") and Center for Claims Resolution ("Center")

The Facility was established to evaluate, settle, pay and defend all personal injury claims against member companies. Resolution and defense costs were allocated by formula. The Facility subsequently dissolved, and the Center was created in October 1988 by 21 former Facility members, including Armstrong. At December 31, 1999 there were 19 members of the Center. In January 2000, membership was reduced to 16 members. Insurance carriers, while not members, are represented ex officio on the Center's governing board and have agreed annually to provide a portion of the Center's operational costs. The Center adopted many of the conceptual features of the Facility and has addressed the claims in a manner consistent with the prompt, fair resolution of meritorious claims. Resolution and defense costs are allocated by formula to each of the member companies; adjustments over time have resulted in some increased share for Armstrong.

Amchem Settlement Class Action

Georgine v. Amchem ("Amchem") was a settlement class action filed in the Eastern District of Pennsylvania on January 15, 1993, that included essentially all future personal injury claims against members of the Center for Claims Resolution ("Center"), including Armstrong. It was designed to establish a nonlitigation system for the resolution of those claims, and offered a method for prompt compensation to claimants who were occupationally exposed to asbestos if they met certain exposure and medical criteria. Compensation amounts were derived from historical settlement data and no punitive damages were to be paid. The settlement was designed to, among other things, minimize transactional costs, including attorneys' fees; expedite compensation to claimants with qualifying claims; and relieve the courts of the burden of handling future claims.

The District Court, after exhaustive discovery and testimony, approved the settlement class action and issued a preliminary injunction that barred class members from pursuing claims against Center members in the tort system. The U.S. Court of Appeals for the Third Circuit reversed that decision, and the reversal was sustained by the U.S. Supreme Court on September 25, 1997, holding that the settlement class did not meet the requirements for class certification under Federal Rule of Civil Procedure 23. The preliminary injunction was vacated on July 21, 1997, resulting in the immediate reinstatement of enjoined cases and a loss of the bar against the filing of claims in the tort system.

Post Amchem Claim Developments

Armstrong is a defendant in approximately 175,600 pending personal injury claims as of December 31, 1999. During 1999, the Center received and verified approximately 51,000 claims naming Armstrong as a defendant (of which approximately 10,200 were received and verified in the fourth quarter).

Armstrong continues to seek broad-based settlements of claims through the Center. The Center has recently reached agreements with several law firms that cover approximately 82,000 claims (or 41% of current claims) some of which are currently pending and some of which have yet to be filed. These agreements typically provide for multiyear payments for settlement of current claims and establish specific medical and other criteria for the settlement of future claims as well as annual limits on the number of claims that can be filed by these firms. These agreements also establish fixed settlement values for different asbestos-related medical conditions which are subject to periodic renegotiation over a period of 2 to 5 years. The plaintiff law firms are required to recommend settlements to their clients although future claimants are not legally obligated to accept the settlements. These agreements also provide for nominal payments to future claimants who are unimpaired but who are eligible for additional compensation if they develop a more serious asbestos-related illness. The Center can terminate an agreement with an individual law firm if a significant number of that firm's clients elect not to participate under the agreement. Negotiations with additional plaintiff law firms engaged in asbestos-related litigation that would resolve a substantial portion of the remaining pending claims are ongoing. The ultimate success and timing of those negotiations is uncertain.

Asbestos-Related Liability

In continually evaluating its estimated asbestos liability, Armstrong reviews, among other things, its recent and historical settlement amounts, the incidence of past and recent claims, the mix of the injuries and occupations of the plaintiffs, the number of cases pending against it and the status and results of broad-based settlement discussions. Based on this review, Armstrong has estimated its share of liability to defend and resolve probable asbestos-related personal injury claims. This estimate is highly uncertain due to the limitations of the available data and the difficulty of forecasting with any certainty the numerous variables that can affect the range of the liability. Armstrong will continue to study the variables in light of additional information in order to identify trends that may become evident and to assess their impact on the range of liability that is probable and estimable.

In the fourth quarter of 1999, Armstrong recorded a charge to increase its estimate of probable asbestos-related liability by $425.4 million. The revision in the estimated liability is attributable to many factors. The actual number of claims received in 1999 was higher than anticipated. Although we expect the number of claims to decrease in future years, we now expect that the total number of claims received will be higher than previously anticipated. Further, the Center has recently settled with some law firms at amounts higher than our original estimates pursuant to our broad-based settlement plan. In consideration of these factors, management has concluded that an increase in the estimated probable liability is required. Armstrong's estimate of such liability that is probable and estimable through 2005 ranges from $681.5 million to $1,337.9 million as of December 31, 1999. The range of probable and estimable liability reflects uncertainties in the number of future claims that will be filed, the outcome of the broad-based settlement negotiations and Armstrong's overall effective share of the Center's liabilities. Armstrong has concluded that no amount within that range is more likely than any other, and therefore has reflected $681.5 million as a liability in the consolidated financial statements in accordance with generally accepted accounting principles. Of this amount, management expects to incur asbestos liability payments of approximately $175.0 million over the next 12 months and has reflected $175.0 million as a current liability.

Armstrong's estimated range of liability is primarily based on known claims and an estimate of future claims that are likely to occur and can be reasonably estimated through 2005. This estimated range of liability assumes that the number of new claims filed annually will be less than the number filed in 1999. For claims that may be filed beyond 2005, management believes that the level of uncertainty is too great to provide for reasonable estimation of the number of future claims, the nature of such claims, or the cost to resolve them. Accordingly, it is reasonably possible that the total exposure to personal injury claims may be greater than the estimated range of liability.

Although some settlements have already been reached, Armstrong is currently uncertain as to the ultimate success and timing of the remaining broad-based settlement discussions. However, if those discussions are unsuccessful or if unfavorable claims experiences continue, significant changes in the assumptions used in the estimate of Armstrong's liability may result. Those changes, if any, could lead to increases in the recorded liability. Because of the uncertainties related to the number of claims, the ultimate settlement amounts, and similar matters, it is extremely difficult to obtain reasonable estimates of the amount of the ultimate liability. As additional experience is gained regarding claims and such settlement discussions or other new information becomes available regarding the potential liability, Armstrong will reassess its potential liability and revise the estimates as appropriate.

Because, among other things, payment of the liability will extend over many years, management believes that the potential additional costs for claims, net of any potential insurance recoveries, will not have a material after-tax effect on the financial condition of Armstrong or its liquidity, although the net after-tax effect of any future liabilities recorded in excess of insurance assets could be material to earnings in a future period.

Codefendant Bankruptcies

Certain codefendant companies have filed for reorganization under Chapter 11 of the Federal Bankruptcy Code. As a consequence, litigation against them (with some exceptions) has been stayed or restricted. Due to the uncertainties involved, the long-term effect of these proceedings on the litigation cannot be predicted.

Letters of Credit

As of December 31, 1999, Armstrong entered into $36.2 million of letters of credit to meet minimum collateral requirements established by the Center.

Property Damage Litigation

Armstrong is also one of many defendants in five pending claims as of December 31, 1999, that were filed by public and private building owners. These cases present allegations of damage to the plaintiffs' buildings caused by asbestos-containing products and generally seek compensatory and punitive damages and equitable relief, including reimbursement of expenditures, for removal and replacement of such products. Armstrong vigorously denies the validity of the allegations against it in these claims. These claims are not handled by the Center. Insurance coverage has been resolved and is expected to cover almost all costs of these claims.

Insurance Coverage

During relevant time periods, Armstrong purchased primary and excess insurance policies providing coverage for personal injury claims and property damage claims. Certain policies also provide coverage to ACandS, Inc., a former subsidiary of Armstrong. Armstrong and ACandS agreed to share certain coverage on a first-come first-served basis and to reserve for ACandS a certain amount of excess coverage.

Wellington Agreement

In 1985, Armstrong and 52 other companies (asbestos defendants and insurers) signed the Wellington Agreement. This Agreement settled disputes concerning personal injury insurance coverage with signatory carriers. It provides broad coverage for both defense and indemnity and applies to both products hazard and nonproducts (general liability) coverages. Armstrong has resolved most asbestos-related personal injury products hazard coverage matters with its solvent carriers through the Wellington Agreement or other settlements.

Insurance Recovery Proceedings

A substantial portion of Armstrong's primary and excess remaining insurance asset is nonproducts (general liability) insurance for personal injury claims including, among others, those that involve alleged exposure during Armstrong's installation of asbestos materials. An alternative dispute resolution ("ADR") procedure under the Wellington Agreement is under way against certain carriers to determine the percentage of resolved and unresolved claims that are nonproducts claims, to establish the entitlement to that coverage and to determine whether and how much reinstatement of prematurely exhausted products hazard insurance is warranted. The nonproducts coverage potentially available is substantial and includes defense costs in addition to limits. The carriers have raised various defenses, including waiver, laches, statutes of limitations and contractual defenses. One primary carrier alleges that it is no longer bound by the Wellington Agreement, and another alleges that Armstrong agreed to limit its claims for nonproducts coverage against that carrier when the Wellington Agreement was signed. The ADR process is in the trial phase of binding arbitration. One insurer has taken the position that it is entitled to litigate in court certain issues in the ADR proceeding. During 1999, Armstrong received preliminary decisions in the initial phases of the trial proceeding of the ADR which were generally favorable to Armstrong on a number of issues related to insurance coverage. Because of the continuing ADR process and the possibilities for further proceedings on certain matters, Armstrong has not yet completely determined the financial implications of the decisions. Armstrong has entered into settlements with a number of the carriers resolving coverage issues.

Other proceedings against non-Wellington carriers may become necessary.

Insurance Asset

As with its estimated asbestos-related liability, Armstrong continually evaluates the probable insurance asset to be recorded. An insurance asset in the amount of $296.0 million is recorded as of December 31, 1999. Approximately $58.7 million was received in 1999 pursuant to existing settlements. The asset was also increased by $90.0 million in the fourth quarter of 1999 primarily as a result of insurance coverage in place related to the increase in the probable and estimable liability and recent settlements with certain carriers. Of the total insurance asset amount, approximately $78.3 million represents partial settlement for previous claims which will be paid in a fixed and determinable flow and is reported at its net present value discounted at 6.70%. The total amount recorded reflects Armstrong's belief in the availability of insurance in this amount, based upon Armstrong's success in insurance recoveries, recent settlement agreements that provide that coverage, the nonproducts recoveries by other companies and the opinion of outside counsel. This insurance is either available through settlement or probable of recovery through negotiation, litigation or resolution of the ADR process that is in the trial phase of binding arbitration. Depending on further progress of the ADR, and activities such as settlement discussions with insurance carriers party to the ADR and those not party to the ADR, Armstrong may revise its estimate and additional insurance assets may be recorded in a future period. Of the $296.0 million asset, $26.0 million has been recorded as a current asset reflecting management's estimate of the minimum insurance payments to be received in the next 12 months. However, the actual amount of payments to be received in the next 12 months could increase depending upon the nature and result of settlement discussions. Management estimates that the timing of future cash payments for the remainder of the recorded asset may extend beyond 10 years.

Cash Flow Impact

Armstrong paid $173.0 million for asbestos-related claims in 1999 compared to $101.5 million in 1998. Armstrong received $58.7 million in asbestos-related insurance recoveries in 1999 compared with $27.1 million in 1998. Armstrong currently expects to pay approximately $95.0 million to $115.0 million for asbestos-related claims and expenses in 2000, net of expected insurance recoveries and taxes.

Conclusion

In the fourth quarter of 1999, Armstrong recorded a net pretax charge of $335.4 million. This charge is the net of an increase in its estimated asbestos-related liability of $425.4 million and a $90.0 million increase in related insurance recoveries.

While some successful broad-based settlements have been reached with plaintiff law firms, Armstrong is uncertain as to the timing and number of any additional settlements to be reached.

Since many uncertainties exist surrounding asbestos litigation, Armstrong will continue to evaluate its asbestos-related estimated liability and corresponding estimated insurance recoveries asset as well as the underlying assumptions used to derive these amounts. The recorded liability and asset reflect the most recent available information as of this filing. However, it is reasonably possible that Armstrong's total exposure to personal injury claims may be greater than the recorded liability, and, accordingly future charges to income may be necessary. While Armstrong believes that potential future charges may be material to the periods in which they are taken, Armstrong does not believe the charges will have a material adverse effect on its financial position or liquidity.

Contract Losses

2.212

COMMERCIAL METALS COMPANY AND SUBSIDIARIES (AUG)

(In thousands, except share data)	1999	1998
Current liabilities:		
Commercial paper	$ 10,000	$ 40,000
Notes payable	4,382	60,809
Accounts payable	191,508	163,507
Other payables and accrued expenses	153,889	143,394
Income taxes payable	2,025	6,870
Current maturities of long-term debt	9,873	11,483
Total current liabilities	$371,677	$426,063

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 11: Other Payables and Accrued Expenses

	August 31,	
(In thousands)	1999	1998
Salaries, wages and commissions	$ 29,240	$ 32,685
Employees' retirement plans	27,588	21,882
Advance billings on contracts	15,130	15,585
Insurance	10,755	11,202
Accrual for contract losses	7,132	2,379
Environmental	5,339	5,718
Litigation accrual	6,650	6,650
Freight	6,381	4,936
Taxes other than income taxes	7,704	7,558
Interest	3,412	3,348
Other accrued expenses	34,558	31,451
	$153,889	$143,394

Trade Discounts

2.213

THE BLACK & DECKER CORPORATION AND SUBSIDIARIES (DEC)

(Millions of dollars)	1999	1998
Liabilities and stockholders' equity		
Short-term borrowings	$ 183.2	$ 152.5
Current maturities of long-term debt	213.2	59.2
Trade accounts payable	367.3	348.8
Other accrued liabilities	809.0	814.2
Total current liabilities	$1,572.7	$1,374.7

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 7: Other Accrued Liabilities

Other accrued liabilities at the end of each year, in millions of dollars, included the following:

	1999	1998
Salaries and wages	$ 67.2	$ 63.6
Employee benefits	109.1	93.1
Trade discounts and allowances	145.9	114.0
Income taxes, including deferred taxes	66.7	107.9
Accruals related to restructuring actions taken in connection with strategic repositioning plan	22.4	50.8
All other	397.7	384.8
	$809.0	$814.2

All other at December 31, 1999 and 1998, consisted primarily of accruals for advertising, warranty costs, interest, insurance, and taxes other than income taxes.

Product Liability

2.214

BRISTOL-MYERS SQUIBB COMPANY (DEC)

(Dollars in millions)	1999	1998
Current liabilities:		
Short-term borrowings	$ 432	$ 482
Accounts payable	1,657	1,380
Accrued expenses	2,367	2,302
Product liability	287	877
U.S. and foreign income taxes payable	794	750
Total current liabilities	$5,537	$5,791

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Accounting Policies (In Part)

Product Liability

Accruals for product liability are recorded, on an undiscounted basis, when it is probable that a liability has been incurred and the amount of the liability can be reasonably estimated, based on existing information. These accruals are adjusted periodically as assessment efforts progress or as additional information becomes available. Receivables for related insurance or other third party recoveries for product liabilities are recorded, on an undiscounted basis, when it is probable that a recovery will be realized. Insurance recoverable recorded on the balance sheet has, in general, payment terms of three years or less.

Litigation (In Part)

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

Breast Implant

The Company, together with its subsidiary, Medical Engineering Corporation (MEC), and certain other companies, has been named as a defendant in a number of claims and lawsuits alleging damages for personal injuries of various types resulting from polyurethane-covered breast implants and smooth-walled breast implants formerly manufactured by MEC or a related company. Of the more than 90,000 claims or potential claims against the Company in direct lawsuits or through registration in the nationwide class action settlement approved by the Federal District Court in Birmingham, Alabama (the "Revised Settlement"), most have been dealt with through the Revised Settlement, other settlements, or trial. As of December 31, 1999, the Company's contingent liability in respect of breast implant claims was limited to residual unpaid Revised Settlement obligations and to roughly 1,700 remaining opt-outs who have pursued or may pursue their claims in court.

As of December 31, 1999, approximately 6,700 United States and 200 foreign breast implant recipients were plaintiffs in lawsuits pending in federal and state courts in the United States and certain courts in Canada and Australia. These figures include the claims of plaintiffs that are in the process of being settled and/or dismissed. In these lawsuits, about 3,660 U.S. and 49 foreign plaintiffs opted out of the Revised Settlement. The lawsuits of the 3,040 U.S. plaintiffs who did not opt out are expected to be dismissed since these plaintiffs are among the estimated 74,000 women with MEC implants who chose to participate in the nationwide settlement. Of the 3,660 opt-out plaintiffs, an estimated 1,960 have claims based upon products that were not manufactured or sold by MEC or that have been or are in the process of being settled and/or dismissed. Accordingly, the number of remaining plaintiffs who have pursued or may pursue their claims in court against the Company is roughly 1,700, as stated in the preceding paragraph.

Under the terms of the Revised Settlement, additional opt-outs are expected to be minimal since the deadline for U.S. class members to opt out has passed. In addition, the Company's remaining obligations under the Revised Settlement Program are limited because most payments to "Current Claimants" have already been made, no additional "Current Claims" may be filed without court approval, and because payments of claims to so-called "Other Registrants" and "Late Registrants" are limited by the terms of the Revised Settlement. Separate class action settlements have been approved in the provincial courts of Ontario and Quebec, and an agreement has been reached under which other foreign breast implant recipients may settle their claims. The Company believes it will be able to address remaining opt-out claims as well as expected remaining obligations under the Revised Settlement program within its reserves described below.

In the fourth quarter of 1993, the Company recorded a charge of $500 million before taxes ($310 million after taxes) in respect of breast implant cases. The charge consisted of $1.5 billion for potential liabilities and expenses, offset by $1.0 billion of expected insurance proceeds. In the fourth quarters of 1994 and 1995, the Company recorded additional special charges of $750 million before taxes ($488 million after taxes) and $950 million before taxes ($590 million after taxes), respectively, related to breast implant product liability claims. In the fourth quarter of 1998, the Company recorded an additional special charge to earnings in the amount of $800 million before taxes and increased its insurance receivable in the amount of $100 million, resulting in a net charge to earnings of $433 million after taxes in respect of breast implant product liability claims. During 1999, 1998 and 1997, cash payments, net of insurance receipts, of $631 million, $551 million and $549 million, respectively, were made related to the breast implant product liability claims. At December 31, 1999, $354 million was included in current and other liabilities for breast implant product liability claims.

LONG-TERM DEBT

2.215 Table 2-26 summarizes the types of long-term debt most frequently disclosed by the survey companies.

2.216 Paragraph 10b of *Statement of Financial Accounting Standards No. 47* requires that financial statements disclose for each of the five years following the date of the latest balance sheet presented the "aggregate amount of maturities and sinking fund requirements for all long-term borrowings."

2.217 *Statement of Financial Accounting Standards No. 107* requires that the fair value of long-term debt be disclosed if it is practicable to estimate fair value. The requirements of *SFAS No. 107* do not apply to leases.

2.218 518 survey companies made 687 fair value disclosures. 118 disclosures stated that fair value approximated the carrying amount of the long-term debt; 238 disclosures stated that market or broker quotes were used to estimate fair value; 311 disclosures stated that discounted cash flows were used to estimate fair value; and 20 disclosures stated the amount of fair value but not the basis for estimating fair value.

2.219 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.

2.220

TABLE 2-26: LONG-TERM DEBT

	Number of Companies			
	1999	**1998**	**1997**	**1996**
Unsecured				
Notes	450	430	428	422
Debentures	168	162	163	164
Commercial paper	93	83	86	86
Loans	88	78	78	78
ESOP loans	43	47	55	55
Collateralized				
Capitalized leases	290	298	299	287
Notes or loans	85	84	81	92
Mortgages	55	53	64	73
Convertible				
Notes	40	34	26	27
Debentures	32	30	30	45

2.221

CMI CORPORATION AND SUBSIDIARIES (DEC)

(Dollars in thousands)	1999	1998
Total current liabilities	$42,869	$36,436
Long-term debt	$94,497	$77,049

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Fair Value of Financial Instruments

The carrying amounts of cash and cash equivalents, receivables, accounts payable, and accrued liabilities approximate fair value because of the short maturity of these instruments. The carrying amounts of long-term receivables approximates fair value as the effective rates for these instruments are comparable to market rates at year-end. The carrying amount of investments approximates fair market value. The carrying amount of long-term debt is approximately $99.1 million and $77.3 million and the estimated fair value is $98.0 million and $77.3 million at December 31, 1999 and 1998, respectively. The estimated fair value of debt is based on borrowing rates currently available with similar terms and average maturities.

3. Long-Term Debt and Notes Payable

Long-term debt and notes payable at December 31 are summarized as follows (dollars in thousands):

	1999	1998
Series A senior notes, unsecured, with interest at 7.68%, due from September 2000 to September 2006	$30,000	$30,000
Revolving line of credit, unsecured, with weighted average interest of 7.75% at December 31, 1999 and 7.15% at December 31, 1998, due September 2001	65,000	43,000
4.4% to 8.25% (8.1% weighted average rate) fixed rate bonds, collateralized by a first security interest in certain real property, due September 2010	3,682	3,895
Lease-purchase obligations and notes payable due through September 2008, with interest from 6.25% to 10.25%, collateralized by certain buildings and equipment	366	422
	99,048	77,317
Less current maturities of long-term debt	4,551	268
	$94,497	$77,049

In September 1996, the Company completed a $30 million private placement of unsecured Series A Senior Notes and established an unsecured revolving line of credit. A portion of the proceeds from the senior notes was used to retire higher-interest debt and to redeem the Company's preferred stock. The Company amended its revolving line of credit agreement on October 29, 1999, increasing borrowing capacity from $60 million to $70 million. As of February 3, 2000 the line of credit was increased to $100 million. The revolving line of credit provides for interest at the LIBOR rate plus 1.50% to 2.25%. The specific rate is determined based on the ratio of funded debt to earnings before interest, taxes, depreciation and amortization and is adjusted every ninety days.

The Company maintains a fleet financing agreement which allows the Company to borrow 100 percent of the net sales price of specific equipment under lease contracts. The terms of the individual borrowings under the financing agreement are consistent with the lease contracts and generally range from three months to three years. Borrowings under the fleet financing agreement are secured by the specific equipment. As of December 31, 1999 and 1998, the Company had no borrowings outstanding under the fleet financing agreement.

The aggregate maturities of long-term debt for each of the five years subsequent to December 31, 1999, are as follows (dollars in thousands):

2000	$ 4,551
2001	69,574
2002	4,596
2003	4,610
2004	4,638
Thereafter	11,079
	$99,048

Certain debt agreements contain restrictions on working capital, net worth (minimum of approximately $53.7 million at December 31, 1999), and other restrictive covenants. For the year ended December 31, 1999, the Company was not in compliance with one debt covenant related to the $30 million unsecured senior notes and one debt covenant related to the revolving line of credit. Both covenants are determined quarterly based on the trailing four quarters ending on each determination date. The Company has obtained waivers from the lenders as of December 31, 1999 waiving noncompliance through March 31, 2000 and expects to meet the covenants at future determination dates.

2.222

ELI LILLY AND COMPANY AND SUBSIDIARIES (DEC)

(Dollars in millions)	1999	1998
Total current liabilities	$3,935.4	$4,607.2
Other liabilities		
Long-term debt (Note 6)	2,811.9	2,185.5
Deferred income taxes (Note 10)	137.0	247.9
Retiree medical benefit obligation (Note 11)	115.7	114.7
Other noncurrent liabilities	812.2	1,010.6
	3,876.8	3,558.7

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

Note 5 (In Part): Financial Instruments

Fair Value of Financial Instruments

A summary of the Company's outstanding financial instruments at December 31 follows. As summarized, "cost" relates to investments while "carrying amount" relates to long-term debt.

	1999		1998	
	Cost/ Carrying Amount	Fair Value	Cost/ Carrying Amount	Fair Value
Short-term investments:				
Debt securities	$135.6	$136.0	$101.4	$102.7
Noncurrent investments:				
Marketable equity	63.9	96.8	66.5	70.4
Debt securities	35.6	35.6	38.6	38.6
Nonmarketable equity	14.9	14.9	26.1	26.1
Long-term debt, including current portion	3,026.7	2,990.6	2,336.7	2,629.7

The Company determines fair values based on quoted market values where available or discounted cash flow analyses (principally long-term debt). The fair values of nonmarketable equity securities, which represent either equity investments in start-up technology companies or partnerships that invest in start-up technology companies, are estimated based on the fair value information provided by these ventures. The fair value and carrying amount of risk-management instruments were not material at December 31, 1999 and 1998.

Note 6: Borrowings

Long-term debt at December 31 consisted of the following:

	1999	1998
6.57 to 7.13 percent notes (due 2016-2036)	$1,000.0	$1,000.0
6.25 to 8.38 percent notes (due 2001-2006)	650.0	750.0
Floating rate capital securities (due 2029)	525.0	—
8.13 to 8.38 percent eurodollar bonds (due 2000-2005)	350.0	350.0
Resettable coupon capital securities (due 2029)	300.0	—
7.10 percent medium-term notes	—	36.5
6.55 percent ESOP debentures (due 2017)	98.6	99.6
Other, including capitalized leases	103.1	101.6
	3,026.7	2,337.7
Less current portion	214.8	152.2
	$2,811.9	$2,185.5

On August 5, 1999, the Company issued $525.0 million floating rate capital securities and $300.0 million adjustable rate capital securities. These capital securities are subordinated to the notes, bonds, and debentures listed above. The floating rate capital securities pay cumulative interest at an annual rate equal to LIBOR plus a predetermined spread, reset quarterly. The rate at December 31, 1999, is 7.355 percent. The securities may be redeemed any time on or after August 5, 2004, for a defined redemption price. The resettable coupon capital securities pay cumulative interest at an annual rate of 7.717 percent until August 1, 2004. At this date and every fifth anniversary thereafter, the interest rate will be reset equal to the weekly average interest rate of U.S. treasury securities having an index maturity of five years for the week immediately preceding the reset date plus a predetermined spread. The securities may be redeemed on August 1, 2004, and anytime thereafter for a defined redemption price.

The 6.55 percent Employee Stock Ownership Plan (ESOP) debentures are obligations of the ESOP but are shown on the consolidated balance sheet because they are guaranteed by the Company. The principal and interest on the debt are funded by contributions from the Company and by dividends received on certain shares held by the ESOP. Because of the amortizing feature of the ESOP debt, bondholders will receive both interest and principal payments each quarter. These debentures replace other ESOP debentures pursuant to a refinancing in March 1998. An extraordinary charge of $7.2 million, net of a $4.8 million income tax benefit, was recorded as a result of this refinancing.

The aggregate amounts of maturities on long-term debt for the next five years are as follows: 2000, $214.8 million; 2001, $166.1 million; 2002, $13.9 million; 2003, $211.8 million; and 2004, $9.6 million.

At December 31, 1999 and 1998, short-term borrowings included $26.7 million and $29.2 million, respectively, of notes payable to banks. At December 31, 1999, unused committed lines of credit totaled approximately $2.05 billion. Compensating balances and commitment fees are not material, and there are no conditions that are probable of occurring under which the lines may be withdrawn.

Cash payments of interest on borrowings totaled $170.6 million, $188.2 million, and $243.9 million in 1999, 1998, and 1997, respectively.

2.223

FANSTEEL INC. (DEC)

	1999	1998
Total current liabilities	$21,666,735	$22,933,519
Long-term debt	2,270,831	2,506,746
Other liabilities		
Environmental remediation	15,337,000	15,646,000
Pension liabilities	—	84,017
Deferred income taxes	2,746,682	—
Total other liabilities	$18,083,682	$15,730,017

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5. Debt

Long-term debt at December 31, 1999 and 1998 consisted of the following:

	1999	1998
Mississippi Business Finance Corporation 5.487% Note, due 2011	$ 950,000	$1,005,000
Loans from various Pennsylvania Economic Agencies with interest rates ranging from 2.0% to 5.0%, due from 2000 to 2010	1,496,424	1,667,773
Loans from various Iowa Economic Agencies with interest rates ranging from 0.0% to 4.0%, due from 2000 to 2004	90,322	140,551
	2,536,746	2,813,324
Less current maturities	265,915	306,578
Total long-term debt	$2,270,831	$2,506,746

The above loans are collateralized by machinery and equipment with a net book value of $1,167,000.

The aggregate maturities for long-term debt for the five years after December 31, 1999 are $266,000, $245,000, $216,000, $196,000, and $194,000, respectively.

Interest paid on debt for the years ended December 31, 1999, 1998 and 1997 amounted to $109,000, $107,000, and $89,000, respectively.

The fair value of the Company's debt at December 31, 1999 and 1998 was $2,478,000 and $2,653,000, respectively, which was estimated using a discounted cash flow analysis, based upon the Company's current incremental borrowing rates for similar types of borrowing arrangements.

The Company has a $30,000,000 unsecured revolving credit agreement expiring on May 20, 2002 and a credit agreement for $3,000,000 expiring on June 30, 2000. As of December 31, 1999, there were no borrowings from the lines of credit, but $8.1 million was being used for letters of credit needed for funding assurance related to environmental issues, self-insurance policies and development loans.

2.224

FMC CORPORATION (DEC)

(In millions, except share and par value data)	1999	1998
Total current liabilities	$1,576.0	$1,411.9
Long-term debt, less current portion (Note 9)	945.1	1,326.4
Accrued pension and other postretirement benefits, less current portion	237.6	228.1
Accrued for discontinued operations and other liabilities	319.2	305.1
Other liabilities	128.1	92.0
Minority interests in consolidated companies	46.2	73.5
Commitments and contingent liabilities		

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 7 (In Part): Financial Instruments

Fair Value Disclosures

The carrying amounts of cash and cash equivalents, trade receivables, other current assets, accounts payable and amounts included in investments and accruals meeting the definition of a financial instrument approximate fair value. The carrying amounts and related estimated fair values for the Company's remaining financial instruments are as follows:

	December 31, 1999	
(In millions)	Carrying Amount	Estimated Fair Value
Liabilities		
Foreign exchange forward contracts	$ 14.1	$ 12.0
Total debt	$1,293.4	$1,258.3

	December 31, 1998	
(In millions)	Carrying Amount	Estimated Fair Value
Liabilities		
Interest rate swap agreement	$ —	$ 0.8
Foreign exchange forward contracts	$ 3.9	$ 118.3
Total debt	$1,481.7	$1,473.5

Fair values of debt have been determined through a combination of management estimates and information obtained from independent third parties using market data, such as bid/ask spreads, available on the last business day of the year. 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.

Note 9: Debt

Long-Term Debt

Long-term debt consists of the following:

	December 31	
(In millions)	1999	1998
Revolving credit facility (effective rate: 1999—n/a; 1998—10.0%)[1]	$ —	$ —
Commercial paper (effective rate: 1998—5.8%)[2]	—	149.9
Uncommitted credit facilities (effective rate: 1998—5.8%)[2]	—	50.1
Pollution control and industrial revenue bonds, 3.2% to 7.1%, due 2000 to 2032	204.7	159.3
Senior debt, 6.375%, due 2003, less unamortized discount (1999—$0.4; 1998—$0.5), effective rate 6.4%	199.6	199.5
Senior debt, 7.75%, due 2011, less unamortized discount (1999—$0.9; 1998—$0.9), effective rate 7.9%	99.1	99.1
Senior debt, 8.75%, due 1999	—	250.0
Medium-term notes, 6.38% to 7.32%, due 2002 to 2008, less unamortized discounts (1999—$1.5, 1998—$1.4), effective rates 6.4% to 7.4%	393.5	358.6
Exchangeable senior subordinated debentures, 6.75%, due 2005	48.4	64.1
Other	0.6	0.5
Total	945.9	1,331.1
Less current portion	0.8	4.7
Long-term portion	$945.1	$1,326.4

[1] The effective rate for the revolving credit facility is based on average balances outstanding during the year and includes facility fees. During 1999, there were no balances outstanding. Facility fees in 1999 were $0.9 million.

[2] The effective rates for commercial paper and uncommitted facilities are based on average balances outstanding during the year. Outstanding balances related to short-term commercial paper and uncommitted facilities were classified as long-term at December 31, 1998.

In December 1996, the Company entered into a $450.0 million, five-year non-amortizing revolving credit agreement due December 2001. In July 1999, the Company renewed a $350.0 million, 364-day non-amortizing revolving credit agreement due July 2000. These agreements provide the Company with $800.0 million in committed credit facilities. No amounts were outstanding under these credit facilities as of December 31, 1999 and 1998. Among other restrictions, the credit agreements contain covenants relating to liens, consolidated net worth and cash flow coverage (as defined in the agreements). The Company is in compliance with all financial debt covenants.

Committed credit available under the revolving credit facilities provides management with the ability to refinance a portion of its debt on a long-term basis. At December 31, 1998, $149.9 million in outstanding commercial paper, which is supported by credit facilities, $250.0 million of senior debt due in 1999 and $50.1 million of borrowings under short-term uncommitted credit facilities were classified as long-term debt.

On August 3, 1998, a new universal shelf registration statement became effective, under which $500.0 million of debt and/or equity securities may be offered. This registration statement incorporated $160.0 million of unused capacity from the Company's 1995 shelf registration statement. During 1997, the Company issued $70.0 million of medium-term notes at rates ranging from 7.2 percent to 7.32 percent. The net proceeds of $69.6 million were used to retire short-term borrowings. During 1998, the Company issued $290.0 million of medium-term notes at rates ranging from 6.6 percent to 7.125 percent. The net proceeds of $288.6 million were used to retire other borrowings and repurchase FMC common stock. During 1999, the Company issued $35.0 million of medium-term notes at rates ranging from 6.38 percent to 6.53 percent. The net proceeds of $34.9 million were used to retire other borrowings and repurchase FMC common stock. Unused capacity of $345.0 million remains available under the 1998 shelf registration at December 31, 1999.

In 1999, the Company borrowed $50.0 million at 6.45 percent interest maturing in 2032 from the proceeds of Power County, Idaho's Solid Waste Industrial Development Revenue Bonds. Undrawn proceeds of $21.1 million are included in investments in the consolidated balance sheet at December 31, 1999 and will be used to fund phosphorus capital projects related to solid waste disposal.

During 1999, $250.0 million of senior debt matured and was repaid with cash flows from operations and other borrowings.

The exchangeable senior subordinated debentures bearing interest at 6.75 percent and maturing in 2005 are exchangeable at any time into Meridian Gold Inc. common stock at an exchange price of $15.125 per share, subject to adjustment. The Company may, at its option, pay an amount equal to the market price of Meridian Gold Inc. common stock in lieu of delivery of the shares. However, the market price at December 31, 1999 was substantially below $15.125 per share. The debentures are subordinated in right of payment to all existing and future senior indebtedness of the Company. The debentures are redeemable at the option of FMC at prices decreasing from 103.375 percent of the face amount on January 16, 1995, to par on January 16, 2000. The Company redeemed $15.7 million of these debentures in 1999.

Aggregate maturities and sinking fund requirements over the next five years are (in millions): 2000—$0.8, 2001—$22.8, 2002—$135.5, 2003—$226.4, 2004—$0.5, and thereafter—$559.9.

Short-Term Debt. At December 31, 1999, short-term debt consisted of commercial paper, borrowings under uncommitted credit facilities and foreign borrowings. At December 31, 1998, components of short-term debt were domestic and foreign borrowings.

In November 1995, the Company commenced a short-term commercial paper program, supported by committed credit facilities, providing for the issuance of up to $500.0 million in aggregate maturity value of commercial paper at any given time. Three-day commercial paper of $190.8 million was outstanding at December 31, 1999. At December 31, 1998, $149.9 million of outstanding commercial paper was classified as long-term debt. Effective interest rates on commercial paper were 5.4 percent and 5.8 percent at December 31, 1999 and 1998, respectively.

Advances under uncommitted credit facilities were $89.8 million and $68.0 million at December 31, 1999 and 1998, respectively. (As described above, $50.1 million of the outstanding balance at December 31, 1998 was classified as long-term debt.) At December 31, 1999 and 1998, effective interest rates on the uncommitted credit facilities were 5.3 percent and 5.7 percent, respectively.

Outstanding foreign short-term borrowings totaled $66.9 million and $132.7 million at December 31, 1999 and 1998, respectively. The weighted average interest rates on outstanding foreign short-term borrowings at December 31, 1999 and 1998 were 10.7 percent and 10.1 percent, respectively. The average interest rates have been adjusted for currency devaluation associated with borrowing in hyperinflationary countries.

Compensating Balance Agreements. FMC maintains informal credit arrangements in many foreign countries. Foreign lines of credit, which include overdraft facilities, typically do not require the maintenance of compensating balances, as credit extension is not guaranteed but is subject to the availability of funds.

2.225

POTLATCH CORPORATION AND CONSOLIDATED SUBSIDIARIES (DEC)

(Dollars in thousands—except per-share amounts)	1999	1998
Total current liabilities	$364,746	$310,299
Long-term debts (Notes 6 and 10)	701,798	712,113
Other long-term obligations	172,986	163,453
Deferred taxes	275,644	253,691
Put options	10,287	6,844

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6. Debt

(Dollars in thousands)	1999	1998
Revenue bonds fixed rate 5.9% to 7.5% due 2007 through 2026	$137,314	$137,283
Revenue bonds variable rate due 2007 through 2030	99,866	99,852
Debentures 6.25% due 2002	99,953	—
Debentures 6.95% due 2015	99,829	99,818
Credit sensitive debentures 9.125% due 2009	100,000	100,000
Medium-term notes fixed rate 7.55% to 9.46% due 1999 through 2022	175,000	185,000
Commercial paper 5.4% to 6.2%	—	100,000
Other notes	159	181
	712,121	722,134
Less current installments on long-term debt	10,323	10,021
Long-term debt	$701,798	$712,113

The interest rate payable on the 9.125 percent credit sensitive debentures is subject to adjustment if certain changes in the debt rating of the debentures occur. No such change in the interest rate payable has occurred.

The commercial paper is backed by the Company's credit arrangements, enabling it to classify up to $100.0 million of short-term borrowings as long-term debt, which the Company chose to do at December 31, 1998. In March 1999, the Company issued $100.0 million of long-term debt and used the proceeds to repay a like amount of commercial paper. The balance of commercial paper outstanding at December 31, 1998, totaling $44.9 million, as well as all commercial paper outstanding at December 31, 1999, totaling $96.5 million, was classified as a portion of current notes payable in the Balance Sheets. At December 31, 1999, the weighted average annual interest rate payable on commercial paper was 6.9 percent.

Certain credit agreements have restrictive covenants. At December 31, 1999, the Company was in compliance with such covenants. The Company does not currently have any covenants in any of its loan agreements which limit the payment of dividends. No significant assets of the Company have been pledged, mortgaged or otherwise subjected to liens.

Payments due on long-term debt during each of the five years subsequent to December 31, 1999 are as follows:

(Dollars in thousands)	
2000	$ 10,323
2001	325
2002	130,606
2003	15,707
2004	707

At December 31, 1999, the Company maintained a credit line of $250.0 million for general corporate purposes. Of that amount, a $150.0 million portion is subject to renewal annually and is available for short-term borrowings. The $100.0 million long-term portion will expire on November 17, 2004. At December 31, 1999, the Company had $25.0 million of outstanding indebtedness under the short-term credit line, which is classified as a portion of current notes payable in the Balance Sheets. At December 31, 1999, the weighted average annual interest rate payable for such indebtedness was 6.92 percent.

10. Disclosures About Fair Value of Financial Instruments

Estimated fair values of the Company's financial instruments are as follows:

	1999		1998	
(Dollars in thousands)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and short-term investments	$ 11,690	$ 11,690	$ 18,072	$ 18,072
Current notes payable	121,464	121,464	74,939	74,939
Long-term debt	712,121	698,377	722,134	779,704
Put options	10,287	10,287	6,844	6,844

For short-term investments, current notes payable and put options, the carrying amount approximates fair value. The fair value of the Company's long term debt is estimated based upon the quoted market prices for the same or similar debt issues. The amount of long-term debt for which there is no quoted market price is immaterial and the carrying amount approximates fair value.

2.226

RAYTHEON COMPANY (DEC)

(In millions except share amounts)	December 31, 1999	December 31, 1998
		(Restated)
Total current liabilities	$7,886	$7,032
Accrued retiree benefits and other long-term liabilities	1,414	1,679
Deferred federal and foreign income taxes	553	561
Long-term debt (note 1)	7,298	8,163

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note A (In Part): Accounting Policies

Fair Value of Financial Instruments

The carrying value of certain financial instruments, including cash, cash equivalents, and short-term debt approximates estimated fair value due to their short maturities and varying interest rates. The carrying value of notes receivable approximates estimated fair value based principally on the underlying interest rates and terms, maturities, collateral, and credit status of the receivables. The carrying value of investments are based on quoted market prices or the present value of future cash flows and earnings, which approximate estimated fair value. The value of guarantees and letters of credit approximates estimated fair value. The estimated fair value of long-term debt was based on current rates offered to the Company for similar debt with the same remaining maturities and approximates the carrying value.

Note I: Notes Payable and Long-Term Debt

Debt consisted of the following at December 31:

(In millions)	1999	1998
Notes payable at a weighted average interest rate of 6.03% for 1999 and 6.71% for 1998	$1,422	$ 34
Commercial paper at a weighted average interest rate of 6.53% for 1999 and 5.91% for 1998	174	785
Current portion of long-term debt	876	8
Notes payable and current portion of long-term debt	2,472	827
Notes due 2000, 6.30%, not redeemable prior to maturity	500	499
Notes due 2001, 5.95%, not redeemable prior to maturity	499	498
Notes due 2002, 6.45%, not redeemable prior to maturity	986	981
Notes due 2003, 5.70%, not redeemable prior to maturity	398	397
Notes due 2005, 6.30%, not redeemable prior to maturity	447	447
Notes due 2005, 6.50%, not redeemable prior to maturity	737	735
Notes due 2007, 6.75%, redeemable at any time	966	961
Notes due 2008, 6.15%, redeemable at any time	744	743
Notes due 2010, 6.00%, redeemable at any time	249	248
Notes due 2010, 6.55%, redeemable at any time	298	298
Debentures due 2018, 6.40%, redeemable at any time	543	543
Debentures due 2018, 6.75%, redeemable at any time	346	346
Debentures due 2025, 7.375%, redeemable after 2005	363	363
Debentures due 2027, 7.20%, redeemable at any time	466	465
Debentures due 2028, 7.00%, redeemable at any time	248	247
Commercial paper backed by five year fixed for variable interest rate swap at 6.40%	375	375
Other notes with varying interest rates	9	25
Less installments due within one year	(876)	(8)
Long-term debt	7,298	8,163
Total debt issued and outstanding	$9,770	$8,990

The Company issued $3.8 billion of long-term notes and debentures in 1998 and $3.0 billion in 1997. These financings were used to refinance the debt associated with the merger with Hughes Defense and the acquisition of TI Defense and to take advantage of favorable long-term interest rates in order to reduce short-term borrowings.

Commercial paper in the amount of $375 million was classified as current portion of long-term debt at December 31, 1999, and long-term debt at December 31, 1998, due to Company borrowings of that amount which are supported by a five-year Syndicated Bank Credit Agreement combined with a five-year fixed for variable interest rate swap which matures in 2000.

The aggregate amounts of installments due on long-term debt for the next five years are:

(In millions)	
2000	$ 876
2001	502
2002	1,003
2003	403
2004	—

Lines of credit with certain commercial banks totaling $4.1 billion at December 31, 1999 exist as standby facilities to support the issuance of commercial paper by the Company. These lines of credit bear interest based upon LIBOR and mature at various dates through 2002. At December 31, 1999, borrowings under these lines of credit totaled $1.4 billion. Credit lines or commitments with banks were maintained by subsidiary companies amounting to $130 million and $202 million at December 31, 1999 and 1998, respectively. Compensating balance arrangements are not material.

The principal amounts of long-term debt were reduced by debt issue discounts and interest rate hedging costs of $76 million and $105 million, respectively, on the date of issuance, and are reflected as follows at December 31:

(In millions)	1999	1998
Principal	$8,309	$8,325
Unamortized issue discounts	(57)	(66)
Unamortized interest rate hedging costs	(78)	(88)
Installments due within one year	(876)	(8)
Long-term debt	$7,298	$8,163

The Company has bank agreement covenants. In 1999, the Company's most restrictive covenant was amended. The new covenant requires that the earnings before interest and taxes (EBIT) be at least 2.4 times net interest expense for the prior four quarters. Prior to the amendment, the requirement was that EBIT was at least three times net interest expense for the prior four quarters. The Company was in compliance with this covenant during 1999, 1998, and 1997.

Total interest payments were $725 million, $778 million, and $295 million in 1999, 1998, and 1997, respectively.

2.227

TYLER TECHNOLOGIES, INC. (DEC)

(In thousands, except par value and number of shares)	1999	1998
Total current liabilities	$46,999	$18,366
Long-term obligations, less current portion	67,446	37,189
Deferred income taxes	13,869	10,920
Other liabilities	5,317	7,273

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Fair Value of Financial Instruments

The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

Cash and cash equivalents, trade accounts receivables, other current assets, other assets, notes payable to banks, trade accounts payables, and accrued expenses (nonderivatives): The carrying amounts approximate fair value because of the short maturity of these instruments. The Company's available-for-sale investments are carried at fair value.

Long-term obligations: The fair value of the Company's long-term obligations is estimated by discounting the future cash flows of each instrument at rates currently offered to the Company for similar debt instruments of comparable maturities by the Company's banks. Based upon the borrowing rates available to the Company for bank loans with similar terms and average maturities, the estimated fair value of the notes payable approximates carrying value at December 31, 1999 and 1998.

The Company has no involvement with derivative financial instruments, including those for speculative or trading purposes.

9. Long-Term Obligations

Long-term obligations consists of the following as of December 31:

	1999	1998
Revolving senior credit facility	$61,000	$30,810
8.75% promissory note payable, payable in quarterly installments through October 2004, collateralized by a building	476	—
8% promissory note payable, payable in quarterly installments through September 2005, collateralized by certain assets	885	1,002
7% promissory notes payable due May 2000	500	—
6.1% unsecured installment notes payable, payable in annual installments through August 2002	134	173
10% unsecured installment notes payable, payable in monthly installments through May 2004	214	250
9% promissory note payable, payable in monthly installments through February 2001, collateralized by certain assets and the capital stock of Title Records Corporation and Government Records Services, Inc., wholly-owned subsidiaries of Resources	3,649	4,632
Long-term obligations under various capital leases	3,730	1,826
Other	605	372
Total obligations	71,193	39,065
Less current portion	3,747	1,876
Total long-term obligations	$67,446	$37,189

The aggregate maturities of long-term obligations for each of the years subsequent to December 31, 1999, assuming the revolving credit facility is not renewed, are as follows: 2000—$3,747,000; 2001—$4,049,000; 2002—$62,410,000; 2003—$247,000; 2004—$600,000; thereafter—$140,000.

Interest paid in 1999, 1998 and 1997 was $4,053,000, $1,818,000 and $5,000, respectively.

In October 1999, the Company entered into a three-year revolving credit agreement with a group of banks ("Senior Credit Facility") in an amount not to exceed $80,000,000. Borrowings under the Senior Credit Facility, as amended, bear interest at either the lead bank's prime rate plus a margin of .25% to 1.50% or the London Interbank Offered Rate plus a margin of 2.25% to 3.50%, depending on the Company's ratio of indebtedness to earnings before interest, taxes, depreciation and amortization. The Senior Credit Facility replaced the Company's previous $50,000,000 revolving credit facility ("Prior Facility"). At December 31, 1999, the Company had outstanding borrowings and letters of credit of $61,000,000 and available borrowing capacity of $19,000,000 under the Senior Credit Facility. The interest rate at December 31, 1999 was 8.2%.

The effective average interest rates for borrowings during 1999 and 1998 were 7.7% and 7.5%, respectively. The Senior Credit Facility is secured by substantially all of the Company's real and personal property and a pledge of the common stock of present and future significant operating subsidiaries. The Senior Credit Facility is also guaranteed by such subsidiaries. Under the terms of the Senior Credit Facility, the Company is required to maintain certain financial ratios and other financial conditions. The Senior Credit Facility also prohibits the Company from making certain investments, advances or loans and restricts substantial asset sales, capital expenditures and cash dividends. The Company is in compliance with its various covenants under the Senior Credit Facility, as amended. Under the terms of the Senior Credit Facility, the Company has the ability to increase the facility to $100,000,000 subject to the participation of additional new lenders.

CREDIT AGREEMENTS

2.228 As shown in Table 2-27, 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:

2.229

TABLE 2-27: CREDIT AGREEMENTS

	1999	1998	1997	1996
Disclosing credit agreements	549	544	552	546
Not disclosing credit agreements	51	56	48	54
Total Companies	**600**	**600**	**600**	**600**

2.230

JLG INDUSTRIES, INC. (JUL)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (In thousands, except per share data and unless otherwise indicated)

Bank Credit Lines and Long-Term Debt

The Company has a credit agreement with a group of financial institutions that provides for a five-year, unsecured revolving credit facility with an aggregate commitment of $250 million. Borrowings under the agreement bear interest equal to either LIBOR plus a margin ranging from 0.55% to 1.125%, depending on the Company's ratio of funded debt to EBITDA; or the greater of prime or federal funds rate plus 0.50%. The Company is required to pay an annual administrative fee of $35 and a facility fee ranging from 0.20% to 0.275%, depending on the Company's ratio of funded debt to EBITDA. The agreement contains customary affirmative and negative covenants including financial covenants requiring the maintenance of specified consolidated interest coverage, leverage ratios and a minimum net worth. The Company also has available a $20 million unsecured bank revolving line of credit with a term of one year, renewable annually, and at an interest rate of prime or a spread over LIBOR. The Company also has $2.5 million in loan facilities with a term of one year, renewable annually, and at a fixed weighted average interest rate of 5.7%.

Long-term debt was as follows at July 31:

	1999	1998
Revolving credit facility due 2004 with an average interest rate of 6.2% at July 31, 1999	$169,912	$ —
Other	3,225	3,708
	173,137	3,708
Less current portion	625	1,253
	$172,512	$2,455

Interest paid on all borrowings was $811, $251 and $348 in 1999, 1998 and 1997, respectively. The aggregate amounts of long-term debt outstanding at July 31, 1999 which will become due in 2000 through 2004 are: $625, $535, $328, $328 and $170,000, respectively.

The fair value of the Company's long-term debt is estimated to approximate the carrying amount reported in the consolidated balance sheet based on current interest rates for similar types of borrowings.

2.231

LIZ CLAIBORNE, INC. AND SUBSIDIARIES (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 9: Debt and Lines of Credit

On December 6, 1999, the Company established a $600,000,000, 364-day unsecured credit agreement (the "Agreement"). Borrowings outstanding under the agreement are due December 4, 2000. Repayment of the outstanding loan can be extended for one year after the maturity date. The agreement has two borrowing options, an "Alternative Base Rate" option, as defined in the Agreement, or a Eurodollar rate option with a spread based on the Company's long-term credit rating.

The Agreement contains certain financial covenants relating to the Company's debt leverage and fixed charge coverage. The Company believes it is in compliance with such covenants.

The Agreement may be directly drawn upon, or used to support the Company's $600,000,000 commercial paper program, which is used from time to time to fund working capital and other general corporate requirements. At January 1, 2000, approximately $116 million was outstanding under the commercial paper program, with weighted average interest rate of 6.7%. The carrying amount of the Company's borrowings under the commercial paper program approximate fair value because the interest rates are based on floating rates, which are determined by prevailing market rates. The commercial paper is classified as long-term debt on the Consolidated Balance Sheet as of January 1, 2000 as it is the Company's intent and ability to refinance such obligations on a long-term basis.

As of January 1, 2000, the Company had lines of credit aggregating $433,000,000 which were available to cover trade letters of credit. These lines of credit expire at various dates in 2000. At January 1, 2000 and January 2, 1999, the Company had letters of credit of $265,352,000 and $220,482,000, respectively. These letters of credit, which have terms ranging from one to ten months, collateralize the Company's obligations to third parties for the purchase of inventory. The fair value of these letters of credit approximates contract values.

2.232

MANPOWER INC. (DEC)

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

6. Debt

Information concerning short-term borrowings at December 31 is as follows:

	1999	1998
Payable to banks	$127.9	$99.3
Average interest rates	3.9%	3.5%

The Company and some of its foreign subsidiaries maintain lines of credit with foreign financial institutions to meet short-term working capital needs. Such lines totaled $160.4 at December 31, 1999, of which $32.5 was unused. The Company has no significant compensating balance requirements or commitment fees related to these lines.

A summary of long-term debt at December 31 is as follows:

	1999	1998
Euro-denominated notes, at a rate of 5.7%	$201.2	$ —
Commercial paper, maturing within 90 days, at average interest rates of 6.3% and 5.5%, respectively	14.8	72.0
Revolving credit agreements;		
U.S. dollar-denominated borrowings, at a rate of 6.4% and 5.8%, respectively	95.0	40.0
Yen-denominated borrowings, at a rate of .5% and .6%, respectively	38.7	35.3
Other	11.4	11.4
	361.1	158.7
Less—Current maturities	3.6	4.1
Long-term debt	$357.5	$154.6

Euro Notes

In July 1999, the Company issued £200.00 in unsecured notes due in July 2006. Net proceeds of $200.9 from the issuance of these notes were used to repay amounts outstanding under the Company's unsecured revolving credit agreement and commercial paper program.

These notes provide a hedge of the Company's net investment in European subsidiaries with Euro functional currencies. Since the Company's net investment in these subsidiaries exceeds the amount of the notes, all translation gains or losses related to these notes is included as a component of Accumulated other comprehensive income (loss).

Revolving Credit Agreements

The Company has a $415.0 unsecured revolving credit agreement that allows for borrowings in various currencies and includes a $90.0 commitment to be used exclusively for standby letters of credit. Outstanding letters of credit totaled $57.9 and $48.2 as of December 31, 1999 and 1998, respectively. Approximately $176.5 of additional borrowings were available to the Company under this agreement at December 31, 1999.

The interest rate and facility fee on the entire line and the issuance fee on the letter of credit commitment related to this agreement vary based on the Company's debt rating and borrowing level. Currently, the interest rate is LIBOR plus .2%, and the fees are .1% and .4%, respectively. The facility matures on November 25, 2002, and may be increased to a maximum of $500.0 or extended for an additional year with the lenders' consent. The agreement requires, among other things, that the Company comply with minimum interest coverage and debt-to-capitalization ratios and a maximum subsidiary debt level.

In November 1999, the Company entered into a $300.0 revolving credit agreement. The interest rate and facility fee on the entire line and the participation fee vary based on the Company's debt rating and borrowing level. Currently, the fees are .1% and .1%, respectively. The facility matures on November 22, 2000, and may be extended for an additional year with the lenders' consent. This agreement has similar restrictive covenants to the Company's $415.0 revolving credit agreement. As of December 31, 1999, the Company has no borrowings under this agreement.

The Company has an interest rate swap agreement, expiring in 2001, to fix the interest rate at 6.0% on $50.0 of the Company's borrowings under the revolving credit agreements. The fair value of this agreement and the impact on the interest expense recorded during 1999 and 1998 were not material.

2.233

MINNTECH CORPORATION (MAR)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars in thousands)

Note 3: Line of Credit

At March 31, 1999, the Company had a line of credit with a commercial bank which allowed the Company to borrow up to $10,000 on an unsecured basis at the prime rate of interest (7.75 percent at March 31, 1999) or the indexed London Interbank Offered Rate (LIBOR). At March 31, 1999, the Company had no outstanding borrowings under the line of credit. This line of credit expires August 31, 2000.

2.234

PARKER HANNIFIN CORPORATION (JUN)

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

Note 6: Financing Arrangements

The Company has committed lines of credit totaling $653,865 through several multi-currency unsecured revolving credit agreements with a group of banks, of which $630,570 was available at June 30, 1999. The majority of these agreements expire October 2003. The interest on borrowings is based upon the terms of each specific borrowing and is subject to market conditions. The agreements also require facility fees of up to 8/100ths of one percent of the commitment per annum. Covenants in some of the agreements include a limitation on the Company's ratio of debt to tangible net worth.

The Company has other lines of credit, primarily short-term, aggregating $84,971 from various foreign banks, of which $62,307 was available at June 30, 1999. Most of these agreements are renewed annually.

During fiscal 1999 the Company issued $225,000 of medium-term notes leaving $530,000 available for issuance at June 30, 1999.

The Company is authorized to sell up to $600,000 of short-term commercial paper notes, rated A-1 by Standard & Poor's, P-1 by Moody's and D-1 by Duff & Phelps. At June 30, 1999 there were $5,900 of commercial paper notes outstanding which were supported by the available domestic lines of credit.

Commercial paper, along with short-term borrowings from foreign banks, primarily make up the balance of Notes payable. The balance and weighted average interest rate of the Notes payable at June 30, 1999 and 1998 were $37,305 and 6.4% and $155,259 and 6.1%, respectively.

LONG-TERM LEASES

2.235 Standards for reporting leases on the financial statements of lessees and lessors are set forth in *Statement of Financial Accounting Standards No. 13* and subsequently issued amendments to and interpretations of *SFAS No. 13.*

2.236 Table 2-28, in addition to summarizing the number of survey companies reporting capitalized and/or noncapitalized lessees leases, shows the nature of information most frequently disclosed by the survey companies for capitalized and noncapitalized lessee leases. 44 survey companies reported lessor leases.

2.237 Examples of long-term lease presentations and disclosures follows.

2.238

TABLE 2-28: LONG-TERM LEASES

	Number of Companies			
	1999	1998	1997	1996
Information Disclosed as to Capitalized Leases				
Minimum lease payments	118	107	112	118
Imputed interest	94	94	99	106
Leased assets by major classifications	33	29	43	29
Executory costs	11	7	15	20
Information Disclosed as to Noncapitalized Leases				
Rental expenses				
Basic	496	520	519	508
Sublease	58	63	67	73
Contingent	49	52	50	53
Minimum rental payments				
Schedule of	513	501	505	505
Classified by major categories of property	5	6	15	15
Number of Companies				
Noncapitalized leases only	314	324	283	255
Capitalized and noncapitalized leases	227	207	249	269
Capitalized leases only	10	10	15	18
No leases disclosed	49	59	53	58
Total Companies	**600**	**600**	**600**	**600**

Lessee—Capital Leases

2.239

FLOWERS INDUSTRIES, INC. (DEC)

(Amounts in thousands, except per share data)	1999	1998
Current liabilities:		
Commercial paper	$ —	$ 74,870
Current maturities of long-term debt and capital leases	47,566	120,479
Accounts payable	248,153	227,749
Income taxes	23,603	—
Facility closing costs and severance	16,836	23,670
Other accrued liabilities	319,639	314,270
	655,797	761,038
Long-term debt and capital leases	$1,208,630	$1,038,998

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Property, Plant and Equipment and Depreciation

Property, plant and equipment is stated at cost. Depreciation expense is computed using the straight-line method based on the estimated useful lives of the depreciable assets. Certain facilities and equipment held under capital leases are classified as property, plant and equipment and amortized using the straight-line method over the lease terms and the related obligations are recorded as liabilities. Lease amortization is included in depreciation expense.

Buildings are depreciated over ten to forty years, machinery and equipment over three to twenty-five years, and furniture, fixtures and transportation equipment over three to fifteen years. Property under capital leases is amortized over the lease term. Depreciation expense for fiscal 1999 and fiscal 1998, the twenty-seven week transition period ended January 3, 1998, and fiscal 1997 was $113.1 million, $108.5 million, $25.9 million and $44.8 million, respectively.

Note 4 (In Part): Debt and Lease Commitments

Long-term debt consisted of the following at January 1, 2000 and January 2, 1999:

(Amounts in thousands)	Interest Rate	Final Maturity	January 1, 2000	January 2, 1999
Flowers:				
Syndicated loan facility	7.56%	2003	$ 350,000	$ 150,000
Senior notes	6.84%	2016	125,000	125,000
Debentures	7.15%	2028	200,000	200,000
Commercial paper	5.55%	2000	25,027	74,870
Capital lease obligations	7.75%	Various	51,317	2,853
Other	Various	2004-2017	48,409	27,129
			799,753	579,852
Keebler:				
Bridge facility	6.26%	1999	—	$ 75,000
Revolving facility	5.84%	2004	—	85,000
Term facility	5.81%	2004	314,000	350,000
Senior subordinated notes	10.75%	2006	124,400	124,400
Capital lease obligations	Various	2002-2042	7,588	8,290
Other senior debt	Various	2001-2005	10,455	11,805
			456,443	654,495
Consolidated debt:			1,256,196	1,234,347
Due within one year			47,566	195,349
Due after one year			$1,208,630	$1,038,998

• • • • • •

Leases

The Company leases certain property and equipment under various operating and capital lease arrangements that expire over the next twenty-five years. Most of these operating leases provide the Company with the option, after the initial lease term, either to purchase the property at the then fair value or renew its lease at the then fair value for periods from one month to ten years. Flowers has entered into certain capital lease obligations requiring the Company to guarantee the residual value to the lessor of approximately $29.0 million at the termination of the lease. Assets recorded under capitalized lease agreements included in the property, plant and equipment consist of the following:

(Amounts in thousands)	January 1, 2000	January 2, 1999
Land	$ 980	$ 980
Buildings	2,894	2,894
Machinery and equipment	54,159	4,811
Other leased assets	1	1
	58,034	8,686
Accumulated depreciation	(2,172)	(242)
	$55,862	$8,444

Future minimum lease payments under scheduled capital and operating leases that have initial or remaining noncancelable terms in excess of one year are as follows:

(Amounts in thousands)	Capital Leases	Operating Leases
2000	$10,388	$ 50,655
2001	9,452	42,664
2002	8,462	35,324
2003	7,187	31,919
2004	11,230	23,266
2005 and thereafter	31,998	113,266
Total minimum payments	$78,717	$297,094
Amount representing interest	(19,812)	
Obligations under capital leases	58,905	
Obligations due within one year	(7,666)	
Long-term obligations under capital leases	$51,239	

Rent expense for all operating leases amounted to $96.2 million for fiscal 1999, $61.3 million for fiscal 1998, $16.2 million for the twenty-seven week transition period ended January 3, 1998 and $24.2 million for fiscal 1997. FII does not guarantee Keebler's lease obligations of $7.6 million, which are included in the consolidated amount above.

2.240

THE GOODYEAR TIRE & RUBBER COMPANY AND SUBSIDIARIES (DEC)

(Dollars in millions)	1999	1998
Total current liabilities	$3,959.9	$3,276.5
Long term debt (Note 10)	2,347.9	1,186.5
Compensation and benefits	2,137.4	1,945.9
Other long term liabilities	149.1	175.6
Minority equity in subsidiaries	891.2	259.0
Total liabilities	$9,485.5	$6,843.5

NOTES TO FINANCIAL STATEMENTS

Note 9: Properties and Plants

(In millions)	1999 Owned	1999 Capital Leases	1999 Total	1998 Owned	1998 Capital Leases	1998 Total
Properties and plants, at cost:						
Land and improvements	$ 445.4	$ 11.7	$ 457.1	$ 301.2	$ 3.7	$ 304.9
Buildings and improvements	1,652.9	96.6	1,749.5	1,436.0	31.3	1,467.3
Machinery and equipment	8,234.8	148.3	8,383.1	7,211.0	49.0	7,260.0
Construction in progress	722.7	—	722.7	720.9	—	720.9
	11,055.8	256.6	11,312.4	9,669.1	84.0	9,753.1
Accumulated depreciation	(5,470.9)	(80.5)	(5,551.4)	(5,325.5)	(69.1)	(5,394.6)
	$5,584.9	$176.1	$5,761.0	$4,343.6	$14.9	$4,358.5

The weighted average useful lives of property used in arriving at the annual amount of depreciation provided are as follows: buildings and improvements, approximately 18 years; machinery and equipment, approximately 11 years.

Note 10 (In Part): Financing Arrangements and Derivative Financial Instruments

Long Term Debt and Financing Arrangements

At December 31, 1999, the Company had long term credit arrangements totaling $3.11 billion, of which $2.00 billion were unused.

The following table presents long term debt at December 31:

(In millions)	1999	1998
Swiss franc bonds:		
5.375% due 2000	$105.0	$122.3
5.375% due 2006	99.0	115.3
Notes:		
6⅝% due 2006	249.3	249.2
6⅜% due 2008	99.6	99.6
7% due 2028	148.9	148.9
Bank term loans due 2000-2005	130.4	130.5
Domestic short term borrowings	1,457.0	201.0
Other domestic and international debt	175.6	134.4
	2,464.8	1,201.2
Capital lease obligations	97.4	11.3
	2,562.2	1,212.5
Less portion due within one year	214.3	26.0
	$2,347.9	$1,186.5

Note 11: Leased Assets

Net rental expense charged to income follows:

(In millions)	1999	1998	1997
Gross rental expenses	$247.2	$226.3	$244.3
Sublease rental income	(59.0)	(51.6)	(53.5)
	$188.2	$174.7	$190.8

The Company enters into capital and operating leases primarily for its vehicles, data processing equipment and its wholesale and retail distribution facilities under varying terms and conditions, including the Company's sublease of some of its domestic retail distribution network to independent dealers. Many of the leases provide that the Company will pay taxes assessed against leased property and the cost of insurance and maintenance.

While substantially all subleases and some operating leases are cancellable for periods beyond 2000, management expects that in the normal course of its business nearly all of its independent dealer distribution network will be actively operated. As leases and subleases for existing locations expire, the Company would normally expect to renew the leases or substitute another more favorable retail location.

The following table presents minimum future lease payments:

(In millions)	2000	2001	2002	2003	2004	2005 and beyond	Total
Capital leases							
Minimum lease payments	$ 57.3	$ 12.3	$ 9.3	$ 7.6	$ 6.4	$31.0	$123.9
Minimum sublease rentals	(.4)	(.2)	(.1)	—	—	—	(.7)
	$ 56.9	$ 12.1	$ 9.2	$ 7.6	$ 6.4	$31.0	$123.2
Imputed interest							(25.2)
Executory costs							(1.3)
Present value							$ 96.7
Operating leases							
Minimum lease payments	$230.8	$193.0	$153.1	$101.7	$75.3	$195.1	$949.0
Minimum sublease rentals	(37.9)	(30.0)	(23.8)	(17.8)	(10.9)	(19.3)	(139.7)
	$192.9	$163.0	$129.3	$ 83.9	$64.4	$175.8	$809.3
Imputed interest							(183.9)
Present value							$625.4

2.241

HANNAFORD BROS. CO. AND SUBSIDIARIES (DEC)

(In thousands)	1999	1998
Current liabilities:		
Current maturities of long-term debt (Note 4)	$20,391	$19,296
Obligations under capital leases (Note 5)	2,462	2,108
Accounts payable	187,344	186,626
Accrued payroll	30,768	27,254
Other accrued expenses	31,033	23,873
Income taxes	1,256	442
Total current liabilities	273,254	259,599
Deferred income tax liabilities (Note 10)	32,676	28,859
Other liabilities	40,282	38,734
Long-term debt (Note 4)	185,126	220,130
Obligations under capital leases (Note 5)	71,464	73,866

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5. Leased Assets and Lease Commitments

The Company's financial structure includes leases of certain stores, office facilities, and equipment. Initial lease terms range from 3 to 45 years with the majority of lease terms between 20 and 25 years. Substantially all leases contain renewal options. Certain leases contain a provision for the payment of contingent rentals based on a percentage of sales in excess of stipulated amounts. Most of the real estate leases provide that the Company pay taxes, insurance and maintenance applicable to the leased premises.

The Company's investment in real property under capital leases was as follows:

(In thousands)	1999	1998
Real property	$82,810	$82,500
Less accumulated amortization	31,274	27,589
Net real property under capital leases	$51,536	$54,911

Amortization of property under capital leases was $4,282,595 in 1999, $4,217,342 in 1998 and $4,381,463 in 1997.

Future minimum rental payments under capital lease obligations and operating leases at January 1, 2000, are as follows:

(In thousands)	Capital Leases	Operating Leases
2000	$11,756	$ 21,257
2001	11,677	20,123
2002	11,906	19,516
2003	12,074	18,318
2004	12,003	17,767
2005 and thereafter	97,698	187,308
Total minimum lease payments	157,114	$284,289
Less:		
Imputed interest (at rates from 8.50% to 21.13%)	83,188	
Present value of net minimum lease payments	73,926	
Less current portion	2,462	
Long-term portion of obligations	$71,464	

Minimum payments for capital and operating leases have not been reduced by minimum sublease rentals of $2,370,000 and $8,336,000, respectively, due in the future under noncancelable subleases. They also do not include contingent rentals that may be payable under certain leases.

Total rent expense, net of executory costs, was as follows:

(In thousands)	1999	1998	1997
Capital leases:			
Contingent rentals	$ 172	$ 123	$ 194
Operating leases:			
Minimum rentals	22,526	21,439	20,584
Contingent rentals	198	2	714
Rentals from subleases	(2,045)	(1,843)	(1,492)
	20,679	19,598	19,806
	$20,851	$19,721	$20,000

2.242

JONES APPAREL GROUP, INC. (DEC)

(All amounts in millions except per share data)	1999	1998
Current liabilities:		
Short-term debt and current portion of long-term debt and capital lease obligations	$266.9	$ 6.5
Accounts payable	205.1	100.3
Income taxes payable	—	13.6
Accrued restructuring costs	61.1	4.5
Accrued employee compensation	34.1	11.9
Accrued expenses and other current liabilities	94.2	37.1
Total current liabilities	661.4	173.9
Noncurrent liabilities:		
Long-term debt	801.5	379.2
Obligations under capital leases	32.7	35.4
Other	55.4	5.8
Total noncurrent liabilities	889.6	420.4

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Summary of Accounting Policies (In Part)

Leased Property Under Capital Leases

Property under capital leases is amortized over the lives of the respective leases or the estimated useful lives of the assets.

Property, Plant and Equipment (In Part)

Depreciation and amortization expense relating to property, plant and equipment was $38.0 million, $17.1 million, and $11.9 million in 1999, 1998, and 1997, respectively.

Included in property, plant and equipment are the following capitalized leases:

	Year Ended December 31,	
(In millions)	1999	1998
Buildings	$48.6	$48.6
Machinery and equipment	4.0	5.9
	52.6	54.5
Less: accumulated amortization	9.5	8.9
	$43.1	$45.6

At December 31, 1999, the Company had $11.8 million in commitments for construction of a laundry facility in Durango, Mexico, to be completed in early 2001. As of December 31, 1999, approximately $3.1 million had been expended on this project.

Obligations Under Capital Leases

Obligations under capital leases consist of the following:

	December 31,	
(In millions)	1999	1998
Warehouses, office facilities and equipment	$36.8	$39.8
Less: current portion	4.1	4.4
Obligations under capital leases noncurrent	$32.7	$35.4

The Company occupies warehouse and office facilities leased from the City of Lawrenceburg, Tennessee. Four ten-year net leases run until February 2004, July 2005, May 2006 and April 2007, respectively, and require minimum annual rent payments of $0.5 million, $0.5 million, $0.5 million, and $1.0 million, respectively, plus accrued interest. In connection with these leases, the Company guaranteed $25.0 million of Industrial Development Bonds issued in order to construct the facilities, $15.4 million of which remained unpaid as of December 31, 1999. The financing agreement with the issuing authority requires the Company to comply with the same financial covenants required by the Company's Senior Credit Facilities (see "Credit Facilities").

The Company also leases warehouse and office facilities in Bristol, Pennsylvania. Two 15-year net leases run until March and October 2013, respectively, and require minimum annual rent payments of $1.2 million and $0.8 million, respectively.

The Company also leases various equipment under three to five-year leases at an aggregate annual rental of $1.0 million. The equipment has been capitalized at its fair market value of $3.4 million, which approximates the present value of the minimum lease payments.

The following is a schedule by year of future minimum lease payments under capital leases, together with the present value of the net minimum lease payments as of December 31, 1999:

(In millions)	Year Ending December 31,
2000	$ 6.5
2001	6.1
2002	5.5
2003	5.0
2004	4.6
Later years	24.5
Total minimum lease payments	52.2
Less: amount representing interest	15.4
Present value of net minimum lease payments	$36.8

Lessee—Operating Leases

2.243

OGDEN CORPORATION AND SUBSIDIARIES (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

22. Leases

Total rental expense amounted to $54,301,000, $42,331,000, and $39,015,000 (net of sublease income of $5,242,000, $3,398,000, and $1,815,000) for 1999, 1998, and 1997, respectively. Principal leases are for leaseholds, sale and lease-back arrangements on waste-to-energy facilities, trucks and automobiles, and machinery and equipment. Some of these operating leases have renewal options.

The following is a schedule (expressed in thousands of dollars), by year, of future minimum rental payments required under operating leases that have initial or remaining noncancelable lease terms in excess of one year as of December 31, 1999:

2000	$ 49,352
2001	49,556
2002	47,020
2003	45,423
2004	36,480
Later years	432,516
Total	$660,347

These future minimum rental payment obligations include $430,636,000 of future nonrecourse rental payments that relate to energy facilities of which $277,828,000 are supported by third-party commitments to provide sufficient service revenues to meet such obligations. The remaining $152,808,000 relates to a waste-to-energy facility at which the Company serves as operator and directly markets one half of the facility's disposal capacity. This facility currently generates sufficient revenues from short- and medium-term contracts to meet rental payments. The Company anticipates renewing the short- and medium-term contracts or entering into new contracts to generate sufficient revenues to meet those remaining future rental payments. Also included are $42,896,000 of nonrecourse rental payments relating to an energy facility operated by a special purpose subsidiary, which are supported by contractual power purchase obligations of a third party and which are expected to provide sufficient revenues to make the rent payments. These nonrecourse rental payments (in thousands of dollars) are due as follows:

2000	$ 34,554
2001	36,006
2002	36,488
2003	36,664
2004	25,940
Later years	303,880
Total	$473,532

2.244

PHILLIPS-VAN HEUSEN CORPORATION (JAN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Leases

The Company leases retail stores, manufacturing facilities, office space and equipment. The leases generally are renewable and provide for the payment of real estate taxes and certain other occupancy expenses. Retail store leases generally provide for the payment of percentage rentals based on store sales and other costs associated with the leased property.

At January 30, 2000, minimum annual rental commitments under non-cancellable operating leases, including leases for new retail stores which had not begun operating at January 30, 2000, are as follows:

2000	$ 55,591
2001	45,293
2002	35,281
2003	27,260
2004	19,474
Thereafter	58,325
Total minimum lease payments	$241,224

Rent expense is as follows:

	1999	1998	1997
Minimum	$59,954	$61,402	$65,177
Percentage and other	9,222	11,139	11,139
	$69,176	$72,541	$76,316

2.245

THE STANDARD PRODUCTS COMPANY AND CONSOLIDATED SUBSIDIARIES (JUN)

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

10. Leases

The Company and its subsidiaries have operating leases covering manufacturing facilities, transportation and material handling equipment, and computer hardware and software expiring at various dates through 2037.

The following is a schedule of future minimum rental payments required under operating leases that have initial or remaining noncancelable lease terms in excess of one year as of June 30, 1999:

	(Thousands of dollars)
2000	$ 8,015
2001	5,211
2002	3,368
2003	2,168
2004 and later years	8,327
Total minimum payments required	$27,089

Rent expense was $13,244, $13,445 and $14,372 for the years ended June 30, 1999, 1998 and 1997, respectively.

2.246

WALGREEN CO. AND SUBSIDIARIES (AUG)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Leases

Although some locations are owned, the company generally operates in leased premises. Original non-cancelable lease terms typically are 20 years and may contain escalation clauses, along with options that permit renewals for additional periods. The total amount of the minimum rent is expensed on a straight-line basis over the term of the lease. In addition to minimum fixed rentals, most leases provide for contingent rentals based upon sales.

Minimum rental commitments at August 31, 1999, under all leases having an initial or remaining non-cancelable term of more than one year are shown below (in millions):

Year	
2000	$ 528.8
2001	567.0
2002	553.6
2003	540.1
2004	528.2
Later	5,941.4
Total minimum lease payments	$8,659.1

The above minimum lease payments include minimum rental commitments related to capital leases amounting to $19.5 million at August 31, 1999. The present value of net minimum capital lease payments, due after 2000, are reflected in the accompanying Consolidated Balance Sheets as part of other non-current liabilities. Total minimum lease payments have not been reduced by minimum sublease rentals of approximately $26.8 million on leases due in the future under non-cancelable subleases.

Rental expense was as follows (in millions):

	1999	1998	1997
Minimum rentals	$482.0	$405.8	$356.8
Contingent rentals	34.8	35.2	35.6
Less: Sublease rental income	(5.4)	(3.7)	(3.0)
	$511.4	$437.3	$389.4

Lessor Leases

2.247

FLEMING COMPANIES, INC. (DEC)

(In thousands)	1999	1998
Total current assets	$1,728,750	$1,587,916
Investments	108,895	119,468
Investment in direct financing leases	126,309	177,783

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Lease Agreements (In Part)

Direct Financing Leases

The Company leases retail store facilities with terms generally ranging from 15 to 20 years which are subsequently subleased to customers. Most leases provide for a percentage rental based on sales performance in excess of specified minimum rentals. The leases usually contain provisions for one to four renewal options of five years each. The sublease to the customer is normally for an initial five-year term with automatic five-year renewals at Fleming's discretion, which corresponds to the length of the initial term of the prime lease.

The following table shows the future minimum rentals receivable under direct financing leases and future minimum lease payment obligations under capital leases in effect at year-end 1999:

(In thousands) Years	Lease Rentals Receivable	Lease Obligations
2000	$ 34,239	$ 31,023
2001	30,611	29,466
2002	27,092	29,242
2003	23,597	28,212
2004	21,169	27,456
Later	67,482	95,072
Total minimum lease payments	204,190	240,471
Less estimated executory costs	(17,365)	(21,124)
Net minimum lease payments	186,825	219,347
Less interest	(45,758)	(5,652)
Present value of net minimum lease payments	141,067	213,695
Less current portion	(14,758)	(13,918)
Long-term portion	$126,309	$199,777

Contingent rental income and contingent rental expense are not material.

2.248

FORD MOTOR COMPANY AND SUBSIDIARIES (DEC)

NOTES

Note 4: Net Investment in Operating Leases

The net investment in operating leases relates to the leasing of vehicles, various types of transportation and other equipment, and facilities. The net investment in operating leases at December 31 was as follows (in millions):

	1999	1998
Vehicles and other equipment, at cost	$53,018	$50,366
Lease origination costs	56	63
Accumulated depreciation	(10,225)	(8,988)
Allowances for credit losses	(378)	(268)
Net investment in operating leases	$42,471	$41,173

Minimum rentals on operating leases are contractually due as follows (in millions): 2000—$6,936; 2001—$4,653; 2002—$2,372; 2003—$300; 2004—$144; thereafter—$275.

Depreciation expense for assets subject to operating leases is provided primarily on the straight-line method over the term of the lease in amounts necessary to reduce the carrying amount of the asset to its estimated residual value. Depreciation rates and amounts are based on assumptions as to used car prices at lease termination and the number of vehicles that will be returned to the company. Estimated and actual residual values are reviewed on a regular basis to determine that depreciation amounts are appropriate. Gains and losses upon disposal of the assets also are included in depreciation expense. Depreciation expense was as follows: $8.8 billion in 1999, $8.4 billion in 1998 and $7.4 billion in 1997.

2.249

PACCAR INC (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Currencies in millions)

F. Equipment on Operating Leases

Equipment leased to customers under operating leases is recorded at cost and is depreciated on the straight-line basis to its estimated residual value. Estimated useful lives are five years.

	1999	1998
Transportation equipment	$111.2	$82.1
Less allowance for depreciation	(20.0)	(16.8)
	$ 91.2	$65.3

Original terms of operating leases generally range up to 84 months. Annual minimum lease payments due on operating leases for the five years beginning January 1, 2000, are $19.4, $16.4, $13.2, $8.1 and $4.5.

OTHER NONCURRENT LIABILITIES

2.250 In addition to long-term debt, many of the survey companies presented captions for deferred taxes, minority interests, employee liabilities, estimated losses or expenses, and deferred credits. Table 2-29 summarizes the nature of such noncurrent liabilities and deferred credits. Examples of presentations and disclosures for noncurrent liabilities and deferred credits follow.

2.251

TABLE 2-29: OTHER NONCURRENT LIABILITIES

	Number of Companies			
	1999	**1998**	**1997**	**1996**
Deferred income taxes	397	394	401	411
Minority interest	153	155	148	147
Preferred securities of subsidiary trust	25	30	N/C*	N/C*
Liabilities of nonhomogeneous operations	4	14	11	13
Employee liabilities				
Benefits	205	231	235	239
Pension accruals	131	133	130	133
Deferred compensation, bonus, etc.	51	55	58	54
Other—described	29	15	22	13
Estimated losses or expenses				
Environmental	52	57	59	62
Insurance	24	28	25	23
Discontinued operations	20	32	30	30
Warranties	10	10	9	9
Put options/warrants	6	10	7	10
Other—described	59	53	59	57
Deferred credits				
Payments received prior to rendering service	9	6	7	5
Deferred profit on sales	8	17	14	11
Other—described	27	25	18	14

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

Deferred Income Taxes

2.252

BAUSCH & LOMB INCORPORATED (DEC)

(Dollar amounts in millions—except share and per share data)	1999	1998
Cash and cash equivalents	$ 827.1	$ 129.2
Other investments, short-term	125.0	300.0
Trade receivables, less allowances of $19.6 and $26.8, respectively	438.0	526.3
Inventories, net	239.6	440.7
Deferred taxes, net	—	68.4
Other current assets	156.0	122.2
Net assets held for disposal, short-term	24.6	—
Total current assets	$1,810.3	$1,586.8
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Total current liabilities	$ 619.6	$ 812.4
Long-term debt, less current portion	977.0	1,281.3
Deferred income taxes	117.7	—
Other long-term liabilities	99.6	106.6
Minority interest	225.6	446.4
Total liabilities	$2,039.5	$2,646.7

NOTES TO FINANCIAL STATEMENTS
(Dollar amounts in millions—except per share data)

9 (In Part): Provision for Income Taxes

Deferred taxes, detailed below, recognize the impact of temporary differences between the amounts of assets and liabilities recorded for financial statement purposes and such amounts measured in accordance with tax laws. Realization of the tax loss and credit carryforwards, some of which expire between 2000 and 2006, and others which have no expiration, is contingent on future taxable earnings in the appropriate jurisdictions. Valuation allowances have been recorded for these and other asset items which may not be realized. Each carryforward item is reviewed for expected utilization, using a "more likely than not" approach, based on the character of the carryforward item (credit, loss, etc.), the associated taxing jurisdiction (U.S., state, non-U.S., etc.), the relevant history for the particular item, the applicable expiration dates, operating projects that would impact utilization, and identified actions under the control of the Company in realizing the associated carryforward benefits. Additionally, the Company's utilization of U.S. foreign tax credit and state investment credit carryforwards is critically dependent on related statutory limitations that involve numerous factors beyond overall positive earnings, all of which must be taken into account by the Company in its evaluation. The Company assesses the available positive and negative evidence surrounding the recoverability of the deferred tax assets and applies its judgment in estimating the amount of valuation allowance necessary under the circumstances. The Company continues to assess and evaluate strategies that will enable the carryforwards, or portion thereof, to be utilized, and will reduce the valuation allowance appropriately for each item at such time when it is determined that the "more likely than not" approach is satisfied.

	December 25, 1999		December 26, 1998	
	Assets	Liabilities	Assets	Liabilities
Current:				
Sales and allowance accruals	$ 23.4	$ —	$ 17.8	$ —
Employee benefits and compensation	17.2	—	22.5	—
Inventories	20.0	5.3	25.1	—
Restructuring accruals	9.7	—	4.5	—
Other accruals	1.3	7.1	11.4	1.0
Unrealized foreign exchange transactions	1.9	8.0	1.8	2.5
State and local income tax	—	8.1	—	11.9
	$ 73.5	$ 28.5	$ 83.1	$15.4
Non-current:				
Tax loss and credit carryforwards	$110.8	$ —	$ 48.7	$ —
Employee benefits	26.4	0.3	30.0	0.3
Other accruals	—	11.6	—	8.9
Unrealized foreign exchange transactions	—	14.0	—	15.1
Depreciation and amortization	—	25.1	7.6	21.7
Valuation allowance	(45.6)	—	(39.6)	—
Intercompany investments	—	203.3	—	—
	91.6	254.3	46.7	46.0
	$165.1	$282.8	$129.8	$61.4

2.253

SMURFIT-STONE CONTAINER CORPORATION (DEC)

(In millions, except share data)	1999	1998
Current assets		
Cash and cash equivalents	$ 24	$ 155
Receivables, less allowances of $50 in 1999 and $70 in 1998	647	743
Inventories		
Work-in-process and finished goods	238	227
Materials and supplies	496	546
	734	773
Refundable income taxes	7	24
Deferred income taxes	130	160
Prepaid expenses and other current assets	69	129
Total current assets	1,611	1,984

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Total current liabilities	$1,569	$1,349
Long-term debt, less current maturities	4,619	6,428
Other long-term liabilities	894	1,026
Deferred income taxes	839	1,113
Minority interest	91	81

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

1 (In Part): Significant Accounting Policies

Income Taxes

The Company accounts for income taxes in accordance with the liability method of accounting for income taxes. Under the liability method, deferred assets and liabilities are recognized based upon anticipated future tax consequences attributable to differences between financial statement carrying amounts of assets and liabilities and their respective tax bases (See Note 8).

8 (In Part): Income Taxes

Significant components of the Company's deferred tax assets and liabilities at December 31 are as follows:

	1999	1998
Deferred tax liabilities		
Property, plant and equipment and timberland	$(1,350)	$(1,622)
Inventory	(35)	2
Prepaid pension costs	(42)	(41)
Investments in affiliates	(45)	(57)
Timber installment sale	(129)	
Other	(151)	(153)
Total deferred tax liabilities	$(1,752)	$(1,871)

	1999	1998
Deferred tax assets		
Employee benefit plans	$ 198	$ 227
Net operating loss, alternative minimum tax and tax credit carryforwards	702	559
Deferred gain	29	23
Purchase accounting liabilities	132	103
Deferred debt issuance cost	48	52
Restructuring	7	49
Other	135	113
Total deferred tax assets	1,251	1,126
Valuation allowance for deferred tax asset	(208)	(208)
Net deferred tax assets	1,043	918
Net deferred tax liabilities	$ (709)	$ (953)

At December 31, 1999, the Company had approximately $1,420 million of net operating loss carryforwards for U.S. federal income tax purposes that expire from 2009 through 2019, with a tax value of $497 million. A valuation allowance of $152 million has been established for a portion of these deferred tax assets. Further, the Company had net operating loss carryforwards for state purposes with a tax value of $111 million, which expire from 2000 to 2019. A valuation allowance of $56 million has been established for a portion of these deferred tax assets. The Company had approximately $94 million of alternative minimum tax credit carryforwards for U.S. federal income tax purposes, which are available indefinitely.

Minority Interest

2.254

GENERAL ELECTRIC COMPANY AND CONSOLIDATED AFFILIATES (DEC)

(In millions)	1999	1998
Short-term borrowings	$130,346	$115,378
Accounts payable, principally trade accounts	13,676	12,502
Progress collections and price adjustments accrued	4,618	2,765
Dividends payable	1,347	1,146
All other GE current costs and expenses accrued	11,229	9,788
Long-term borrowings	71,427	59,663
Insurance liabilities, reserves and annuity benefits	86,776	77,259
All other liabilities	28,772	24,939
Deferred income taxes	9,238	9,340
Total liabilities	357,429	312,780
Minority interest in equity of consolidated affiliates (note 23)	5,214	4,275

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

23. GECS Minority Interest in Equity of Consolidated Affiliates

Minority interest in equity of consolidated GECS affiliates includes preferred stock issued by GE Capital and by affiliates of GE Capital. The preferred stock pays cumulative dividends at variable rates. Value of the preferred shares is summarized below.

December 31 (In millions)	1999	1998
GE Capital	$2,600	$2,300
GE Capital affiliates	1,421	860

Dividend rates in local currency on the preferred stock ranged from 0.6% to 6.1% during 1999 and from 3.9% to 5.2% during 1998.

2.255

THE GEON COMPANY (DEC)

(In millions, except per share data)	1999	1998
Total current liabilities	$440.7	$256.8
Long-term debt	130.9	135.4
Deferred income tax liabilities	106.5	32.8
Post-retirement benefits other than pensions	83.9	85.1
Other non-current liabilities, including pensions	60.2	77.8
Minority interest in consolidated subsidiary	5.7	—
Total liabilities	$827.9	$587.9

2.256

INTERFACE, INC. AND SUBSIDIARIES (DEC)

(In thousands)	1999	1998
Total current liabilities	$203,752	$225,112
Long-term debt, less current maturities	125,144	112,651
Senior notes	150,000	150,000
Senior subordinated notes	125,000	125,000
Deferred income taxes	33,395	23,482
Total liabilities	637,291	636,245
Minority interest	2,012	1,795

2.257

SUIZA FOODS CORPORATION (DEC)

(Dollars in thousands, except share data)	1999	1998
Total current liabilities	$479,117	$559,071
Long-term debt	689,397	893,077
Other long-term liabilities	34,858	64,449
Deferred income taxes	46,323	28,702
Mandatorily redeemable convertible trust issued preferred securities (redemption value of $700,000 plus accrued dividends)	683,505	682,938
Minority interest in subsidiaries	141,750	129,775

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Minority Interest in Subsidiaries—Minority interest in results of operations of consolidated subsidiaries represents the minority shareholders' share of the income or loss of various consolidated subsidiaries. The minority interest in the consolidated balance sheets reflect the original investment by these minority shareholders in these consolidated subsidiaries, along with their proportional share of the earnings or losses of these subsidiaries.

Preferred Securities of Subsidiary Trust

2.258

INGERSOLL-RAND COMPANY (DEC)

(In millions except share amounts)	1999	1998
Current liabilities:		
Accounts payable and accruals	$1,224.4	$1,284.4
Loans payable	495.5	318.0
Income taxes	19.0	18.8
	1,738.9	1,621.2
Long-term debt	2,113.3	2,166.0
Postemployment and other benefit liabilities	805.0	820.5
Minority interests	95.7	33.6
Other liabilities	161.8	152.5
	$4,914.7	$4,793.8
Company obligated mandatorily redeemable preferred securities of subsidiary trust holding solely debentures of the company	402.5	402.5

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 11: Equity-linked Securities

In March 1998, the Company, together with Ingersoll Financing I, a Delaware statutory business trust of the Company (Finance Trust), issued an aggregate of (a) 16,100,000 equity-linked securities, and (b) 1,610,000 Finance Trust 6.22% capital securities, each with a $25 stated liquidation amount (the capital securities). The equity-linked securities consisted of (a) 14,490,000 income equity-linked securities (income securities), and (b) 1,610,000 growth equity-linked securities (growth securities).

Each equity-linked security consists of a unit comprised of (a) a contract to purchase from the Company no later than May 16, 2001, a number of shares of the Company's common stock determined in accordance with a specified formula and to receive an annual contract adjustment payment until May 15, 2001 of 0.53%, (in the case of an income security), or 0.78% (in the case of a growth security), and (b) either beneficial ownership of a capital security (in the case of an income security), or a 1/40 undivided beneficial interest in a zero coupon U.S. Treasury Security maturing May 15, 2001 (in the case of a growth security). Under the terms of the stock purchase contracts, the Company will issue between 6.9 million and 8.3 million common shares by May 16, 2001. The capital securities associated with the income securities and the U.S. Treasury Securities associated with the growth securities have been pledged as collateral to secure the holders' obligations in respect of the common stock purchase contracts.

The capital securities were issued by the Finance Trust and are entitled to a distribution rate of 6.22% per annum of their $25 stated liquidation amount. The Finance Trust utilized the proceeds from the issuance of the equity-linked and capital securities to purchase $402.5 million of the Company's 6.22% Debentures due May 16, 2003. The Debentures are the sole asset of the Finance Trust. The interest rate on the 6.22% Debentures and the distribution rate on the capital securities and common securities of the Finance Trust are to be reset, subject to certain limitations, effective May 16, 2001.

The Company has recorded the present value of the contract adjustment payments, totaling $6.4 million, as a liability and a reduction of shareholders' equity. The liability will be reduced as the contract adjustment payments are made. The Company has the right to defer the contract adjustment payments and the payment of interest on the 6.22% Debentures, but any such election will subject the Company to restrictions on the payment of dividends on, and redemption of, its outstanding shares of common stock, and on the payment of interest on, or redemption of, debt securities of the Company junior in rank to the 6.22% Debentures.

The Company paid costs of approximately $12.9 million in connection with the issuance of the equity-linked securities and the capital securities. The portion of such costs which relate to the issuance of the stock purchase contracts has been recorded as a reduction of shareholders' equity.

2.259

NEWELL RUBBERMAID INC. (DEC)

(In thousands)	1999	1998
Total current liabilities	$1,629,883	$1,171,881
Long-term debt	1,455,779	1,393,865
Other non-current liabilities	354,107	374,293
Deferred income taxes	85,655	4,527
Minority interest	1,658	857
Company-obligated mandatorily redeemable convertible preferred securities of a subsidiary trust	500,000	500,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Significant Accounting Policies

Disclosures About Fair Value of Financial Instruments

The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

Long-Term Debt

The fair value of the Company's long-term debt issued under the Medium-term note program is estimated based on quoted market prices which approximate cost. 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 $381.9 million at December 31, 1999 based on quoted market prices.

Cash and Cash Equivalents

Cash and highly liquid short-term investments having a maturity of three years or less.

6. Company-Obligated Mandatorily Redeemable Convertible Preferred Securities of a Subsidiary Trust

In December 1997, a wholly owned subsidiary trust of the Company issued 10,000,000 of its 5.25% convertible quarterly income preferred securities (the "Convertible Preferred Securities"), with a liquidation preference of $50 per security, to certain institutional buyers. The Convertible Preferred Securities represent an undivided beneficial interest in the assets of the trust. Each of the Convertible Preferred Securities is convertible at the option of the holder into shares of the Company's Common Stock at the rate of 0.9865 shares of Common Stock for each preferred security (equivalent to the approximate conversion price of $50.685 per share of Common Stock), subject to adjustment in certain circumstances. Holders of the Convertible Preferred Securities are entitled to a quarterly cash distribution at the annual rate of 5.25% of the $50 liquidation preference. The Convertible Preferred Securities are subject to a guarantee by the Company and are callable by the Company initially at 103.15% of the liquidation preference beginning in December 2001 and decreasing over time to 100% of the liquidation preference beginning in December 2007.

The trust invested the proceeds of this issuance of Convertible Preferred Securities in $500 million of the Company's 5.25% Junior Convertible Subordinated Debentures due 2027 (the "Debentures"). The Debentures are the sole assets of the trust, mature on December 1, 2027, bear interest at the rate of 5.25%, payable quarterly and are redeemable by the Company beginning in December 2001. The Company may defer interest payments on the Debentures for a period not to exceed 20 consecutive quarters during which time distribution payments on the Convertible Preferred Securities are also deferred. Under this circumstance, the Company may not declare or pay any cash distributions with respect to its capital stock or debt securities that rank pari passu with or junior to the Debentures. The Company has no current intention to exercise its right to defer payments of interest on the Debentures.

The Convertible Preferred Securities are reflected as outstanding in the Company's consolidated financial statements as Company-Obligated Mandatorily Redeemable Convertible Preferred Securities of a Subsidiary Trust.

Employee-Related Liabilities

2.260

MONSANTO COMPANY (DEC)

(Dollars in millions, except per share amounts)	1999	1998
Total current liabilities	$3,750	$3,780
Long-term debt	5,903	6,259
Postretirement liabilities	962	848
Other liabilities	571	512

NOTES TO FINANCIAL STATEMENTS

Note 14 (In Part): Postretirement Benefits—Pensions

Pension benefits are based on an employee's years of service and/or compensation level. Pension plans are funded in accordance with the company's long-range projections of the plans' financial conditions. These projections take into account benefits earned and expected to be earned, anticipated returns on pension plan assets, and income tax and other regulations.

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The funded status of Monsanto's pension plans at year-end was:

	1999	1998
Change in benefit obligation		
Benefit obligation at beginning of year	$2,655	$2,483
Service cost	65	58
Interest cost	171	170
Plan participants' contributions	1	1
Amendments	6	10
Actuarial (gain)/loss	(143)	146
Acquisitions/divestitures		9
Settlements	15	
Benefits paid	(248)	(222)
Benefit obligation at end of year	$2,522	$2,655
Change in plan assets		
Fair value of plan assets at beginning of year	2,146	2,029
Actual return on plan assets	411	310
Employer contribution	24	17
Plan participants' contributions	3	3
Acquisitions/divestitures		9
Settlements	(4)	
Fair value of benefits paid	(248)	(222)
Plan assets at end of year	$2,332	$2,146
Unfunded status	190	509
Unrecognized initial net gain	9	15
Unrecognized prior service cost	(82)	(94)
Unrecognized subsequent gain (loss)	371	(22)
Accrued net pension liability	$ 488	$ 408

Amounts recognized in the Statement of Consolidated Financial Position were:

	1999	1998
Postretirement liabilities	$515	$433
Additional minimum pension liability	53	61
Other assets	(27)	(25)
Intangible assets	(5)	(10)
Accumulated other comprehensive income	(48)	(51)
Accrued net pension liability	$488	$408

Note 15 (In Part): Postretirement Benefits—Healthcare and Other

Monsanto provides certain health care and life insurance benefits for retired employees. Substantially all of Monsanto's regular, full-time U.S. employees and certain employees in other countries may become eligible for these benefits if they reach retirement age while employed by Monsanto. These postretirement benefits are unfunded and generally are based on employees' years of service and/or compensation levels. The costs of postretirement benefits are accrued by the date the employees become eligible for the benefits.

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As of Dec. 31, the status of Monsanto's postretirement health care and life insurance benefit plans and of its employee disability benefit plans was:

	1999	1998
Change in benefit obligation		
Benefit obligation at beginning of year	$403	$383
Service cost	16	13
Interest cost	27	27
Actuarial (gain)/loss	(10)	6
Benefits paid	(16)	(26)
Benefit obligation at end of year	420	403
Unfunded status	420	403
Unrecognized prior service cost	6	10
Unrecognized subsequent gain (loss)	(3)	(31)
Accrued postretirement liability	$423	$382

Amounts recognized in the Statement of Consolidated Financial Position were:

	1999	1998
Miscellaneous accruals	$ 29	$ 28
Postretirement liabilities	394	354
Accrued postretirement liability	$423	$382

2.261

THE STANDARD REGISTER COMPANY (DEC)

(Dollars in thousands)	1999	1998
Long-term liabilities		
Long-term debt	$203,520	$234,075
Retiree health care obligation	54,164	55,057
Deferred compensation	7,709	3,795
Deferred income taxes	40,578	40,829
Total long-term liabilities	$305,971	$333,756

NOTES TO FINANCIAL STATEMENTS

Note 7: Common Stock Held in Grantor Trust

During 1998, the Company established a grantor trust ("Trust") to fund the Company's obligations under a deferred compensation plan for eligible participants. The benefits payable from the Trust are included in the "Deferred compensation" liability shown on the Company's balance sheet. Although the Trust is funded with both cash and shares of the Company's common stock, obligations under the deferred compensation plan are intended to be settled only in cash. Therefore, the shares of the Company's common stock held by the Trust are not considered to be potentially dilutive. Company shares held by the Trust were 59,697 and 26,284 at January 2, 2000 and January 3, 1999, respectively.

Company shares funding the Trust are recorded as "Common stock held in grantor trust" at their fair market value as of the transfer date. "Capital in excess of par value" is increased for any differences between the cost of the shares and their recorded fair value. Increases or decreases in the deferred compensation liability, that result from changes in the value of the Company's common stock held by the Trust, are recognized in current income.

Note 11 (In Part): Postretirement Benefits Other Than Pensions

In addition to providing pension benefits, the Company provides certain health care benefits for eligible retired employees. The following table sets forth the reconciliation of the benefit obligation and the funded status for this plan:

(Dollars in thousands)	1999	1998
Change in accumulated postretirement benefit obligation		
Beginning balance	$53,466	$25,597
Service cost	—	—
Interest cost	3,587	4,077
Actuarial (gain) loss	(2,929)	1,602
Acquisition	—	25,951
Net retiree benefits paid	(4,240)	(3,761)
Ending balance	$49,884	$53,466
Plan assets	—	—
Funded status	$49,884	$53,466
Unrecognized net actuarial gain	4,280	1,591
Retiree health care obligation shown in balance sheet	$54,164	$55,057

2.262

STEELCASE INC.

(In millions, except share data)	1999	1998
Total current liabilities	$446.8	$469.9
Long-term liabilities:		
Employee benefit plan obligations	222.8	191.2
Other long-term liabilities	12.9	13.7
Total long-term liabilities	235.7	204.9
Total liabilities	$682.5	$674.8

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 10 (In Part): Employee Benefit Plan Obligations

Employee benefit plan obligations consist of:

(In millions)	Feb 26, 1999	Feb 27, 1998
Profit-sharing plans	$ 38.4	$ 44.3
Management incentive and deferred compensation plans	56.1	39.9
Pension and postretirement plans:		
Pension benefits	18.4	15.7
Postretirement benefits	161.7	150.4
	274.6	250.3
Current portion	51.8	59.1
Long-term portion	$222.8	$191.2

Profit-Sharing Plans

Substantially all employees are covered under the Steelcase Inc. Employees' Profit-Sharing Retirement Plan and the Steelcase Inc. Employees' Money Purchase Plan or under similar subsidiary plans. Annual Company contributions under the Steelcase Inc. Employees' Profit-Sharing Retirement Plan and similar subsidiary plans are discretionary and declared by the Board at the end of each fiscal year. Under the Steelcase Inc. Employees' Money Purchase Plan, annual Company contributions are required in the amount of 5% of eligible annual compensation. Total expense under these plans approximated $70.1 million, $79.4 million and $67.2 million for 1999, 1998 and 1997, respectively.

Management Incentive and Deferred Compensation Plans

The amended and restated Management Incentive Plan is an annual and long-term incentive compensation program that provides eligible key employees with cash payments based upon the achievement by the Company of specified financial performance goals measured by Economic Value Added ("EVA"), as defined in the plan.

Annual bonuses are payable after the end of the fiscal year and, therefore, are included in accrued compensation in the accompanying consolidated balance sheets, whereas long-term bonus amounts are paid out over a subsequent three-year period. The Company has future retirement obligations to certain employees in return for agreeing not to receive part of their compensation for a period of three to five years. Compensation withheld has been invested in corporate-owned life insurance, which is expected to be sufficient to cover such future obligations.

Long-term management incentive and deferred compensation expense approximated $28.9 million, $21.2 million and $7.7 million for 1999, 1998 and 1997, respectively.

Pension and Postretirement Benefits

During 1999, the Company adopted SFAS No. 132, *Employers' Disclosures about Pensions and Other Postretirement Benefits,* which revised and standardized disclosures for pension and other postretirement benefit plans.

The Company's pension plans include a non-qualified supplemental retirement plan that is limited to a select group of management or highly compensated employees. The obligations under this plan and other defined benefit plans at its subsidiaries are included in the pension disclosure.

The Company and certain of its subsidiaries have postretirement benefit plans that provide medical and life insurance benefits to retirees and eligible dependents. The Company accrues the cost of postretirement insurance benefits during the service lives of employees based on a actuarial calculations for each plan.

2.263

UST INC. (DEC)

(In thousands)	1999	1998
Total current liabilities	$261,327	$197,316
Long-term debt	411,000	100,000
Postretirement benefits other than pensions	80,547	78,567
Other liabilities	61,970	69,143
Contingencies (see note)	—	—
Total liabilities	$814,844	$445,026

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Employee Benefit and Compensation Plans (In Part)

The Company and its subsidiaries maintain a number of noncontributory defined benefit pension plans covering substantially all employees over age 21 with at least one year of service.

The Company and certain of its subsidiaries also maintain a number of postretirement welfare benefit plans which provide certain medical and life insurance benefits to substantially all full-time employees who have attained certain age and service requirements upon retirement. The health care benefits are subject to deductibles, co-insurance and in some cases flat dollar contributions which vary by plan, age and service at retirement. All life insurance coverage is non-contributory.

The following table represents a reconciliation of the plans at December 31:

	Pension Plans		Postretirement Benefits Other Than Pensions	
	1999	1998	1999	1998
Change in benefit obligation				
Benefit obligation at beginning of year	$342,012	$284,164	$ 74,556	$59,951
Service cost	11,957	10,195	3,348	3,349
Interest cost	21,738	20,833	3,908	4,384
Plan participants' contributions	—	—	43	71
Plan amendments	(1,105)	—	(18,535)	—
Actuarial (gain)/loss	(45,438)	42,063	(4,300)	9,481
Benefits paid	(16,075)	(15,243)	(2,745)	(2,680)
Benefit obligation at end of year	$313,089	$342,012	$ 56,275	$74,556
Change in plan assets				
Fair value of plan assets at beginning of year	$295,161	$279,733	—	—
Actual return on plan assets	16,276	25,868	—	—
Employer contributions	5,350	5,377	—	—
Benefits paid	(16,075)	(15,243)	—	—
Administrative expenses	(621)	(574)	—	—
Fair value of plan assets at end of year	$300,091	$295,161	—	—
Funded status				
Funded status at end of year	$ (12,998)	$ (46,851)	$(56,275)	$(74,556)
Unrecognized actuarial (gain)/loss	(4,322)	36,567	(7,971)	(3,684)
Unrecognized prior service cost	(2,064)	(1,174)	(16,301)	(327)
Unrecognized transition obligation	268	21	—	—
Accrued benefit cost	$ (19,116)	$ (11,437)	$(80,547)	$(78,567)
Amounts recognized in the consolidated statement of financial position:				
Prepaid benefit asset	$ 28,164	$ 28,884	$ —	$ —
Accrued benefit liability	(64,643)	(69,768)	(80,547)	(78,567)
Intangible asset	2,292	3,783	—	—
Accumulated other comprehensive loss	15,071	25,664	—	—
Net amount recognized	$ (19,116)	$ 11,437	$(80,547)	$(78,567)

2.264

YOUNG & RUBICAM INC. AND SUBSIDIARY COMPANIES (DEC)

(In thousands, except share and per share amounts)	1999	1998
Total current liabilities:	$1,699,606	$1,339,456
Noncurrent liabilities		
Long-term debt	127,568	31,894
Deferred compensation	31,328	30,635
Other noncurrent liabilities	117,405	113,064
Minority interests	14,194	4,573

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 11 (In Part): Employee Benefits

Y&R maintains certain deferred cash incentive plans which are either tied to operating performance or contractual deferred compensation agreements. The costs of these compensation plans were expensed over the applicable service period. At December 31, 1999 and 1998, Y&R recorded deferred compensation liabilities of $31.3 million and $30.6 million, respectively.

Environmental Costs

2.265

THE GEON COMPANY (DEC)

(In millions, except per share data)	1999	1998
Total current liabilities	$440.7	$256.8
Long-term debt	130.9	135.4
Deferred income tax liabilities	106.5	32.8
Post-retirement benefits other than pensions	83.9	85.1
Other non-current liabilities, including pensions	60.2	77.8
Minority interest in consolidated subsidiary	5.7	—
Total liabilities	$827.9	$587.9

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Environmental Costs

The Company expenses, on a current basis, recurring costs associated with managing hazardous substances and pollution in ongoing operations. Costs associated with the remediation of environmental contamination are accrued when it becomes probable that a liability has been incurred and the Company's proportionate share of the amount can be reasonably estimated.

Note L: Other Balance Sheet Liabilities

	Accrued Expenses		Non-Current Liabilities	
	December 31,		December 31,	
(In millions)	1999	1998	1999	1998
Employment costs	$28.8	$25.5	$ 9.7	$ 5.6
Environmental	7.1	5.5	37.0	40.4
Taxes, other than income	10.4	15.1	—	—
Post-retirement benefits	7.7	7.7	—	—
Pension	—	2.4	12.6	23.0
Employee separation and plant phase-out	2.7	9.2	—	—
Other	13.3	10.6	0.9	8.8
	$70.0	$76.0	$60.2	$77.8

Note N (In Part): Commitments and Related-Party Information

Environmental

The Company has been notified by the U.S. Environmental Protection Agency, a state environmental agency or a private party that it may be a potentially responsible party (PRP) in connection with seven active and inactive non-Company-owned sites. While government agencies frequently claim PRPs are jointly and severally liable at these sites, in the Company's experience, interim and final allocation of liability costs generally is made based on the relative contribution of waste. The Company believes that it has potential continuing liability with respect to only four such sites. In addition, the Company initiates corrective and preventive environmental projects of its own to ensure safe and lawful activities at its operations. The Company believes that compliance with current governmental regulations at all levels will not have a material adverse effect on its financial condition. Based on estimates prepared by the Company's environmental engineers and consultants, the Company, at December 31, 1999, had accruals totaling $44.1 million to cover probable future environmental expenditures related to previous contaminated sites. The accrual represents the Company's best estimate for the remaining remediation costs based upon information and technology currently available. Depending upon the results of future testing and the ultimate remediation alternatives undertaken at these sites, it is possible that the ultimate costs to be incurred could be more than the accrual at December 31, 1999, by as much as $15.0 million. The Company's estimate of the liability may be revised as new regulations, technologies or additional information is obtained.

Of the $44.1 million accrued for future environmental expenditures, $17.2 million is attributable to future remediation expenditures at the Calvert City, Kentucky, site and less than $0.5 million is attributable to off-site environmental remediation liabilities, including the four sites mentioned previously. The remaining amount is attributable primarily to other environmental remediation projects at nine other Company-owned facilities. At Calvert City, consent orders have been signed with both the U.S. Environmental Protection Agency and the Commonwealth of Kentucky Department of Environmental Protection providing for a site-wide remediation program, primarily to remove ethylene dichloride from groundwater, the cost of which has been accrued. Environmental expenses incurred were $1.7 million, $2.4 million and $4.2 million in the years ended December 31, 1999, 1998 and 1997, respectively.

2.266

TOSCO CORPORATION & SUBSIDIARIES (DEC)

(In millions, except per share data)	1999	1998
Total current liabilities	$1,607.1	$1,404.7
Revolving credit facility	106.0	196.0
Long-term debt	1,352.9	1,358.6
Accrued environmental costs	239.3	253.7
Deferred income taxes	283.6	179.4
Other liabilities	215.2	237.4
Total liabilities	$3,804.1	$3,629.8

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Two (In Part): Summary of Significant Accounting Policies

Environmental Costs

Liabilities for future remediation costs are recorded when environmental assessments and/or remedial efforts are probable and the costs can be reasonably estimated. Other than for assessments, the timing and magnitude of these accruals are generally based on the completion of investigations or other studies or a commitment to a formal plan of action. Environmental liabilities are based on best estimates of probable undiscounted future costs using currently available technology, and applying current regulations, as well as the Company's own internal environmental policies. Estimated reimbursements of remediation costs of petroleum releases from underground storage tanks are recorded as assets when reimbursements from state trust fund programs are probable.

Eleven Accrued Environmental Costs

The Company is subject to extensive federal, state, and local environmental laws and regulations relating to its petroleum refining, distribution, and marketing operations. These laws and regulations (which are complex, change frequently, and are subject to differing interpretations) regulate the discharge of materials into the environment. The Company is currently involved in a number of environmental proceedings and discussions regarding the removal and mitigation of the environmental effects of subsurface liquid hydrocarbons and alleged levels of hazardous waste at certain of its refineries and other locations, including a site on the Superfund National Priorities List.

In July 1993, outstanding litigation concerning environmental issues was settled with the predecessor owners of the Avon Refinery (the "Settlement Agreement"). Under the Settlement Agreement, the former owners agreed to pay up to $18.0 million for one-half of the costs that may be incurred for compliance with certain environmental orders and to provide the Company with a $6.0 million credit for past expenses (which the Company uses to reduce its one-half share of costs). After the $36.0 million shared cost maximum is expended, the parties may elect to continue the Settlement Agreement or to reinstate litigation. The Company and the former owners have established a committee to review and approve expenditures for environmental investigative and remediation actions at the Avon Refinery. Through December 31, 1999, the committee has spent $6.4 million on such matters.

By agreement, Exxon Corporation ("Exxon") is responsible for environmental obligations related to or arising out of its ownership and operation of the Bayway Refinery, purchased by the Company in April 1993. The Company has also received similar environmental indemnifications for periods prior to the respective acquisition dates of the Ferndale Refinery, the Trainer Refinery, retail assets in the Pacific Northwest and Northern California from BP Exploration & Oil, Inc., and Arizona retail properties from Exxon.

On March 31, 1997, the Company acquired Unocal's West Coast petroleum refining, marketing, and related supply and transportation assets (the "76 Products Acquisition"). Through March 31, 2022, Unocal is responsible for all environmental liabilities at the acquired sites arising out of or relating to the period prior to closing, except that the Company will pay the first $7.0 million of such environmental liabilities each year, plus 40% of any amount in excess of $7.0 million per year, with Unocal paying the remaining 60% each year. The Company's aggregate maximum obligation for the 25-year period is $200.0 million. During 1999, 1998, and the nine-month period ended December 31, 1997 the Company incurred environmental costs at the required sites as follows:

(Millions of dollars)	1999	1998	1997
Total costs incurred	$19.2	$18.0	$7.5
Less costs reimbursed by Unocal	8.9	5.1	0.3
Costs charged to the environmental accrual	$10.3	$12.9	$7.2

Environmental exposures are difficult to assess and estimate for numerous reasons including the complexity and differing interpretations of governmental regulations, the lack of reliable data, the number of potentially responsible parties and their financial capabilities, the multiplicity of possible solutions, the years of remedial and monitoring activity required, and the identification of new sites. The Company believes that it has adequately provided for environmental exposures. However, should these matters be resolved unfavorably to the Company, they could have a material adverse effect on its long-term consolidated financial position and results of operations.

Insurance

2.267

SAFEWAY INC. AND SUBSIDIARIES (DEC)

(In millions, except per share amounts)	1999	1998
Total current liabilities	$ 3,582.6	$ 2,893.6
Long-term debt:		
Notes and debentures	5,922.0	4,242.6
Obligations under capital leases	435.4	408.0
Total long-term debt	6,357.4	4,650.6
Deferred income taxes	379.1	216.9
Accrued claims and other liabilities	495.4	546.4
Total liabilities	$10,814.5	$ 8,307.5

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Self-Insurance

The Company is primarily self-insured for workers' compensation, automobile, and general liability costs. The self-insurance liability is determined actuarially, based on claims filed and an estimate of claims incurred but not yet reported. The present value of such claims was accrued using a discount rate of 6.0% in 1999 and 5.5% in 1998. The current portion of the self-insurance liability of $103.2 million at year-end 1999 and $107.3 million at year-end 1998 is included in Other Accrued Liabilities in the consolidated balance sheets. The long-term portion of $243.2 million at year-end 1999 and $265.5 million at year-end 1998 is included in Accrued Claims and Other Liabilities. Claims payments were $123.6 million in 1999, $98.2 million in 1998 and $100.0 million in 1997. The total undiscounted liability was $391.9 million at year-end 1999 and $413.1 million at year-end 1998.

Discontinued Operations

2.268

SEABOARD CORPORATION (DEC)

(Thousands of dollars)	1999	1998
Total current liabilities	$424,716	$365,464
Long-term debt, less current maturities	318,017	313,324
Deferred income taxes	41,589	44,147
Other liabilities	34,924	27,609
Non-current liabilities of discontinued operations	16,824	17,116
Total non-current and deferred liabilities	411,354	402,196
Minority interest	831	5,682

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 13: Discontinued Operations/Subsequent Event

In December 1999, the Company agreed to sell its Poultry Division to ConAgra, Inc. for $375 million, consisting of the assumption of approximately $16 million in indebtedness and the remainder in cash, subject to certain adjustments. The sale was completed on January 3, 2000 resulting in a pre-tax gain on the sale of approximately $148 million ($90 million after estimated taxes). This gain is based on certain estimates including a final working capital adjustment and construction costs the Company is required to fund in 2000 to complete certain expansion projects on behalf of the buyer. Any differences between these estimates and their actual settlement will change the gain accordingly.

The Company's financial statements have been restated to reflect the Poultry Division as a discontinued operation for all periods presented. Operating results of the discontinued poultry operations are summarized below. The amounts exclude general corporate overhead previously allocated to the Poultry Division for segment reporting purposes. The amounts include interest on debt at the Poultry Division assumed by the buyer and an allocation of the interest on the Company's general credit facilities based on a ratio of the net assets of the discontinued operations to the total net assets of the Company plus existing debt under the Company's general credit facilities. The results for 1999 reflect activity through November 1999 (the measurement date); results for 1998 and 1997 reflect activity for each entire year. Net losses incurred after the measurement date (for the month of December 1999) totaled $4,180,000 and have been deferred as a component of current assets of discontinued operations at December 31, 1999. These losses will be recognized in January 2000 as a reduction of the gain realized on the sale.

	Years ended December 31,		
(Thousands of dollars)	1999	1998	1997
Net sales	$437,695	$514,503	$476,580
Operating income (loss)	27,023	36,414	(4,076)
Earnings (loss) from discontinued operations	13,634	19,511	(5,991)

Assets and liabilities of the discontinued poultry operations are summarized below:

	December 31,	
(Thousands of dollars)	1999	1998
Receivables	$ 27,367	$27,681
Inventories	70,532	62,889
Prepaid expenses and deposits	1,385	1,489
Deferred net loss after measurement date	4,180	—
Current assets of discontinued operations	$103,464	$92,059
Net property, plant and equipment	$132,224	$96,893
Other assets	183	194
Non-current assets of discontinued operations	$132,407	$97,087
Accounts payable	$ 14,189	$14,819
Accrued liabilities	9,824	8,831
Current liabilities of discontinued operations	$ 24,013	$23,650
Long-term debt	$ 16,145	$16,145
Other liabilities	679	971
Non-current liabilities of discontinued operations	$ 16,824	$17,116

2.269

SOUTHDOWN, INC. AND SUBSIDIARY COMPANIES (DEC)

(In millions)	1999	1998
Total current liabilities	$147.2	$139.9
Long-term debt	165.7	167.3
Deferred income taxes	131.1	139.4
Minority interest in consolidated joint venture	35.9	27.7
Long-term portion of postretirement benefit obligation	87.7	91.5
Other long-term liabilities and deferred credits (Note 15)	30.0	30.4
	$597.6	$596.2

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

15. Other Long-Term Liabilities and Deferred Credits

(In millions)	December 31, 1999	1998
Environmental liabilities (Note 17)	$9.1	$10.9
Deferred payment obligation	8.1	8.1
Supplemental pension liabilities (Note 16)	7.1	5.3
Estimated liabilities on discontinued operations	4.9	4.9
Other	0.8	1.2
	$30.0	$30.4

Deferred Payment Obligation

In connection with the July 1990 purchase of a hazardous waste processing facility from an affiliate of Browning-Ferris Industries, Inc., the Company assumed a conditional payment obligation payable to the former shareholders of the Browning-Ferris subsidiary. The expected timing of payments related to the estimated liabilities on discontinued operations and the deferred payment obligation is uncertain.

Discontinued Operations

The Company has accrued loss provisions for certain environmental issues under the indemnification provisions of sales agreements associated with the environmental services operations discontinued in 1994 and for which the Company remains contingently liable. In addition, as part of the acquisition of Moore McCormack in 1988, the Company assumed certain fixed and contingent liabilities pursuant to certain guarantees and undertakings related to operations that had been previously discontinued by Moore McCormack.

Warranties

2.270

FEDDERS CORPORATION (AUG)

(Amounts in thousands, except par value data)	1999	1998
Total current liabilities	$ 99,542	$ 74,341
Long-term debt	156,765	108,948
Other long-term liabilities:		
Warranty	4,843	2,556
Other	8,397	9,355
Partner's interest in joint venture	3,862	4,637

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

1 (In Part): Summary of Significant Accounting Policies

Warranty and Return Policy

The Company's warranty policy generally provides five-year coverage for sealed systems including compressors, two-year coverage on motors and one-year coverage on all other parts and labor related to air conditioners sold in North America. The Company's policy is to accrue the estimated cost of warranty coverage and returns at the time the sale is recorded. The policy with respect to sales returns generally provides that a customer may not return inventory except at the Company's option.

Put Options

2.271

NCR CORPORATION (DEC)

(In millions, except per share amounts)	1999	1998
Total current liabilities	$1,662	$1,700
Long-term debt	40	33
Pension and indemnity liabilities	342	420
Postretirement and postemployment benefits liabilities	570	655
Other liabilities	623	593
Minority interests	49	44
Total liabilities	$3,286	$3,445
Put options	13	—

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 8 (In Part): Stock Compensation Plans, Purchases of Company Common Stock and Put Options

Put Options

In a single private placement in 1999, the Company sold put options that entitle the holder of each option to sell to the Company, by physical delivery, 400,000 shares of common stock at a specified price. In 1999, the activity is summarized as follows:

(In millions)	Cumulative Net Premium Received	Put Options Outstanding Number of Options	Potential Obligation
December 31, 1998	$ —	—	$ —
Sales	1.1	0.4	13.1
Exercises	—	—	—
Expirations	—	—	—
December 31, 1999	$ 1.1	0.4	$13.1

The amount related to the Company's $13 million potential repurchase obligation has been reclassified from stockholders' equity to put options. Each option is exercisable only at expiration, and all options expire on March 1, 2000. The options have an exercise price of $32.64 per share. These put option obligations had no significant effect on diluted earnings per share for the periods presented.

Litigation

2.272

ARMSTRONG WORLD INDUSTRIES, INC. (DEC)

(Millions except for numbers of shares and per-share data)	1999	1998
Total current liabilities	$ 785.0	$ 753.3
Long-term debt, less current installments	1,412.9	1,562.8
Employee Stock Ownership Plan (ESOP) loan guarantee	155.3	178.6
Deferred income taxes	62.0	107.6
Postretirement and postemployment benefit liabilities	245.2	249.0
Pension benefit liabilities	200.2	235.5
Asbestos-related long-term liabilities, noncurrent	506.5	344.8
Other long-term liabilities	106.4	115.8
Minority interest in subsidiaries	11.8	16.1
Total noncurrent liabilities	$2,700.3	$2,810.2

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 26 (In Part): Litigation and Related Matters

Asbestos-Related Litigation

Armstrong is a defendant in personal injury claims and property damage claims related to asbestos containing products.

Personal Injury Claims (In Part)

Asbestos-Related Liability

In continually evaluating its estimated asbestos liability, Armstrong reviews, among other things, its recent and historical settlement amounts, the incidence of past and recent claims, the mix of the injuries and occupations of the plaintiffs, the number of cases pending against it and the status and results of broad-based settlement discussions. Based on this review, Armstrong has estimated its share of liability to defend and resolve probable asbestos-related personal injury claims. This estimate is highly uncertain due to the limitations of the available data and the difficulty of forecasting with any certainty the numerous variables that can affect the range of the liability. Armstrong will continue to study the variables in light of additional information in order to identify trends that may become evident and to assess their impact on the range of liability that is probable and estimable.

In the fourth quarter of 1999, Armstrong recorded a charge to increase its estimate of probable asbestos-related liability by $425.4 million. The revision in the estimated liability is attributable to many factors. The actual number of claims received in 1999 was higher than anticipated. Although we expect the number of claims to decrease in future years, we now expect that the total number of claims received will be higher than previously anticipated. Further, the Center has recently settled with some law firms at amounts higher than our original estimates pursuant to our broad-based settlement plan. In consideration of these factors, management has concluded that an increase in the estimated probable liability is required. Armstrong's estimate of such liability that is probable and estimable through 2005 ranges from $681.5 million to $1,337.9 million as of December 31, 1999. The range of probable and estimable liability reflects uncertainties in the number of future claims that will be filed, the outcome of the broad-based settlement negotiations and Armstrong's overall effective share of the Center's liabilities. Armstrong has concluded that no amount within that range is more likely than any other, and therefore has reflected $681.5 million as a liability in the consolidated financial statements in accordance with generally accepted accounting principles. Of this amount, management expects to incur asbestos liability payments of approximately $175.0 million over the next 12 months and has reflected $175.0 million as a current liability.

Armstrong's estimated range of liability is primarily based on known claims and an estimate of future claims that are likely to occur and can be reasonably estimated through 2005. This estimated range of liability assumes that the number of new claims filed annually will be less than the number filed in 1999. For claims that may be filed beyond 2005, management believes that the level of uncertainty is too great to provide for reasonable estimation of the number of future claims, the nature of such claims, or the cost to resolve them. Accordingly, it is reasonably possible that the total exposure to personal injury claims may be greater than the estimated range of liability.

Although some settlements have already been reached, Armstrong is currently uncertain as to the ultimate success and timing of the remaining broad-based settlement discussions. However, if those discussions are unsuccessful or if unfavorable claims experiences continue, significant changes in the assumptions used in the estimate of Armstrong's liability may result. Those changes, if any, could lead to increases in the recorded liability. Because of the uncertainties related to the number of claims, the ultimate settlement amounts, and similar matters, it is extremely difficult to obtain reasonable estimates of the amount of the ultimate liability. As additional experience is gained regarding claims and such settlement discussions or other new information becomes available regarding the potential liability, Armstrong will reassess its potential liability and revise the estimates as appropriate.

Because, among other things, payment of the liability will extend over many years, management believes that the potential additional costs for claims, net of any potential insurance recoveries, will not have a material after-tax effect on the financial condition of Armstrong or its liquidity, although the net after-tax effect of any future liabilities recorded in excess of insurance assets could be material to earnings in a future period.

Deferred Credits

2.273

EQUIFAX INC. (DEC)

(In thousands, except par values)	1999	1998
Total current liabilities	$504,795	$419,179
Long-term debt, less current maturities	933,708	869,486
Long-term deferred revenue	22,547	32,465
Deferred income tax liabilities	73,132	50,132
Other long-term liabilities	89,974	91,067

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Significant Accounting and Reporting Policies

Revenue Recognition

Revenue is recognized principally as services are provided to customers. Amounts billed in advance are recorded as current or long-term deferred revenue on the balance sheet, with current deferred revenue reflecting services expected to be provided within the next twelve months. Current deferred revenue is included with other current liabilities in the accompanying consolidated balance sheets, and as of December 31, 1999 and 1998 totaled $31,523,000 and $45,140,000, respectively. In 1996, the Company received a one-time payment of $58,000,000 related to a lottery subcontract and recognized $5,400,000 in revenue. The remaining balance is being recognized as revenue over the term of the contract, with $9,636,000 per year recognized in 1999, 1998, and 1997. The unrecognized balance at December 31, 1999 totaled $23,692,000, with $14,056,000 included in long-term deferred revenue in the accompanying consolidated balance sheets.

2.274

OCCIDENTAL PETROLEUM CORPORATION AND SUBSIDIARIES (DEC)

(In millions, except share amounts)	1999	1998
Total current liabilities	$1,967	$2,931
Long-term debt, net of current maturities and unamortized discount	4,368	5,367
Deferred credits and other liabilities		
Deferred and other domestic and foreign income taxes	995	825
Obligation under natural gas delivery commitment	411	503
Other	2,123	2,258
	$3,529	$3,586

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 7: Advance Sale of Crude Oil and Natural Gas Delivery Commitment

In December 1995, Occidental entered into a transaction with Clark USA, Inc. (Clark) under which Occidental agreed to deliver approximately 17.7 million barrels of West Texas Intermediate (WTI)-equivalent oil over a six-year period. In exchange, Occidental received $100 million in cash and approximately 5.5 million shares of Clark common stock. Occidental has accounted for the consideration received in the transaction as deferred revenue, which is being amortized into revenue as WTI-equivalent oil is produced and delivered during the term of the agreement. Reserves dedicated to the transaction are excluded from the estimate of proved oil and gas reserves (see Supplemental Oil and Gas Information). At December 31, 1999, 5.5 million barrels remain to be delivered.

In November 1998, Occidental entered into a natural gas delivery commitment for proceeds of $500 million, which obligates Occidental to deliver 263 billion cubic feet of natural gas over a four-year period beginning in 2000. The imputed interest rate in the transaction is approximately 6 percent. In connection with this transaction, Occidental simultaneously entered into a natural gas price swap based on identical volumes of natural gas and a delivery schedule that corresponds to the natural gas delivery commitment. Under the terms of the swap, Occidental will pay an average fixed price of $2.27 per thousand cubic feet of gas and will receive a floating price that will approximate market which mitigates Occidental's price exposure. The fair value of this price swap is a $38 million gain, which is offset by a $38 million loss applicable to the related physical positions. This price swap is the principal component of the fair value for derivative financial instruments disclosed in Note 2.

Occidental has the ability to satisfy the delivery commitment with open market purchases and has not reduced its natural gas reserves for the commitment. At December 31, 1999, the future minimum delivery commitment under the contract expressed in dollars and in volumes is as follows (dollars in millions, volumes in billions of cubic feet):

	Value	Volumes
2000	$150	66
2001	150	66
2002	150	66
2003	147	65
Total	597	263
Less:		
Imputed interest	(64)	
Current portion	(122)	
Present value of natural gas delivery commitment, net of current portion	$411	

2.275

PRAXAIR, INC. (DEC)

(Millions of dollars)	1999	1998
Total current liabilities	$1,725	$1,289
Long-term debt	2,111	2,895
Other long-term liabilities	562	553
Deferred credits	600	465
Total liabilities	$4,998	$5,202

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 9 (In Part): Supplementary Balance Sheet Information

December 31,	1999	1998
Deferred credits		
Income taxes	$434	$357
Deferred gain on sale leaseback (Note 11)	152	88
Other	14	20
	$600	$465

Note 11 (In Part): Leases

During 1999 and 1998, Praxair sold and leased back certain U.S. distribution and liquid storage equipment for $80 million and $150 million, respectively. These operating leases have an initial two-year term with purchase and lease renewal options at projected future fair market values beginning in 2001 and 2000, respectively.

2.276

TIME WARNER INC. (DEC)

(Millions, except per share amounts)	1999	1998
Total current liabilities	$ 9,670	$ 4,618
Long-term debt	18,083	10,925
Borrowings against future stock option proceeds	1,243	895
Deferred income taxes	4,234	3,491
Unearned portion of paid subscriptions	762	741
Other liabilities	3,773	1,543
Minority interests	3,186	—
Mandatorily redeemable preferred securities of subsidiaries holding solely notes and debentures of subsidiaries of the Company	575	575

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Revenues and Costs (In Part)

Publishing and Music

The unearned portion of paid magazine subscriptions is deferred until magazines are delivered to subscribers. Upon each delivery, a proportionate share of the gross subscription price is included in revenues. Magazine advertising revenues are recognized when the advertisements are published.

In accordance with industry practice, certain products (such as magazines, books, home videocassettes, compact discs, DVDs and cassettes) are sold to customers with the right to return unsold items. Revenues from such sales are recognized when the products are shipped based on gross sales less a provision for future returns.

Inventories of magazines, books, cassettes and compact discs are stated at the lower of cost or estimated realizable value. Cost is determined using first-in, first-out; last-in, first-out; and average cost methods. Returned goods included in inventory are valued at estimated realizable value, but not in excess of cost.

RESERVES—USE OF THE TERM "RESERVE"

2.277 Prior to being superseded by the Accounting Principles Board, the Committee on Terminology of the AICPA issued four terminology bulletins. In *Accounting Terminology Bulletin No. 1*, the Committee recommended that the term *reserve* be applied only to amounts of retained earnings appropriated for general or specific purposes. In practice, the term *reserve*, with rare exceptions, is applied to amounts designated as valuation allowances deducted from assets or as accruals for estimated liabilities. Table 2-30 shows that the term *reserve* appears occasionally in the financial statements of the survey companies.

2.278

TABLE 2-30: USE OF TERM "RESERVE"

	Number of Companies			
	1999	1998	1997	1996
To describe deductions from assets for				
Reducing inventories to LIFO cost	33	40	41	33
Doubtful accounts	16	20	19	21
Accumulated depreciation	3	4	3	5
Other—described	19	13	10	8
To describe accruals for				
Estimated expenses relating to property abandonments or discontinued operations	17	19	23	26
Insurance	15	11	16	13
Environmental costs	10	16	25	18
Employee benefits or compensation	3	8	6	4
Other—described	10	15	25	13
Other—not described	1	1	1	2

TITLE OF STOCKHOLDERS' EQUITY SECTION

2.279 Table 2-31 summarizes the titles used by the survey companies to identify the stockholders' equity section of the balance sheet.

2.280

TABLE 2-31: TITLE OF STOCKHOLDERS' EQUITY SECTION

	1999	1998	1997	1996
Stockholders' Equity	284	271	271	263
Shareholders' Equity	238	244	246	250
Shareowners' Equity	25	26	25	20
Shareholders' Investment	12	12	12	15
Common Stockholders' Equity	8	9	11	12
Common Shareholders' Equity	7	12	10	8
Other or no title	26	26	25	32
Total Companies	**600**	**600**	**600**	**600**

CAPITAL STRUCTURES

2.281 Effective for periods ending after December 15, 1997, *Statement of Financial Accounting Standards No. 129* states the disclosure requirements for the capital structure of an entity.

2.282 Table 2-32 summarizes the capital structures disclosed on the balance sheets of the survey companies.

2.283

TABLE 2-32: CAPITAL STRUCTURES

	1999	1998	1997	1996
Common stock with:				
No preferred stock	517	501	485	472
One class of preferred stock	72	84	95	107
Two classes of preferred stock	6	15	18	19
Three or more classes of preferred stock	5	—	2	2
Total Companies	**600**	**600**	**600**	**600**
Companies included above with two or more classes of common stock	64	66	57	66

COMMON STOCK

2.284 Table 2-33 summarizes the reporting bases of common stock. As in prior years, the majority of the survey companies show common stock at par value.

2.285

TABLE 2-33: COMMON STOCK

	1999	1998	1997	1996
Par value stock shown at:				
Par value	551	571	576	580
Amount in excess of par	11	20	21	11
Assigned per share amount	5	4	6	12
No par value stock shown at:				
Assigned per share amount	5	13	9	8
No assigned per share amount	67	46	58	57
Issues outstanding	**639**	**654**	**670**	**668**

PREFERRED STOCK

2.286 Effective for periods ending after December 15, 1997, *Statement of Financial Accounting Standards No. 129* states reporting and disclosure requirements for preferred stock.

2.287 Table 2-34 summarizes the reporting bases of preferred stock. As with common stock, many of the survey companies present preferred stock at par value. Examples of preferred stock presentations and disclosures follow.

2.288

TABLE 2-34: PREFERRED STOCK

	Number of Companies			
	1999	1998	1997	1996
Par value stock shown at:				
Par value	45	41	53	52
Liquidation or redemption value	10	22	15	23
Assigned per share amount	4	7	4	8
Fair value at issuance date	1	5	3	1
Other	11	3	11	10
No par value stock shown at:				
Liquidation or redemption value	8	20	14	15
Assigned per share amount	6	6	13	13
Fair value at issuance date	—	1	2	—
No assigned per share amount	14	8	12	11
Number of Companies				
Preferred stock outstanding	90	102	120	130
No preferred stock outstanding	510	498	480	470
Total Companies	**600**	**600**	**600**	**600**

Preferred Stock Extended at Par Value

2.289

OGDEN CORPORATION AND SUBSIDIARIES (DEC)

	1999	1998
Shareholders' equity:		
Serial cumulative convertible preferred stock, par value $1.00 per share; authorized, 4,000,000 shares; shares outstanding: 39,246 in 1999 and 42,218 in 1998, net of treasury shares of 29,820 in 1999 and 1998	$ 39,000	$ 43,000
Common stock, par value $.50 per share; authorized, 80,000,000 shares; outstanding: 49,468,195 in 1999 and 48,945,989 in 1998, net of treasury shares of 4,405,103 and 4,561,963, respectively	24,734,000	24,473,000
Capital surplus	183,915,000	173,413,000
Earned surplus	255,182,000	367,984,000
Accumulated other comprehensive income	(20,820,000)	(16,813,000)
Total shareholders' equity	$443,050,000	$549,100,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

14. Preferred Stock

The outstanding Series A $1.875 Cumulative Convertible Preferred Stock is convertible at any time at the rate of 5.97626 common shares for each preferred share. Ogden may redeem the outstanding shares of preferred stock at $50 per share, plus all accrued dividends. These preferred shares are entitled to receive cumulative annual dividends at the rate of $1.875 per share, plus an amount equal to 150% of the amount, if any, by which the dividend paid or any cash distribution made on the commons stock in the preceding calendar quarter exceeded $.0667 per share.

2.290

WHX CORPORATION (DEC)

(In thousands)	1999	1998
Stockholders' equity:		
Preferred stock—$.10 par value; authorized 10,000 shares; issued and outstanding: 5,883 shares	$ 589	$ 589
Common stock $.01 par value; authorized 60,000 shares; issued and outstanding: 14,145 and 17,545 shares	141	175
Accumulated other comprehensive income	945	5,472
Additional paid-in capital	553,861	582,795
Accumulated earnings (deficit)	(178,065)	(142,519)
	$377,471	$446,512

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note J (In Part): Stockholders' Equity

The authorized capital stock of WHX consists of 60,000,000 shares of Common Stock, $.01 par value, of which 14,427,212 shares (including redeemable Common Stock) were outstanding as of December 31, 1999 and 10,000,000 shares of Preferred Stock, $0.10 par value, of which 2,907,825 shares of Series A Convertible Preferred Stock and 2,975,100 shares of Series B Convertible Preferred Stock were outstanding as of December 31, 1999. In 1998 and 1999, the Company purchased 1,780,307 shares and 3,594,300 shares, respectively, of Common Stock in open market purchases.

Series A Convertible Preferred Stock

In July 1993, the Company issued 3,000,000 shares of Series A Convertible Preferred Stock for net proceeds of $145.0 million. Dividends on the shares of the Series A Convertible Preferred Stock are cumulative, 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 price of $15.78 per share of Common Stock (equivalent to a conversion rate of approximately 3.1686 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 was not redeemable prior to July 1, 1996. On and after such date, 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 ratably to $50.00 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. In 1996 and 1997, the Company purchased and retired 92,000 shares of Series A Convertible Preferred Stock on the open market. No additional shares were purchased during 1998 or 1999. During 1999, an additional 175 shares have been converted into Common Stock.

Series B Convertible Preferred Stock

The Company issued 3,500,000 shares of Series B Convertible Preferred Stock in September 1994 for net proceeds of $169.8 million. Dividends on the shares of the Series B Convertible Preferred Stock, are cumulative, 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 price of $20.40 per share of Common Stock (equivalent to a conversion rate of approximately 2.4510 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 was not redeemable prior to October 1, 1997. On and after such date, 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 $50.00 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. In 1996 and 1997, the Company purchased and retired 524,900 shares of Series B Convertible Preferred Stock in open market purchases. No additional shares were purchased during 1998 or 1999.

Preferred Stock Extended at Redemption or Liquidating Value

2.291

CVS CORPORATION (DEC)

(In millions, except shares and per share amounts)	2000	1998
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 5,164,000 shares at January 1, 2000, and 5,239,000 shares at December 26, 1998	276.0	280.0
Common stock, par value $0.01: authorized 1,000,000,000 shares; issued 403,047,000 shares at January 1, 2000, and 401,380,000 shares at December 26, 1998	4.0	4.0
Treasury stock, at cost: 11,051,000 shares at January 1, 2000, and 11,169,000 shares at December 26, 1998	(258.5)	(260.2)
Guaranteed ESOP obligation	(257.0)	(270.7)
Capital surplus	1,371.7	1,336.4
Retained earnings	2,543.5	2,021.1
Total shareholders' equity	$3,679.7	$3,110.6

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9. 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 borrowed $357.5 million through a 20-year note (the "ESOP" Note). The proceeds from the ESOP Note 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 Note is 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 Note. As the ESOP Note is 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 January 1, 2000, 5.2 million shares of ESOP Preference Stock were outstanding, of which 1.9 million shares were allocated to participants and the remaining 3.3 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 Note 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 ESOP activity as of the respective fiscal years:

(In millions)	1999	Fiscal Year 1998	1997
ESOP expense recognized	$16.6	$25.8	$13.8
Dividends paid	20.1	20.5	20.8
Cash contributions	16.6	25.8	22.9
Interest payments	23.1	24.9	26.4
ESOP shares allocated	0.3	0.4	0.4

Preferred Stock Extended at Fair Value at Issuance Date

2.292

FERRO CORPORATION AND SUBSIDIARIES (DEC)

(Dollars in thousands)	1999	1998
Shareholders' equity:		
Serial convertible preferred stock, without par value. Authorized 2,000,000 shares; 1,520,215 shares issued	$ 70,500	$ 70,500
Guaranteed ESOP obligation	—	(4,067)
Common stock, par value $1 per share. Authorized 300,000,000 shares; 47,323,053 shares issued	47,323	47,323
Paid-in capital	17,482	7,954
Retained earnings	503,309	453,265
Accumulated other comprehensive income	(74,459)	(44,927)
Other	(8,714)	(6,758)
	555,441	523,290
Less cost of treasury stock:		
Common—12,153,584 shares—1999 and 11,995,955 shares—1998	240,506	226,076
Preferred—386,860 shares—1999 and 300,881 shares—1998	17,940	13,953
Total shareholders' equity	$296,995	$283,261

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5 (In Part): Capital Stock

In 1989, Ferro issued 1,520,215 shares of 7% Series A ESOP Convertible Preferred Stock to National City Bank, trustee for the Ferro ESOP. The shares were issued at a price of $46.375 per share for a total consideration of $70.5 million. Each share of ESOP convertible preferred stock is convertible into 2.5988 shares of common stock. As the loans are repaid by the trustee, preferred shares are allocated to participating individual employee accounts. The Company is required to repurchase at the original issue price, for cash or common stock at the Company's option, the preferred shares allocated to an employee's ESOP account upon distribution of such account to the employee unless such shares have been converted to common stock. Each preferred share carries one vote, voting together with the common stock on most matters.

ADDITIONAL PAID-IN CAPITAL

2.293 Table 2-35 lists the balance sheet captions used to describe additional paid-in capital. Examples of descriptive captions for additional paid-in capital are shown in this section in connection with discussions of the other components of stockholders' equity.

2.294

TABLE 2-35: ADDITIONAL PAID-IN CAPITAL—CAPTION TITLE

	1999	1998	1997	1996
Additional paid-in capital	270	264	262	254
Capital in excess of par or stated value	130	139	136	142
Paid-in capital	56	50	47	46
Capital surplus	28	28	31	32
Additional capital, or other capital	23	28	34	35
Paid-in surplus	—	2	1	1
Other captions	15	16	16	11
	522	**527**	**527**	**521**
No additional paid-in capital account	78	73	73	79
Total Companies	**600**	**600**	**600**	**600**

RETAINED EARNINGS

2.295 Table 2-36 indicates that most of the survey companies use the term *retained earnings*. Examples of descriptive captions used for retained earnings are shown in connection with discussions of other components of stockholders' equity.

2.296

TABLE 2-36: RETAINED EARNINGS—CAPTION TITLE

	1999	1998	1997	1996
Retained Earnings	481	488	479	477
Retained Earnings with additional words	5	5	6	7
Earnings with additional words	32	29	31	34
Income with additional words	9	9	11	9
Earned Surplus	1	1	1	1
Retained Earnings (Deficit)	31	20	26	32
Accumulated Deficit	41	48	46	40
Total Companies	**600**	**600**	**600**	**600**

TREASURY STOCK

2.297 *APB Opinion No. 6* discusses the balance sheet presentation of treasury stock. As shown in Table 2-37, the prevalent balance sheet presentation of treasury stock is to show the cost of treasury stock as a reduction of stockholders' equity.

2.298 Examples of treasury stock presentations follow.

2.299

TABLE 2-37: TREASURY STOCK—BALANCE SHEET PRESENTATION

	1999	1998	1997	1996
Common stock				
Cost of treasury stock shown as stockholders' equity deduction	370	355	360	350
Cost of treasury stock deducted from stock of the same class	14	12	5	4
Par or stated value of treasury stock deducted from issued stock of the same class	13	23	19	19
Other	4	2	3	1
Total Presentations	**401**	**392**	**387**	**374**
Preferred Stock				
Par or stated value of treasury stock deducted from issued stock of the same class	3	1	2	1
Cost of treasury stock shown as stockholders' equity deduction	2	2	2	4
Other	3	1	—	—
Total Presentations	**8**	**4**	**4**	**5**
Number of Companies				
Disclosing treasury stock	400	392	384	373
Not disclosing treasury stock	200	208	216	227
Total Companies	**600**	**600**	**600**	**600**

Cost of Treasury Stock Shown as Reduction of Stockholders' Equity

2.300

BRISTOL-MYERS SQUIBB COMPANY (DEC)

(Dollars in millions)	1999	1998
Stockholders' equity		
Preferred stock, $2 convertible series: authorized 10 million shares; issued and outstanding 10,977 in 1999 and 11,684 in 1998, liquidation value of $50 per share	$ —	$ —
Common stock, par value of $.10 per share: authorized 4.5 billion shares; issued 2,192,970,504 in 1999 and 2,188,316,808 in 1998	219	219
Capital in excess of par value of stock	1,533	1,075
Other comprehensive income	(816)	(622)
Retained earnings	15,000	12,540
	15,936	13,212
Less cost of treasury stock—212,164,851 common shares in 1999 and 199,550,532 in 1998	7,291	5,636
Total stockholders' equity	$8,645	$7,576

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Stockholders' Equity (In Part)

Changes in capital shares add capital in excess of par value of stock were:

(Dollars in millions)	Shares of Common Stock Issued	Shares of Common Stock Treasury	Capital in Excess of Par Value of Stock
Balance, December 31, 1996	1,082,496,016	81,806,550	$ 382
Issued pursuant to stock plans and options	738,151	(8,514,867)	162
Conversions of preferred stock	19,536	—	—
Purchases	—	16,777,700	—
Balance, December 31, 1997	1,083,253,703	90,069,383	544
Effect of two-for-one stock split	1,083,253,703	90,069,383	(108)
Issued pursuant to stock plans and options	16,931,302	(11,189,998)	700
Conversions of preferred stock	21,230	—	—
Purchases	—	30,601,764	—
Other	4,856,870	—	(61)
Balance, December 31, 1998	2,188,316,808	199,550,532	1,075
Issued pursuant to stock plans and options	4,641,700	(9,694,871)	458
Conversions of preferred stock	11,996	—	—
Purchases	—	22,309,190	—
Balance, December 31, 1999	2,192,970,504	212,164,851	$1,533

2.301

CONAGRA (MAY)

(In millions)	1999	1998
Common stockholders' equity		
Common stock of $5 par value, authorized 1,200,000,000 shares; issued 519,648,673 and 519,424,034	$2,598.2	$2,597.1
Additional paid-in capital	219.4	320.0
Retained earnings	1,369.8	1,337.7
Foreign currency translation adjustment	(65.9)	(67.6)
Less treasury stock, at cost, common shares 31,475,678 and 30,011,958	(749.9)	(705.2)
	3,371.6	3,482.0
Less unearned restricted stock and value of 17,184,831 and 21,376,632 common shares held in Employee Equity Fund (Note 12)	(462.8)	(643.0)
Total common stockholders' equity	$2,908.8	$2,839.0

2.302

CSP INC. AND SUBSIDIARIES (AUG)

(Amounts in thousands, except par value)	1999	1998
Shareholders' equity:		
Common stock, $.01 par; authorized, 7,500 shares; issued 4,020 and 3,991 shares	$ 40	$ 40
Additional paid-in capital	10,812	10,631
Retained earnings	19,287	18,028
Accumulated other comprehensive income	(456)	(99)
	29,683	28,600
Less treasury stock, at cost, 449 and 406 shares	2,318	2,060
Total shareholders' equity	$27,365	$26,540

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

10 (In Part): Commitments and Contingencies

Stock Repurchase

On October 9, 1986 the Board of Directors authorized the Company to repurchase up to 344,892 of the outstanding stock at market price. On September 28, 1995, the Board of Directors authorized the Company to repurchase up to 199,650 additional shares of the outstanding stock at market price. The timing of stock purchases are made at the discretion of management. At August 27, 1999, the Company has repurchased 449,244 or 82% of the total shares authorized to be purchased.

Par Value of Treasury Stock Deducted From Issued Stock

2.303

SERVICE CORPORATION INTERNATIONAL (DEC)

(Dollars in thousands, except share amounts)	1999	1998
Stockholders' equity:		
Common stock, $1 per share par value, 500,000,000 shares authorized, 272,064,618 and 259,201,104 issued and outstanding net of 2,792,503 and 68,373 treasury shares at par	$ 272,064	$ 259,201
Capital in excess of par value	2,156,301	1,646,765
Retained earnings	1,126,898	1,232,758
Accumulated other comprehensive income (loss)	(59,990)	15,378
Total stockholders' equity	3,495,273	3,154,102

OTHER ACCOUNTS SHOWN IN STOCKHOLDERS' EQUITY SECTION

2.304 Many of the survey companies present accounts other than Capital Stock, Additional Paid-In Capital, Retained Earnings, and Treasury Stock in the stockholders' equity section of the balance sheet. Other stockholders' equity accounts appearing on the balance sheets of the survey companies include, but are not limited to, cumulative translation adjustments, guarantees of ESOP debt, unearned or deferred compensation related to employee stock award plans, amounts owed to a company by employees for loans to buy company stock, and unrealized losses/gains related to investments in certain debt and equity securities.

2.305 Table 2-38 shows the number of survey company balance sheets presenting other stockholders' equity accounts. Cumulative translation adjustments, unrealized losses/gains on certain investments, and minimum pension liability adjustments are all "other comprehensive income" items which are illustrated in section 4.

2.306 188 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.

2.307 Examples showing the presentation of other stockholders' equity accounts follow.

2.308

TABLE 2-38: OTHER STOCKHOLDERS' EQUITY ACCOUNTS

	Number of Companies			
	1999	**1998**	**1997**	**1996**
Cumulative translation adjustments...	441	442	405	403
Unrealized losses/gains on certain investments	186	148	113	109
Minimum pension liability adjustments	183	186	106	101
Unearned compensation	116	119	115	117
Guarantees of ESOP debt	41	46	65	68
Employee benefit trusts	23	23	25	16
Receivables from sale of stock	10	14	13	12

Unearned Compensation Relating to Stock Award Plans

2.309

TANDY CORPORATION AND SUBSIDIARIES (DEC)

(In millions, except for share amounts)	1999	1998
Stockholders' equity		
Preferred stock, no par value, 1,000,000 shares authorized		
Series A junior participating, 300,000 and 100,000 shares designated in 1999 and 1998, respectively, and none issued	—	—
Series B convertible (TESOP), 100,000 shares authorized; 72,800 and 77,000 shares issued, respectively	$ 72.8	$100.0
Common stock, $1 par value, 250,000,000 shares authorized; 235,840,000 and 139,184,000 shares issued, respectively	235.8	139.2
Additional paid-in capital	82.4	109.7
Retained earnings	1,353.3	1,693.4
Treasury stock, at cost; 45,113,000 and 41,747,000 shares, respectively	(892.3)	(1,161.6)
Unearned deferred compensation	(20.5)	(31.5)
Accumulated other comprehensive loss	(0.8)	(1.0)
Total stockholders' equity	$830.7	$848.2

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 17: Tandy Fund

The Tandy Fund ("Plan") is a defined contribution plan. Eligible employees may direct their contributions into various investment options, including investing in Tandy common stock. Participants may defer, via payroll reductions, 1% to 8% of annual compensation. Contributions per participant are limited to certain annual maximums permitted by the Internal Revenue Code. Company contributions are made directly to the Plan through the Tandy Employees Stock Ownership Plan ("TESOP") portion of the Plan. The TESOP is a leveraged employee stock ownership plan. Participants become fully vested in Company contributions upon the earlier to occur of five years of service with Tandy or three years of participation in the Plan.

TESOP Portion of the Plan

On July 31, 1990, the trustee of the Plan borrowed $100.0 million at an interest rate of 9.34% with varying semiannual principal payments due through June 30, 2000 ("TESOP Notes"). The Plan trustee used the proceeds from the issuance of the TESOP Notes to purchase 100,000 shares of TESOP Preferred Stock from Tandy at a price of $1,000 per share. In December 1994, the Plan entered into an agreement with an unrelated third party to refinance up to $16.7 million of the TESOP Notes in a series of up to six annual notes, beginning December 30, 1994. As of December 31, 1999, the Plan had borrowed all of the $16.7 million (the "Refinanced Notes") in a series of six notes at interest rates ranging from 5.84% to 8.76% to refinance the TESOP Notes. The maturity dates of these six notes range from December 2000 to December 2002. Dividend payments and contributions received by the Plan from Tandy will be used to repay the indebtedness.

Each share of TESOP Preferred Stock is convertible into 87.072 shares of Tandy common stock. The annual cumulative dividend on TESOP Preferred Stock is $75.00 per share, payable semiannually. Because Tandy has guaranteed the repayment of the TESOP Notes and the Refinanced Notes, the indebtedness of the Plan is recognized as a long-term obligation in the accompanying Consolidated Balance Sheets. An offsetting charge has been made in the stockholders' equity section of the accompanying Consolidated Balance Sheets to reflect unearned deferred compensation related to the Plan.

Compensation and interest expenses related to the Plan before the reduction for the allocation of dividends are presented below for each year ended December 31:

(In millions)	1999	1998	1997
Compensation expense	$8.7	$10.2	$9.5
Interest expense	2.3	3.4	4.4

During the terms of the TESOP Notes and Refinanced Notes, the TESOP Preferred Stock will be allocated to the participants annually, based on the total debt service made on the indebtedness. As shares of the TESOP Preferred Stock are allocated to Plan participants, compensation expense is recorded and unearned deferred compensation is reduced. Interest expense on the TESOP Notes and Refinanced Notes is also recognized as a cost of the Plan. The compensation component of the Plan expense is reduced by the amount of dividends accrued on the TESOP Preferred Stock, with any dividends in excess of the compensation expense reflected as a reduction of interest expense.

Contributions from Tandy to the Plan for the years ended December 31, 1999, 1998 and 1997 totaled $12.0 million, $14.7 million and $14.5 million, respectively, including dividends paid on the TESOP Preferred Stock of $5.5 million, $5.8 million and $6.1 million, respectively.

As of December 31, 1999, 83,686 shares of TESOP Preferred Stock had been released to participants' accounts in the Plan, including 27,243 shares previously withdrawn by participants. A total of 75,442 of these shares had also been allocated to participants' accounts as of year end and the remaining 8,244 shares will be allocated to participants' accounts on the March 31, 2000 annual allocation date. At December 31, 1999, 16,314 shares of TESOP Preferred Stock were available for later release and allocation to participants' accounts over the remaining life of the TESOP Notes and Refinanced Notes. The appraised value of these remaining shares was $70.5 million at December 31, 1999. The TESOP Preferred Stock has certain liquidation preferences and may be redeemed after July 1, 1994, at specified premiums.

Guarantees of Esop Debt

2.310

BECTON, DICKINSON AND COMPANY (SEP)

(Thousands of dollars, except per-share amounts)	1999	1998
Shareholders' equity		
ESOP convertible preferred stock—$1 par value: authorized—1,016,949 shares; issued and outstanding—791,821 shares in 1999 and 829,815 shares in 1998	$ 46,717	$ 48,959
Preferred stock, series A—$1 par value: authorized—500,000 shares; none issued	—	—
Common stock—$1 par value: authorized—640,000 shares; issued—332,662,160 shares—in 1999 and 1998	332,662	332,662
Capital in excess of par value	44,626	—
Retained earnings	2,539,020	2,350,781
Unearned ESOP compensation	(20,310)	(24,463)
Deferred compensation	5,949	4,903
Common shares in treasury—at cost—81,864,329 shares in 1999 and 84,818,944 shares in 1998	(997,333)	(1,015,806)
Accumulated other comprehensive income	(182,643)	(83,216)
Total shareholders' equity	$1,768,688	$1,613,820

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

3. Employee Stock Ownership Plan Savings Incentive Plan

The Company has an Employee Stock Ownership Plan ("ESOP") as part of its voluntary defined contribution plan (Savings Incentive Plan) covering most domestic employees. The ESOP is intended to satisfy all or part of the Company's obligation to match 50% of employees' contributions, up to a maximum of 3% of each participant's salary. To accomplish this, in 1990, the ESOP borrowed $60,000 in a private debt offering and used the proceeds to buy the Company's ESOP convertible preferred stock. Each share of preferred stock has a guaranteed liquidation value of $59 per share and is convertible into 6.4 shares of the Company's common stock. The preferred stock pays an annual dividend of $3.835 per share, a portion of which is used by the ESOP, together with the Company's contributions, to repay the ESOP debt. Since the ESOP debt is guaranteed by the Company, it is reflected on the consolidated balance sheet as short-term and long-term debt with a related amount shown in the shareholders' equity section as Unearned ESOP compensation.

The amount of ESOP expense recognized is equal to the cost of the preferred shares allocated to plan participants and the ESOP interest expense for the year, reduced by the amount of dividends paid on the preferred stock.

For the plan year ended June 30, 1999, preferred shares accumulated in the trust in excess of the Company's matching obligation due to the favorable performance of the Company's common stock over the past several years. As a result, the Company matched up to an additional 1% of each eligible participant's salary. This increase in the Company's contribution was distributed in September 1999.

Selected financial data pertaining to the ESOP/Savings Incentive Plan follows:

	1999	1998	1997
Total expense of the savings incentive plan	$3,851	$4,183	$4,257
Compensation expense (included in total expense above)	$1,845	$1,975	$2,087
Dividends on ESOP shares used for debt service	$3,114	$3,235	$3,366
Number of preferred shares allocated at September 30	411,727	373,884	357,465

The Company guarantees employees' contributions to the fixed income fund of the Savings Incentive Plan. The amount guaranteed was $88,304 at September 30, 1999.

2.311

SBC COMMUNICATIONS, INC. (DEC)

(Dollars in millions except per share amounts)	1999	1998
Shareowners' equity		
Preferred shares ($1 par value, 10,000,000 authorized: none issued)	—	—
Common shares ($1 par value, 7,000,000,000 authorized: issued 3,433,124,836 at December 31, 1999 and 3,433,762,063 at December 31, 1998)	$ 3,433	$ 3,434
Capital in excess of par value	12,453	12,439
Retained earnings	13,798	8,948
Guaranteed obligations of employee stock ownership plans (ESOP)	(106)	(261)
Deferred compensation—leveraged ESOP (LESOP)	(73)	(82)
Treasury shares (37,752,621 at December 31, 1999 and 28,217,018 at December 31, 1998, at cost)	(1,717)	(882)
Accumulated other comprehensive income	(1,062)	(822)
Total shareowners' equity	$26,726	$22,774

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

Note 12: Other Employee Benefits

Employee Stock Ownership Plans

SBC maintains contributory savings plans that cover substantially all employees. Under the savings plans, SBC matches a stated percentage of eligible employee contributions, subject to a specified ceiling.

SBC has six leveraged ESOPs as part of the existing savings plans. Two of the ESOPs were funded with notes issued by the savings plans to various lenders, the proceeds of which were used to purchase shares of SBC's common stock in the open market. These notes are unconditionally guaranteed by SBC and therefore presented as a reduction to shareowners' equity and an increase in long-term debt. They will be repaid with SBC contributions to the savings plans, dividends paid on SBC shares and interest earned on funds held by the ESOPs.

One ESOP purchased PAC treasury shares in exchange for a promissory note from the plan to PAC. Since PAC is the lender, this note is not reflected as a liability and the remaining cost of unallocated trust shares is carried as a reduction of shareowners' equity. Principal and interest on the note are paid from employer contributions and dividends received by the trust. All PAC shares were exchanged for SBC shares effective with the merger April 1, 1997. The provisions of the ESOP were unaffected by this exchange.

Another ESOP acquired SNET shares with the proceeds of notes issued by the savings plans, which SNET guaranteed, through a third party. The SNET common stock was acquired through open market purchases in exchange for a promissory note from the plan to SNET. SNET periodically makes cash payments to the ESOP that, together with dividends received on shares held by the ESOP, are used to make interest and principal payments on both loans. All SNET shares were exchanged for SBC shares effective with the merger October 26, 1998. The provisions of the ESOP were unaffected by this exchange.

Two ESOPs were funded with notes issued by the savings plans which Ameritech guaranteed, the proceeds of which were used to purchase, at fair market value, shares of Ameritech common stock held in treasury. As a result of Ameritech's unconditional guarantee, the notes are presented as a reduction to shareowners' equity and an increase in long-term debt. Ameritech periodically made cash payments that, together with dividends received on shares held by the ESOPs, were used to make interest and principal payments on the loan. All Ameritech shares were exchanged for SBC shares effective with the merger on October 8, 1999. The provisions of the ESOP were unaffected by this exchange.

SBC's match of employee contributions to the savings plans is fulfilled with shares of stock allocated from the ESOPs and with purchases of SBC's stock in the open market. Shares held by the ESOPs are released for allocation to the accounts of employees as employer-matching contributions are earned. Benefit cost is based on a combination of the contributions to the savings plans and the cost of shares allocated to participating employees' accounts. Both benefit cost and interest expense on the notes are reduced by dividends on SBC's shares held by the ESOPs and interest earned on the ESOPs funds.

Information related to the ESOPs and the savings plans is summarized below:

	1999	1998	1997
Benefit expense—net of dividends and interest income	$ 90	$ 77	$ 73
Interest expense—net of dividends and interest income	10	25	36
Total expense	$100	$102	$109
Company contributions for ESOPs	$104	$142	$141
Dividends and interest income for debt service	$ 75	$100	$104

SBC shares held by the ESOPs are summarized as follows at December 31:

	1999	1999
Unallocated	16,030,695	24,501,561
Allocated to participants	101,257,366	95,069,009
Total	117,288,061	119,570,570

Receivables From Sale of Stock

2.312

TASTY BAKING COMPANY (DEC)

	1999	1998
Shareholders' equity		
Common stock, par value $.50 per share, and entitled to one vote per share: authorized 15,000,000 shares, issued 9,116,483 shares	$ 4,558,243	$ 4,558,243
Capital in excess of par value of stock	29,778,768	29,762,210
Retained earnings	27,968,811	27,021,836
	62,305,822	61,342,289
Less:		
Treasury stock, at cost: 1,293,135 shares and 1,294,026 shares, respectively	16,408,808	16,372,219
Management stock purchase plan receivables and deferrals	475,470	613,334
	$45,421,544	$44,356,736

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

11. Management Stock Purchase Plan

The Management Stock Purchase Plan provides that common shares may be sold to management employees from time to time at prices designated by the Board of Directors (not less than 50% of the fair market value at date of grant) and under certain restrictions and obligations to resell to the Company. During 1999 and 1998, a total of 4,640 and 23,815 shares of common stock was sold at 50% of fair market value at date of grant. The aggregate sales price of these shares was $29,616 and $203,013, respectively, for which collateral judgment notes were obtained to be paid in equal quarterly installments (not to exceed 40) with interest on the unpaid balance at 3.875% and 4% in 1999, and 4.25% in 1998. At December 25, 1999, a total of 931,567 common shares was authorized under the Plan, of which 213,323 shares remain available for issuance.

For accounting purposes, the difference between the fair market value of the stock at the date of grant and the purchase price, $29,859 in 1999 and $202,567 in 1998, represents compensation. The compensation is deferred and, together with the notes receivable, is shown as a deduction from shareholders' equity. The deferred compensation is amortized over a ten year period or the period the employees perform services, whichever is less. Amortization charged to income amounted to $54,711, $45,919 and $41,526, in 1999, 1998 and 1997, respectively.

In accordance with an Internal Revenue Service regulation, the company includes both the dividends paid on shares restricted under the Plan, and the difference between the purchase price of the stock at the date of the grant and the fair market value at the date the Plan restrictions lapse as employee compensation for federal income tax purposes. The tax benefits relating to the difference between the amounts deductible for federal income taxes over the amounts charged to income for book purposes have been credited to capital in excess of par value of stock.

2.313

USA NETWORKS, INC. AND SUBSIDIARIES (DEC)

(In thousands, except per share data)	1999	1998
Stockholders' equity		
Preferred stock—$.01 par value; authorized 15,000,000 shares; no shares issued and outstanding	—	—
Common stock—$.01 par value; authorized 800,000,000 shares; issued and outstanding, 274,013,418 and 254,544,064 shares, respectively	$ 2,740	$ 2,545
Class B—convertible common stock—$.01 par value; authorized, 200,000,000 shares; issued and outstanding, 63,033,452 shares	630	630
Additional paid-in capital	2,830,506	2,592,456
Accumulated deficit	(54,358)	(26,727)
Accumulated other comprehensive income	4,773	8,852
Treasury stock	(9,564)	—
Unearned compensation	—	(1,353)
Note receivable from key executive for common stock issuance	(4,998)	(4,998)
Total stockholders' equity	$2,769,729	$2,571,405

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 9: Stockholders' Equity (In Part)

Note Receivable From Key Executive for Common Stock Issuance

In connection with Mr. Diller's employment in August 1995, the Company agreed to sell Mr. Diller 1,767,952 shares of USAi Common Stock ("Diller Shares") at $5.6565 per share for cash and a non-recourse promissory note in the amount of $5.0 million, secured by approximately 1,060,000 shares of USAi Common Stock. The promissory note is due on the earlier of (i) the termination of Mr. Diller's employment, or (ii) September 5, 2007.

Stock Purchase Rights

2.314

BRIGGS & STRATTON CORPORATION (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9. Shareholder Rights Plan

On August 6, 1996, the Board of Directors declared a dividend distribution of one common stock purchase right (a "right") for each share of the Company's common stock outstanding on August 19, 1996. Each right would entitle shareowners to buy one-half of one share of the Company's common stock at an exercise price of $160.00 per full common share, subject to adjustment. The rights are not currently exercisable, but would become exercisable if certain events occurred relating to a person or group acquiring or attempting to acquire 15 percent or more of the outstanding shares of common stock. The rights expire on August 19, 2006, unless redeemed or exchanged by the Company earlier.

Put Options

2.315

THERMO ELECTRON CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7. Common Stock

In April 1998, the Company sold 7,475,000 shares of its common stock at $40.625 per share for net proceeds of $290.1 million.

During 1998 and 1999, in a series of transactions with an institutional counterparty, the Company sold put options and purchased call options. No cash was exchanged as a result of these transactions. The Company has a remaining maximum potential obligation under the put options to purchase 2,367,000 shares of its common stock at a weighted average exercise price of $14.06 for an aggregate of $33.3 million. These put and call options are exercisable only at maturity and expire between April and May 2000. The Company has the right to settle the put options by physical settlement of the options or by net share settlement using shares of the Company's common stock. Under the remaining call options, the Company has the right, but not the obligation, to purchase from the counterparty 1,183,500 shares of its common stock at an average price per share of $14.76 in 2000. The Company may, from time to time, enter into additional put and call option arrangements. During 1999, the Company purchased 1,536,000 shares of its common stock under the put options for $24.6 million. During 1999 and January 2000, put options for 1,798,000 shares expired.

At January 1, 2000, the Company had reserved 33,470,602 unissued shares of its common stock for possible issuance under stock-based compensation plans, for possible conversion of the Company's convertible debentures, and for possible exchange of certain subsidiaries' convertible obligations into common stock of the Company.

Section 3: Income Statement

INCOME STATEMENT TITLE

3.01 Table 3-1 summarizes the key word terms used in statement of income titles. Many of the survey companies which used the term *operations* showed a net loss in one or more of the years presented in the statement of income.

3.02

TABLE 3-1: INCOME STATEMENT TITLE

	1999	1998	1997	1996
Income	296	298	299	308
Operations	186	180	173	162
Earnings	114	117	122	125
Other	4	5	6	5
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, No. 130* requires that comprehensive income and its components, as defined in the Statement, be reported in a financial statement. Comprehensive income and its components can be reported in an income statement, a separate statement of comprehensive income, or a statement of changes in stockholders' equity.

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

	1999	1998	1997	1996
Single-step Form				
Income tax shown as separate last item	166	156	164	185
Income tax listed among operating items	—	1	4	3
Multi-step Form				
Costs deducted from sales to show gross margin	218	223	208	206
Costs and expenses deducted from sales to show operating income	216	220	224	206
Total Companies	**600**	**600**	**600**	**600**

Reclassifications

3.08

ALBERTSON'S, INC. (JAN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (In Part)

Reclassifications

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

3.09

DATASCOPE CORP. AND SUBSIDIARIES (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Reclassifications

The presentation of certain prior year information has been reclassified to conform with the current year presentation.

Beginning fiscal 1999, certain service expenses directly related to revenue producing activities and warranty were reclassified from selling, general and administrative expenses (SG&A) to Cost of Sales. The reclassification resulted in a better matching of revenue and expenses and had no impact on reported net earnings, earnings per share or stockholders' equity. Amounts reported for prior years have been reclassified to conform to the 1999 presentation. Service expenses reclassified from SG&A to Cost of Sales were $9.7 million for 1999, $9.2 million for 1998 and $9.2 million for 1997. The effect of this reclassification was to reduce gross margin by approximately 4 percentage points in each year and reduce SG&A as a percent of sales by a comparable amount.

REVENUES AND GAINS

3.10 Paragraphs 78 and 82 of FASB *Statement of Financial Accounting Concepts No. 6* define revenues and gains.

> 78. Revenues are inflows or other enhancements of assets of an entity or settlements of its liabilities (or a combination of both) from delivering or producing goods, rendering services, or other activities that constitute the entity's ongoing major or central operations.
>
> 82. Gains are increases in equity (net assets) from peripheral or incidental transactions of an entity and from all other transactions and other events and circumstances affecting the entity except those that result from revenues or investments by owners.

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

	1999	1998	1997	1996
Net Sales				
Net sales	325	337	342	342
Net sales and operating revenues	8	11	12	13
Net sales combined with other items	2	3	4	4
Sales				
Sales	82	79	81	88
Sales and operating revenues	15	18	23	22
Sales combined with other items	15	14	11	7
Other Captions				
Revenue	140	128	115	114
Gross sales, billings, shipments, etc.	13	10	12	10
Total Companies	**600**	**600**	**600**	**600**

3.14

TABLE 3-4: GAINS

	Number of Companies			
	1999	1998	1997	1996
Interest	349	334	338	331
Sale of assets	158	149	160	126
Equity in earnings of investees	88	92	103	93
Dividends	62	83	68	71
Foreign currency transactions	44	42	52	41
Liability accrual reduced	27	24	9	12
Royalties	26	29	35	26
Rentals	12	15	13	13
Insurance recoveries	10	9	N/C*	N/C*
Litigation settlements	8	15	9	8
Public offering of subsidiary's stock	6	5	4	13

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

REVENUES

3.15

AMERON INTERNATIONAL CORPORATION (NOV)

(Dollars in thousands)	1999	1998	1997
Sales	$545,081	$552,146	$533,506
Cost of sales	(402,099)	(412,934)	(397,823)
Gross profit	$142,982	$139,212	$135,683

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Revenue Recognition

Revenue from sales of coatings, fiberglass-composite pipe, construction products and certain other products is recorded at the time the goods are shipped. Revenue from sales of concrete and steel pipe is recognized either at shipment, at the time the pipe is inspected and accepted by the customer or, in certain situations, under the percentage of completion method.

3.16

COOPER INDUSTRIES, INC. (DEC)

(In millions)	1999	1998	1997
Revenues	$3,868.9	$3,651.2	$3,415.6
Cost of sales	2,603.4	2,447.1	2,281.6
Selling and administrative expenses	640.9	616.4	580.5
Goodwill amortization	47.1	43.8	32.4
Nonrecurring gains	—	(135.2)	(93.0)
Nonrecurring charges	3.7	53.6	40.5
Interest expense, net	55.2	101.9	90.4
Income from continuing operations before income taxes	$ 518.6	$ 523.6	$ 483.2

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Revenue Recognition:

Cooper recognizes sales when products are shipped. Accruals for sales returns and other allowances are provided at the time of shipment based upon experience.

3.17

PEERLESS MFG. CO. (JUN)

	1999	1998	1997
Net sales	$40,568,443	$43,455,136	$41,486,492
Cost of goods sold	26,296,724	28,215,330	29,961,203
Gross profit	$14,271,719	$15,239,806	$11,525,289

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Revenue Recognition

The Company generally recognizes sales of custom-contracted products at the completion of the manufacturing process. The percentage-of-completion method is used for significant long-term contracts. Percentage-of-completion is generally determined based upon engineering work performed, materials purchased and manufacturing labor hours incurred.

GAINS

Interest

3.18

HONEYWELL INTERNATIONAL INC. (DEC)

(Dollars in millions)	1999	1998	1997
Net sales	$23,735	$23,555	$22,499
Costs, expenses and other			
Cost of goods sold	18,495	17,689	17,444
Selling, general and administrative expenses	3,216	3,008	2,940
Gain on sale of non-strategic businesses	(106)	—	(303)
Equity in income of affiliated companies	(76)	(162)	(191)
Other (income) expense	(307)	(27)	(87)
Interest and other financial charges	265	275	277
	21,487	20,783	20,080
Income before taxes on income	$ 2,248	$ 2,772	$ 2,419

NOTES TO FINANCIAL STATEMENTS

Note 6 (In Part): Other (Income) Expense

Years ended December 31	1999	1998	1997
Interest income and other	$ (76)	$(57)	$(105)
Minority interests	46	37	45
Foreign exchange (gain) loss	(9)	17	(27)
Gain on disposition of investment in AMP Incorporated	(268)	—	—
Litigation settlements	—	(24)	—
	$(307)	$(27)	$ (87)

Sale of Assets

3.19

HERSHEY FOODS CORPORATION (DEC)

(In thousands of dollars)	1999	1998	1997
Net sales	$3,970,924	$4,435,615	$4,302,236
Costs and expenses:			
Cost of sales	2,354,724	2,625,057	2,488,896
Selling, marketing and administrative	1,057,840	1,167,895	1,183,130
Gain on sale of business	(243,785)	—	—
Total costs and expenses	3,168,779	3,792,952	3,672,026
Income before interest and income taxes	$ 802,145	$ 642,663	$ 630,210

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Divestiture

In January 1999, the Corporation completed the sale of a 94% majority interest of its U.S. pasta business to New World Pasta, LLC. The transaction included the *American Beauty, Ideal by San Giorgio, Light 'n Fluffy, Mrs. Weiss, P&R, Ronzoni, San Giorgio* and *Skinner* pasta brands, along with six manufacturing plants. In the first quarter of 1999, the Corporation received cash proceeds of $450.0 million, retained a 6% minority interest and recorded a gain of approximately $243.8 million before tax, $165.0 million or $1.17 per share—diluted after tax, as a result of the transaction. Net sales for the pasta business were $29.3 million, $373.1 million, and $386.2 million for 1999, 1998 and 1997, respectively. Net income for the pasta business was $1.5 million, $25.9 million and $25.2 million for 1999, 1998 and 1997, respectively.

Equity in Earnings of Investee

3.20

COLGATE-PALMOLIVE COMPANY (DEC)

(Dollars in millions)	1999	1998	1997
Net sales	$9,118.2	$8,971.6	$9,056.7
Cost of sales	4,224.0	4,290.3	4,461.5
Gross profit	4,894.2	4,681.3	4,595.2
Selling, general and administrative expenses	3,254.4	3,197.1	3,237.0
Other expense, net	73.6	61.2	72.4
Interest expense, net	171.6	172.9	183.5
Income before income taxes	$1,394.6	$1,250.1	$1,102.3

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9 (In Part): Supplemental Income Statement Information

Other Expense, Net	1999	1998	1997
Amortization of intangibles	$75.6	$81.7	$86.5
Earnings from equity investments	(5.3)	(5.3)	(5.6)
Minority interest	30.4	28.1	29.1
Other	(27.1)	(43.3)	(37.6)
	$73.6	$61.2	$72.4

Dividends

3.21

BOWNE & CO., INC. (DEC)

(In thousands)	1999	1998	1997
Net sales	$1,010,790	$847,566	$716,647
Expenses:			
Cost of sales	608,668	487,954	392,120
Selling and administrative	291,137	251,632	203,362
Depreciation	41,104	34,375	27,991
Amortization	11,373	7,551	1,678
Purchased in-process research and development and other charges	—	9,025	6,991
	952,282	790,537	632,142
Operating income	58,508	57,029	84,505
Gain on sale of subsidiary	—	—	35,273
Interest expense	(6,282)	(5,492)	(1,621)
Other income, net	1,010	2,878	2,456
Income before income taxes	$ 53,236	$ 54,415	$120,613

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 12: Other Income

The components of other income (expense) are summarized as follows:

	1999	1998	1997
Interest income	$ 710	$1,531	$1,569
Dividends	21	246	202
Realized gains (losses) on sales of marketable securities and other assets	(2)	1,789	(228)
Other	281	(688)	913
	$1,010	$2,878	$2,456

Foreign Currency Transactions

3.22

CHAMPION INTERNATIONAL CORPORATION AND SUBSIDIARIES (DEC)

(In millions)	1999	1998	1997
Net sales	$5,268	$5,653	$5,736
Costs and expenses:			
Cost of products sold	4,417	4,953	5,141
Selling, general and administrative expenses	375	367	393
Provision for restructuring	—	80	891
Interest and debt expense	243	261	240
Other (income) expense—net (Note 11)	(89)	(45)	(32)
Total costs and expenses	4,946	5,616	6,633
Income (loss) before income taxes and extraordinary item	$ 322	$ 37	$ (897)

NOTES TO FINANCIAL STATEMENTS

Note 11: Other (Income) Expense—Net

(In millions of dollars)	1999	1998	1997
Interest income	$(40)	$(24)	$(18)
Foreign currency (gains) losses—net	(40)	(11)	(1)
Equity in net income of affiliates	(2)	(2)	(1)
Royalty, rental and commission income	(7)	(7)	(14)
Net gain on disposal of fixed assets, timberlands and investments	(16)	(22)	(24)
Miscellaneous—net	16	21	26
	$(89)	$(45)	$(32)

Liability Accruals Reduced

3.23

ITT INDUSTRIES, INC. (DEC)

(In millions)	1999	1998	1997
Sales and revenues	$4,632.2	$4,492.7	$4,207.6
Costs of sales and revenues	3,265.8	3,165.9	2,982.7
Selling, general and administrative expenses	691.4	734.4	679.2
Research, development and engineering expenses	264.4	267.6	266.6
Restructuring and other special items	(4.6)	399.4	137.8
Total costs and expenses	4,217.0	4,567.3	4,066.3
Operating income (loss)	415.2	(74.6)	141.3
Interest expense	(84.8)	(125.8)	(133.2)
Interest income	38.0	43.4	17.5
Miscellaneous income (expense)	1.3	(3.0)	(6.1)
Income (loss) from continuing operations before income tax expense	$ 369.7	$ (160.0)	$ 19.5

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4 (In Part): Restructuring and Other Special Items

As of December 31, 1999, the Company had closed 16 of the planned 25 facilities, discontinued 18 of the planned 19 product lines, and reduced the workforce by 1,680, or approximately 70% of the planned aggregate reduction of approximately 2,400 persons. During the fourth quarter of 1999, the Company assessed its 1998 restructuring reserves, determined that activities related to those reserves will be completed for $44.8 less than originally estimated, and reversed the related reserve into income. The $44.8 of excess was primarily the result of favorable experience in employee separations and asset disposal costs which were not required. The remaining 1998 restructuring programs will be completed in 2000 and early 2001.

• • • • • •

At December 31, 1999 and 1998, reserve balances for restructuring activities were $44.7 and $138.4, respectively. In 1999, payments for restructuring totaled $60.0. The following table displays a rollforward of the restructuring reserves for 1999:

	Balance December 31, 1998	Payments and Other	Reversals	1999 Cash Charges	Balance December 31, 1999
Connectors & switches	$ 42.7	$(13.4)	$(16.5)	$ 5.7	$18.5
Defense products & services	15.1	(3.6)	(8.6)	0.3	3.2
Pumps & complementary products	73.8	(43.5)	(19.7)	6.4	17.0
Specialty products	1.8	(0.7)	—	2.4	3.5
Corporate and other	5.0	(2.5)	—	—	2.5
Total	$138.4	$(63.7)	$(44.8)	$14.8	$44.7

Royalties

3.24

BROWN SHOE COMPANY, INC. (JAN)

(Thousands)	1999	1998	1997
Net sales	$1,592,532	$1,538,530	$1,567,202
Cost of goods sold	967,161	925,190	988,530
Gross profit	625,371	613,340	578,672
Selling and administrative expenses	558,436	551,877	559,536
Interest expense	17,349	19,383	21,756
Other (income) expense, net	(2,179)	4,477	(452)
Earnings (loss) before income taxes	$ 51,765	$ 37,603	$ (2,168)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

16 (In Part): Supplementary Information

Statement of Consolidated Earnings

Advertising and marketing costs totaled $52.5 million, $54.9 million, and $61.0 million in 1999, 1998 and 1997, respectively.

Other Expense (Income) consisted of the following (in thousands):

	1999	1998	1997
Interest income	$(1,884)	$(1,730)	$(1,427)
Restructuring charges	—	1,950	1,000
Royalty income	(1,599)	(1,377)	(2,127)
Amortization of intangibles	893	3,488	1,731
Environmental charges	1,790	2,344	—
Gain on sale of le coq sportif	(2,334)	—	—
Other, net	955	(198)	371
Total	$(2,179)	$4,477	$ (452)

Rentals

3.25

CUMMINS ENGINE COMPANY, INC. (DEC)

(Millions)	1999	1998	1997
Net sales	$6,639	$6,266	$5,625
Cost of goods sold	5,221	4,925	4,345
Special charges	—	92	—
Gross profit	1,418	1,249	1,280
Selling and administrative expenses	781	787	744
Research and engineering expenses	245	255	260
Net expense (income) from joint ventures and alliances	28	30	(10)
Interest expense	75	71	26
Other expense (income), net	8	(13)	(26)
Restructuring and other non-recurring charges	60	125	—
Earnings (loss) before income taxes	$ 221	$ (6)	$ 286

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 5: Other Expense (Income)

The major components of other expense (income) include the following:

($ millions)	1999	1998	1997
Amortization of intangibles	$15	$ 14	$ 2
Interest income	(7)	(9)	(5)
Loss (gain) on sale of businesses	1	(7)	(13)
Rental income	(5)	(6)	(3)
Royalty income	(4)	(5)	(12)
Foreign currency losses	2	5	1
Non-operating partnership costs	6	3	—
Social tax refunds	—	(3)	—
Other	—	(5)	4
Total	$ 8	$(13)	$(26)

Insurance Recoveries

3.26

BADGER METER, INC. (DEC)

(In thousands)	1999	1998	1997
Net sales	$150,877	$143,813	$130,771
Cost of sales	91,722	86,502	82,034
Gross margin	59,155	57,311	48,737
Selling, engineering and administration	42,495	42,941	37,769
Operating earnings	16,660	14,370	10,968
Interest expense	1,256	630	455
Other expense (income), net	(255)	376	308
Earnings before income taxes	$ 15,659	$ 13,364	$ 10,205

NOTES TO STATEMENTS

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

Other Expense (Income), Net

Other income and expense includes foreign currency gains and losses, which are recognized as incurred. The Company's functional currency for all of its foreign subsidiaries is the U.S. dollar. For 1999, other income also includes $750,000 of business interruption insurance proceeds related to lost sales and margins as a result of a fire at a vendor's facility during the year.

Litigation Settlement

3.27

SUNOCO, INC. AND SUBSIDIARIES (DEC)

(Millions of dollars)	1999	1998	1997
Revenues			
Sales and other operating revenue (including consumer excise taxes)	$9,889	$8,413	$10,464
Interest income	7	23	7
Other income (Note 3)	172	147	60
	10,068	8,583	10,531
Costs and expenses			
Cost of products sold and operating expenses	7,365	5,646	7,610
Consumer excise taxes	1,583	1,559	1,563
Selling, general and administrative expenses	533	521	533
Depreciation, depletion and amortization	276	257	259
Payroll, property and other taxes	77	82	78
Provision for write-down of assets and other matters	2	58	32
Interest cost and debt expense	84	77	78
Interest capitalized	(2)	(6)	(7)
	9,918	8,194	10,146
Income before income tax expense	$ 150	$ 389	$ 385

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. Other Income

(Millions of dollars)	1999	1998	1997
Gain on settlement of insurance litigation (Note 14)	$ 73	$ 58	$—
Equity in earnings of affiliated companies	21	26	25
Gain on divestments	16	14	12
Other	62	49	23
	$172	$147	$60

14 (In Part): Commitments and Contingent Liabilities

On October 4, 1996, Sunoco filed a complaint in Los Angeles County Superior Court, *Jalisco Corporation, Inc., et al. v. Argonaut Insurance Company, et al.* (Case No. BC 158441), naming more than 45 insurance companies as defendants and seeking recovery under numerous insurance policies for certain environmental matters of Sunoco, including its predecessor companies and subsidiaries, arising from the ownership and operation of its businesses. In 1999 and 1998, the Company entered into several settlements which resolved most of these claims. As a result, the Company received net cash proceeds totaling $4 million in 1998, $96 million in 1999 and $28 million in early 2000. Pretax gains of $73 million ($47 million after tax) and $58 million ($38 million after tax) were recognized in other income in 1999 and 1998, respectively, in connection with these settlements.

Public Offering of Subsidiary Stock

3.28

TRW INC. AND SUBSIDIARIES (DEC)

(In millions)	1999	1998	1997
Sales	$16,969	$11,886	$10,831
Cost of sales	13,879	9,715	8,826
Gross profit	3,090	2,171	2,005
Administrative and selling expenses	1,150	826	684
Research and development expenses	609	522	461
Purchased in-process research and development	85	—	548
Interest expense	477	114	75
Amortization of goodwill and intangible assets	195	43	13
Other (income) expense—net	(213)	(80)	(16)
Earnings before income taxes	$ 787	$ 746	$ 240

NOTES TO FINANCIAL STATEMENTS

Other (Income) Expense—Net (In Part)

(In millions)	1999	1998	1997
Other income	$(157)	$(123)	$(66)
Other expense	125	30	35
Minority interests	23	11	20
Earnings of affiliates	(14)	(5)	(12)
ICO investment write-off	79	—	—
Gain from issuance of equity affiliate's stock	(29)	—	—
Gain from sale of equity affiliate's stock	(306)	—	—
Foreign currency exchange	66	7	7
	$(213)	$ (80)	$(16)

During the first quarter of 1999, RF Micro Devices, Inc. (RFMD), an affiliate which designs, develops, manufactures and markets proprietary radio frequency integrated circuits for wireless communications applications, issued shares of stock in a registered public offering, resulting in a gain of $29 million. Deferred taxes have been provided on the gain.

Nonrecurring/Unusual Gain

3.29

TECUMSEH PRODUCTS COMPANY AND SUBSIDIARIES (DEC)

(Dollars in millions except per share data)	1999	1998	1997
Net sales	$1,814.3	$1,750.2	$1,728.3
Cost of sales and operating expenses	1,507.4	1,492.8	1,478.7
Selling and administrative expenses	117.6	115.8	104.4
Nonrecurring (gain) charges	(5.5)[a]	45.0[b]	—
Operating income	194.8	96.6	145.2
Interest expense	(7.9)	(6.9)	(6.3)
Interest income and other, net	28.1	27.8	21.9
Nonrecurring gain	8.6[c]	—	—
Income before taxes on income	$ 223.6	$ 117.5	$ 160.8

(a) 1999 operating income includes a net $5.5 million nonrecurring gain which consists of a $4.6 million gain from the curtailment of employee benefit plans at a closed plant, a $4.0 million gain on an insurance settlement and offsetting charges for plant closing and environmental costs totaling $3.1 million. This net gain was equivalent to $0.17 per share after taxes.

(b) 1998 operating income includes a $45 million nonrecurring charge for asset impairment. This charge was equivalent to $1.35 per share after taxes.

(c) 1999 net income includes a nonrecurring gain of $8.6 million from currency hedging. This gain was equivalent to $0.27 per share after taxes.

EXPENSES AND LOSSES

3.30 Paragraphs 80 and 83 of FASB *Statement of Financial Accounting Concepts No. 6* define expenses and losses.

> 80. Expenses are outflows or other using up of assets or incurrences of liabilities (or a combination of both) from delivering or producing goods, rendering services, or carrying out other activities that constitute the entity's ongoing major or central operations.
>
> 83. Losses are decreases in equity (net assets) from peripheral or incidental transactions of an entity and from all other transactions and other events and circumstances affecting the entity except those that result from expenses or distributions to owners.

3.31 Table 3-5 reveals that most of the survey companies show a single caption and amount for cost of goods sold. Table 3-6 summarizes the nature of expenses, other than cost of goods sold. Excluded from Table 3-6 are rent (Table 2-28), employee benefits, depreciation (Table 3-13), and income taxes (Table 3-14). Table 3-7 lists losses most frequently disclosed by the survey companies. Excluded from Table 3-7 are losses shown after the caption for income taxes (Table 3-16), segment disposals, and extraordinary losses (Table 3-17).

3.32 Examples of expenses and losses follow.

3.33

TABLE 3-5: EXPENSES—COST OF GOODS SOLD CAPTIONS

	1999	1998	1997	1996
Single Amount				
Cost of sales	247	259	265	263
Cost of goods sold	104	108	108	109
Cost of products sold	97	103	105	105
Cost of revenues	27	20	18	15
Elements of cost	12	13	11	15
Other captions	69	60	69	69
	556	**563**	**576**	**576**
More than one amount	44	37	24	24
Total Companies	**600**	**600**	**600**	**600**

3.34

TABLE 3-6: EXPENSES—OTHER THAN COST OF GOODS SOLD

	Number of Companies			
	1999	1998	1997	1996
Selling, general and administrative	339	337	335	342
Selling and administrative	136	141	147	140
General and/or administrative	99	101	90	100
Selling	35	40	26	18
Interest	574	569	561	571
Research, development, engineering, etc.	307	308	319	312
Advertising	151	132	129	121
Provision for doubtful accounts	32	32	37	33
Taxes other than income taxes	20	25	35	30
Maintenance and repairs	12	18	24	27
Exploration, dry holes, abandonments	14	18	21	23

3.35

TABLE 3-7: LOSSES

	Number of Companies			
	1999	1998	1997	1996
Restructuring of operations	160	197	144	138
Write-down of assets	152	174	106	111
Intangible asset amortization	144	149	132	111
Foreign currency transactions	70	79	82	80
Sale of assets	49	28	40	29
Minority interests	41	35	42	36
Equity in losses of investees	38	33	20	26
Merger costs	30	25	21	N/C*
Litigation settlements	21	33	24	33
Purchased R&D	20	39	20	N/C*
Sale of receivables	20	21	22	27
Environmental cleanup	16	29	28	22
Distributions on preferred securities of subsidiary trust	12	8	6	N/C*
Royalties	8	12	7	6

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

EXPENSES

Cost of Goods Sold

3.36

PARKER HANNIFIN CORPORATION (JUN)

(Dollars in thousands)	1999	1998	1997
Net sales	$4,958,800	$4,633,023	$4,091,081
Cost of sales	3,869,370	3,550,992	3,152,988
Gross profit	$1,089,430	$1,082,031	$ 938,093

3.37

TANDY CORPORATION AND SUBSIDIARIES (DEC)

	1999		1998		1997	
(In millions)	Dollars	% of Revenues	Dollars	% of Revenues	Dollars	% of Revenues
Net sales and operating revenues	$4,126.2	100.0%	$4,787.9	100.0%	$5,372.2	100.0%
Cost of products sold	2,042.7	49.5	2,783.5	58.1	3,357.9	62.5
Gross profit	$2,083.5	50.5	$2,004.4	41.9	$2,014.3	37.5

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Extended Service Contracts

Tandy's retail operations offer extended service contracts on products sold. These contracts generally provide extended service coverage for periods of 12 to 60 months. Tandy offers these contracts on behalf of an unrelated third party, who is named as obligor on these contracts. Tandy is not named as obligor on these contracts. In these circumstances, Tandy's share of commission revenue is recognized as income at the time of sale.

During 1997, Tandy sold its own extended service contracts in one state. Revenues from the sale of these contracts are recognized ratably over the lives of the contracts. Costs directly related to sales of such contracts are deferred and charged to expense proportionately as the revenues are recognized. A loss is recognized on extended service contracts if the sum of the expected costs of providing services pursuant to the contracts exceeds related unearned revenue.

3.38

TYLER TECHNOLOGIES, INC. (DEC)

(In thousands)	1999	1998	1997
Revenues:			
Software licenses	$23,576	$10,761	$—
Professional services	46,629	24,311	—
Maintenance	25,579	6,139	—
Hardware and other	12,617	9,338	—
Total revenues	108,401	50,549	—
Cost of revenues:			
Software licenses	3,227	1,041	—
Professional services and maintenance	42,505	17,710	—
Hardware and other	8,681	5,998	—
Total cost of revenues	54,413	24,749	—
Gross margin	$53,988	$25,800	$—

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Costs of Computer Software

SFAS No. 86, "Accounting for the Costs of Computer Software to be Sold, Leased, or Otherwise Marketed," requires capitalization of software development costs incurred subsequent to establishment of technological feasibility and prior to the availability of the product for general release to customers. In 1999, the Company capitalized approximately $2,312,000 of software development costs, which primarily include personnel costs. No such costs were capitalized in 1998. Systematic amortization of capitalized costs begins when a product is available for general release to customers and is computed on a product-by-product basis at a rate not less than straight-line basis over the product's remaining estimated economic life. Amortization of software development costs in 1999 was approximately $122,000.

In accordance with the AICPA SOP 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use," certain external direct costs of materials and services, internal payroll and payroll related costs and other qualifying costs incurred in connection with developing or obtaining internal use software are capitalized. The Company capitalizes qualifying costs to internally construct a national data repository ("Database"). Such capitalized costs include certain payroll-related and contracted programming costs as well as the costs to purchase data from external sources to initially populate the Database. Costs to subsequently update the Database are expensed as incurred. Upon its completion, the Database will include among other Items, a wide range of public information for delivery via the Internet, such as real property tax and assessment data, and a chain of title property records and images. During 1999 and 1998, $4,368,000 and $266,000, respectively, of such costs were capitalized as Database software and related costs. As of December 31, 1999, there has been no amortization of these costs since the Database is not yet ready for its intended use. Additionally at December 31, 1999, $3,426,000 of related equipment has been capitalized in connection with construction of the Database. To date, there have been no significant customer contracts signed since the Database is not yet ready for its intended use. Although management currently believes these costs are fully recoverable based on its projections of future sales, it is reasonably possible that those estimates of anticipated future gross revenues could be reduced in the near term due to the uncertainty inherent in such an investment, and the carrying amount may be correspondingly reduced in the near term.

Research and Development

3.39

ABBOTT LABORATORIES AND SUBSIDIARIES (DEC)

(Dollars in thousands)	1999	1998	1997
Net sales	$13,177,625	$12,512,734	$11,889,283
Cost of products sold	5,977,183	5,406,635	5,052,313
Research and development	1,193,963	1,228,777	1,307,362
Selling, general and administrative	2,857,104	2,759,757	2,695,758
Total operating costs and expenses	10,028,250	9,395,169	9,055,433
Operating earnings	$ 3,149,375	$ 3,117,565	$ 2,833,850

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Research and Development

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

3.40

ALPHA INDUSTRIES, INC. AND SUBSIDIARIES (MAR)

(In thousands)	1999	1998	1997
Sales	$126,339	$116,881	$ 85,253
Cost of sales	71,131	72,799	68,519
Research and development expenses	12,886	10,035	9,545
Selling and administrative expenses	22,767	22,359	20,441
Repositioning expenses	—	—	2,074
Total operating expenses	106,784	105,193	100,579
Operating income (loss)	$ 19,555	$ 11,688	$(15,326)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Research and Development Expenditures

Research and development expenditures are charged to income as incurred.

Advertising

3.41

MATTEL, INC. AND SUBSIDIARIES (DEC)

(In thousands)	1999	1998	1997
Net sales	$5,514,950	$5,621,207	$5,455,547
Cost of sales	2,913,910	2,707,904	2,635,887
Gross profit	2,601,040	2,913,303	2,819,660
Advertising and promotion expenses	945,955	917,665	846,448
Other selling and administrative expenses	1,190,915	1,144,801	1,013,091
Restructuring and other charges	345,996	157,314	343,606
Amortization of intangibles	91,847	129,689	487,199
Charge for incomplete technology	—	56,826	20,300
Interest expense	151,609	128,468	112,612
Other income, net	(14,539)	(13,092)	(4,812)
Income (loss) before income taxes and extraordinary item	$ (110,743)	$ 391,632	$ 1,216

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Advertising and Promotion Costs

Costs of media advertising are expensed the first time the advertising takes place, except for direct-response advertising, which is capitalized and amortized over its expected period of future benefits. Direct-response advertising consists primarily of catalogue production and mailing costs that are generally amortized within three months from the date catalogues are mailed. Advertising costs associated with customer benefit programs are accrued as the related revenues are recognized. Costs related to various end-user coupon rebate programs are expensed at the time sales are made and are estimated based on the expected coupon redemption rate on a product-by-product basis and are adjusted to actual at the end of each reporting period.

Provision for Doubtful Accounts

3.42

GENERAL ELECTRIC COMPANY AND CONSOLIDATED AFFILIATES (DEC)

(In millions)	1999	1998	1997
Revenues			
Sales of goods	$ 47,785	$ 43,749	$40,675
Sales of services	16,283	14,938	12,729
Other income	798	649	2,300
Earnings of GECS	—	—	—
GECS revenues from services	46,764	41,133	35,136
Total revenues	111,630	100,469	90,840
Costs and expenses			
Cost of goods sold	34,554	31,772	30,889
Cost of services sold	11,404	10,508	9,199
Interest and other financial charges	10,013	9,753	8,384
Insurance losses and policyholder and annuity benefits	11,028	9,608	8,278
Provision for losses on financing receivables (note 13)	1,678	1,609	1,421
Other costs and expenses	27,011	23,477	21,250
Minority interest in net earnings of consolidated affiliates	365	265	240
Total costs and expenses	96,053	86,992	79,661
Earnings before income taxes	$ 15,577	$ 13,477	$11,179

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

13. GECS Allowance for Losses on Financing Receivables

(In millions)	1999	1998	1997
Balance at January 1	$3,288	$2,802	$2,693
Provisions charged to operations	1,678	1,609	1,421
Net transfers primarily related to acquisitions and sales	270	388	127
Amounts written off—net	(1,457)	(1,511)	(1,439)
Balance at December 31	$3,779	$3,288	$2,802

LOSSES

Restructuring of Operations

3.43

AT&T CORP. AND SUBSIDIARIES (DEC)

(Dollars in millions)	1999	1998	1997
Revenue	$62,391	$53,223	$51,577
Operating expenses			
Access and other interconnection	14,686	15,328	16,350
Network and other costs of services	14,385	10,495	10,038
Selling, general and administrative	13,516	12,770	14,371
Depreciation and other amortization	6,138	4,378	3,728
Amortization of goodwill, franchise costs and other purchased intangibles	1,301	251	254
Net restructuring and other charges	1,506	2,514	—
Total operating expenses	51,532	45,736	44,741
Operating income	$10,859	$ 7,487	$ 6,836

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6. Net Restructuring and Other Charges

During 1999, we recorded $1,506 of net restructuring and other charges.

A $594 in-process research and development charge was recorded reflecting the estimated fair value of research and development projects at Broadband, as of the date of acquisition, which have not yet reached technological feasibility or that have no alternative future use. The projects identified related to Broadband's efforts to offer voice over Internet protocol (IP), product-integration efforts for advanced set-top devices that would enable Broadband to offer next-generation digital services, cost-savings efforts for cable telephony implementation and in-process research and development related to excite@Home. Although there are significant technological issues to overcome to successfully complete the acquired in-process research and development, AT&T expects successful completion. We currently anticipate that (i) we will test IP telephony equipment for field deployment in late 2000, (ii) field trials will begin in mid 2000 for next-generation digital services, and (iii) testing and deployment of devices with respect to AT&T's cost-savings efforts for cable telephony implementation will occur by the end of 2000. If, however, AT&T is unable to establish technological feasibility and produce commercially viable products/services, then anticipated incremental future cash flows attributable to expected profits from such new products/services may not be realized.

A $531 asset impairment charge was recorded primarily associated with the planned disposal of wireless network equipment resulting from a program to increase capacity and operating efficiency of our wireless network. As part of a multivendor program, contracts are being executed with certain vendors to replace significant portions of our wireless infrastructure equipment in the western United States and the metropolitan New York markets. The program will provide Wireless Services with the newest technology available and allow it to evolve to new, third-generation digital technology, which will provide high-speed data capabilities.

The planned disposal of the existing wireless infrastructure equipment required an evaluation of asset impairment in accordance with SFAS No. 121 "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of" to write-down these assets to their fair value, which was estimated by discounting the expected future cash flows of these assets through the date of disposal. Since the assets will remain in service from the date of the decision to dispose of these assets to the disposal date, the remaining net book value of the assets will be depreciated over this period.

A $145 charge for restructuring and exit costs was recorded as part of AT&T's initiative to reduce costs by $2 billion by the end of 2000. The restructuring and exit plans primarily focus on the maximization of synergies through headcount reductions in Business Services and network operations, including the consolidation of customer-care and call centers.

Included in the exit costs was $142 of cash termination benefits associated with the separation of approximately 2,800 employees as part of voluntary and involuntary termination plans. Approximately one-half of the separations were management employees and one-half were nonmanagement employees. Approximately 1,700 employee separations related to involuntary terminations and approximately 1,100 related to voluntary terminations. Nearly 80% of the affected employees have left their positions as of December 31, 1999, and the remaining employees will leave the Company in early 2000. Termination benefits of $40 were paid in the fourth quarter of 1999. This cash outlay was funded primarily through cash from operations. The balance of the cash termination payments is expected to be paid in the first quarter of 2000.

In addition, our continuing efforts to reduce costs by $2 billion by the end of 2000 and the planned merger with MediaOne may require further charges for exit and separation plans, which we expect to have finalized in the first half of 2000.

The following table displays the activity and balances of the restructuring reserve account from January 1, 1998, to December 31, 1999:

Type of Cost	Jan. 1, 1998 Balance	1998 Additions	1998 Deductions	Dec. 31, 1998 Balance
Employee separations	$413	$150	$(445)	$118
Facility closings	434	125	(190)	369
Other	60	—	(30)	30
Total	$907	$275	$(665)	$518

Type of Cost	Jan. 1, 1999 Balance	1999 Additions	1999 Deductions	Dec. 31, 1999 Balance
Employee separations	$118	$142	$(110)	$150
Facility closings	369	—	(130)	239
Other	30	3	(12)	1
Total	$517	$145	$(252)	$410

Deductions reflect cash payments of $209 and $245 and noncash utilization of $43 and $420 for 1999 and 1998, respectively. Noncash utilization included a reversal in 1998 of $348 related to the 1995 restructing plan. Other noncash utilization included deferred severance payments primarily related to executives.

We also recorded net losses of $307 related to the government-mandated disposition of certain international businesses that would have competed directly with Concert and $50 related to a contribution agreement Broadband entered into with Phoenixstar, Inc., that requires Broadband to satisfy certain liabilities owed by Phoenixstar and its subsidiaries. The remaining obligation under this contribution agreement is $26. In addition, we recorded benefits of $121 related to the settlement of pension obligations for former employees who accepted AT&T's 1998 voluntary retirement incentive program (VRIP) offer.

During 1998, we recorded $2,514 of net restructuring and other charges. The bulk of the charge was associated with a plan to reduce headcount by 15,000 to 18,000 over two years as part of our overall cost-reduction program. In connection with this plan, the VRIP was offered to eligible management employees. Approximately 15,300 management employees accepted the VRIP offer. A restructuring charge of $2,724 was composed of $2,254 and $169 for pension and postretirement special-termination benefits, respectively, $263 of curtailment losses and $38 of other administrative costs. We also recorded charges of $125 for related facility costs and $150 for executive-separation costs. These charges were partially offset by benefits of $940 as we settled pension benefit obligations of 13,700 of the total VRIP employees. In addition, the VRIP charges were partially offset by the reversal of $256 of 1995 business restructuring reserves primarily resulting from the overlap of VRIP with certain 1995 restructuring initiatives.

Also included in the 1998 net restructuring and other charges were asset impairment charges totaling $718, of which $633 was related to our decision not to pursue Total Service Resale (TSR) as a local service strategy. We also recorded an $85 asset impairment charge related to the write-down of unrecoverable assets in certain international operations in which the carrying value is no longer supported by future cash flows. This charge was made in connection with an ongoing review associated with certain operations that would have competed directly with Concert.

Additionally, $85 of merger-related expenses was recorded in 1998 in connection with the TCG merger which was accounted for as a pooling of interests. Partially offsetting these charges was a $92 reversal of the 1995 restructuring reserve. This reversal reflects reserves that were no longer deemed necessary. The reversal primarily included separation costs attributed to projects completed at a cost lower than originally anticipated. Consistent with the three-year plan, the 1995 restructuring initiatives were substantially completed at the end of 1998.

3.44

MONSANTO COMPANY (DEC)

(Dollars in millions)	1999	1998	1997
Net sales	$9,146	$7,237	$6,058
Costs, expenses and other:			
Cost of goods sold	3,272	2,912	2,382
Selling, general and administrative expenses	2,984	2,129	1,745
Technological expenses	1,373	1,308	1,049
Acquired in-process research and development		402	633
Amortization and adjustment of intangible assets	374	286	121
Restructuring and other special items	(15)	153	
Interest expense	345	210	135
Interest income	(45)	(47)	(45)
Other expense (income)—net	107	(31)	(89)
Income (loss) from continuing operations before income taxes	$ 751	$ (85)	$ 127

NOTES TO FINANCIAL STATEMENTS

Note 6: Restructuring and Unusual Items

In 1999, the Company recorded a consolidated net aftertax charge of $75 million associated with restructuring and other non-recurring items. A net aftertax charge of $57 million, or $0.09 per share, from continuing operations resulted from the failed merger between Monsanto and D&PL, combined with costs associated with the accelerated integration of agricultural chemical and seed operations. These charges were net of the reversal of restructuring liabilities established in 1998 and the gain on the divestiture of Stoneville. The Company recorded a net aftertax gain of $2 million from discontinued operations for the reversal of restructuring reserves related to the alginates business which were partially offset by the loss on disposal of the alginates business. Additionally, Monsanto recognized a loss of $20 million for the cumulative effect of a change in accounting principle, effective Jan. 1, 1999. The 1999 net unusual charges were recorded in the Statement of Consolidated Income (Loss) in the following categories:

	Unusual Charges	Restructuring Reversals	Total
Cost of goods sold	$ 20		$20
Amortization/adjustment of intangible assets	8		8
Restructuring and special items	39	$(54)	(15)
Other expense (income)—net	51		51
(Income) loss from continuing operations before tax	118	(54)	64
Income taxes (benefit)	(26)	19	(7)
(Income) loss from continuing operations	92	(35)	57
Income from discontinued operations, net of tax of $15		(27)	(27)
Loss on sale of discontinued operations, net of tax of $13	25		25
Cumulative effect of accounting change	20		20
Net (income) loss	$137	$(62)	$75

During 1999, Monsanto recorded in "Other expense (income)—net" a one-time pretax charge of $85 million equal to the amount of a termination fee and other expenses associated with the failed merger between Monsanto and D&PL. Monsanto also recorded a pretax charge of $67 million from continuing operations, principally associated with the Company's continued focus on improving operating efficiency through accelerated integration of the agricultural chemical and seed operations. The charge of $67 million was comprised of facility shut-down charges of $39 million, workforce reduction costs of $18 million, and asset impairments of $10 million, and was recorded in the Statement of Consolidated Income (Loss) as cost of goods sold of $20 million, amortization of intangible assets of $8 million and restructuring expense of $39 million. The affected employees are entitled to receive severance benefits pursuant to established severance policies or by governmentally mandated labor regulations.

The facility shut-down charges included $14 million for contractual research and other commitments, $9 million for intangible assets, $8 million for inventories, $6 million for leasehold termination costs, and $2 million for property, plant and equipment write-offs. These actions resulted in cash payments of $2 million for contractual obligations, asset write-offs of $19 million, and reclassifications of $18 million of commitments to other liabilities.

The workforce reduction charge included involuntary employee separation costs for 360 employees worldwide and included charges of $14 million for positions in administration, and $4 million for positions in research and development. As of Dec. 31, 1999, 150 of the planned employee eliminations were completed; 80 of these employees received cash severance payments totaling $6 million during 1999 and 70 employees elected deferred payments of $4 million which were paid in Jan. 2000. At Dec. 31, 1999, these deferred payments were classified in the Statement of Consolidated Financial Position as other liabilities. The remaining balance for employee severance related to the approximately 210 positions was $8 million at Dec. 31, 1999. The Company expects these employee reductions to be completed by June 2000. Cash payments to complete the remaining accelerated integration actions will be funded from operations and are not expected to significantly impact Monsanto's liquidity.

Offsetting the unusual item charges from continuing operations in 1999 was a pretax gain of $54 million from the reversal of restructuring liabilities established in 1998. The restructuring liability reversals were required as a result of lower actual severance and facility shut-down costs than originally estimated. In addition, the Company recognized a pretax gain of $35 million for the divestiture of Stoneville and miscellaneous other expense of $1 million which was recorded in "Other expense (income)—net."

In Oct. 1999, the Company completed the sale of the alginates business for proceeds of $40 million, which resulted in an aftertax loss of $25 million from the sale of discontinued operations. Offsetting this loss on disposition were reversals of restructuring liabilities established in 1998 of $27 million aftertax which were no longer required as a result of the sale of the alginates business on terms more favorable than originally anticipated.

In 1998, the Company recorded net restructuring and other unusual charges of $340 million ($239 million aftertax) as part of the Company's overall strategy to reduce costs and continue the commitment to its core businesses. The 1998 net restructuring and unusual charges were taken in the second and fourth quarters of 1998 and were recorded in the Statement of Consolidated Income (Loss) in the following categories.

	Workforce Reductions	Facility Closures	Asset Impairments	Other	Total
Costs of goods sold	$ 6	$ 8	$ 84		$ 98
Amortization and adjustment of intangible assets		3	63		66
Restructuring and other special items	103	64		$(14)	153
Other expense (income)—net			43	(20)	23
Total	$109	$75	$190	$(34)	$340

In December 1998, the board of directors approved a plan to close certain facilities, reduce the current workforce and exit nonstrategic businesses. The activities Monsanto planned to exit in connection with this plan principally comprised a tomato business, and a business involved in the operation of membership-based health and wellness centers. This plan also contemplated exiting several small, embryonic business activities, none of which had a significant effect on the restructuring reserve. The Company recorded pretax restructuring charges and other unusual items of $327 million ($226 million aftertax) to cover the costs associated with these actions in 1998. The charges reflected the elimination of approximately 1,400 jobs, primarily in manufacturing and administrative functions. Included in these actions were approximately 190 positions that had been part of a restructuring plan approved in 1996. The affected employees are entitled to receive severance benefits pursuant to established severance policies or by governmentally mandated labor regulations. The charges also reflect pretax amounts for asset impairments, primarily for property, plant and equipment; intangible assets; and certain investments, totaling $130 million. The asset impairments were recorded primarily because of the Company's decision to sell certain nonstrategic businesses. As a result, the net assets of these businesses were classified as assets held for sale and were carried at their net realizable value, estimated to be approximately $36 million ($33 million in the Agricultural Products segment, and $3 million in the Corporate and Other segment) at Dec. 31, 1998. These businesses were sold during 1999. The effect of net income and the aftertax effect of suspending depreciation on assets held for sale was not material in 1999, 1998 or 1997.

Other impairment charges totaling $40 million were recorded in Dec. 1998 because of management's decision to exit certain long-term investments. Fair values of the impaired assets and the businesses held for sale were recorded at their current market values or on estimated sale proceeds, based on either discounted cash flows or sales contracts. The December 1998 restructuring amounts also included pretax charges of $99 million for the shutdown or other rationalization of certain production and administrative facilities. Rationalization entails the consolidation, shutdown or movement of facilities to achieve more efficient operations. Approximately 80 facilities, located primarily in the United States, Europe and Latin America, were affected by these actions. Charges for these shutdowns included $21 million for property, plant and equipment, $15 million for intangible assets, $26 million for miscellaneous investments, and $6 million for inventories. Leasehold termination costs of $13 million and various facility closure costs of $18 million, principally for facilities shutdown costs, equipment dismantling and contract cancellation payments, were also included in the shutdown charges. The closure or rationalization of these facilities was completed by Dec. 31, 1999. As of Dec. 31, 1999, cash payments of $81 million were made to eliminate approximately 1,100 positions and deferred employee severance payments of $9 million were incurred and expected to be paid in Jan. 2000. In addition, $20 million in facility shut-down costs were incurred in connection with the Dec. 1998 restructuring plan.

As of Dec. 31, 1999, the remaining reserve balance for employee severance related to the approximately 175 positions was $31 million, and $4 million for contractual obligations. The Company expects these employee reduction obligations to be completed by June 2000. An additional 125 positions originally contemplated in the plan were eliminated through attrition. Cash payments to complete the 1998 plan will be funded from operations and are not expected to significantly impact Monsanto's liquidity.

In May 1998, the Company's board of directors approved a plan to exit Monsanto's optical products business, which included the Orcolite and Diamonex optical products business and the Diamonex performance products business (both reported in the Corporate and Other segment), and recorded net pretax charges of $48 million ($34 million aftertax). Monsanto recognized a $20 million pretax gain on the sale of the Orcolite business and recorded pretax charges of $68 million for the rationalization of the Diamonex business, primarily for severance costs and write-off of manufacturing facilities and intangible assets. In connection with this rationalization, certain Diamonex product lines were sold, and others were shut down. In connection with the shutdown of the Diamonex business approximately 200 jobs, primarily in manufacturing and administrative functions, were eliminated at a total cost of $6 million. These actions including workforce reductions and payment of severance, were complete by Dec. 31, 1999. The sale of the remaining assets, which were classified as assets held for sale as of Dec. 31, 1998 and carried at their net realizable value of $7 million, was completed during 1999. Fair values of the impaired assets and the businesses held for sale were recorded at their current market values, based on estimated cash flows, appraisals or sales contracts. Net income generated by the optical products businesses in 1998 and 1997 totaled $2 million, and $5 million, respectively. Also during the second quarter of 1998, Monsanto recognized a pretax gain of $35 million ($21 million aftertax) primarily related to the reversal of a restructuring reserve based on a decision not to rationalize a European pharmaceutical production facility. There were approximately 70 jobs scheduled to be eliminated as part of this rationalization plan. The decision was driven by changes in the business and regulatory environment, and successes in the R&D pipeline. The net result of the actions was a pretax charge of $13 million (also, $13 million aftertax) in the second quarter of 1998, recorded in the Statement of Consolidated Income (Loss) in the following categories:

	Workforce Reductions	Facility Closures	Asset Impairments	Other	Total
Costs of goods sold	$6	$ 2	$36		$44
Amortization and adjustment of intangible assets			24		24
Restructuring and other special items		(26)		$ (9)	(35)
Other expense (income)—net				(20)	(20)
Total increase in loss from operations before income taxes	$6	$(24)	$60	$(29)	$13

Activity related to the accelerated integration action, 1998 and 1996 restructuring plan and special charges balances were as follows:

Restructuring & Unusual Charges:	Workforce Reductions	Facility Closures	Asset Impairments	Other	Total
Jan. 1, 1997 reserve balance	$224	$41			$ 265
Costs charged against reserves	(76)	(39)			(115)
Dec. 31, 1997 reserve balance	148	2			150
Reversal of reserves related to 1996 plan:	(48)				(48)[a]
Costs charged against reserves	(21)	(2)			(23)
1998 restructuring & unusual charges:[b]					
May 1998	6	2	$60		68[c]
Dec. 1998	103	99	130	$28	360[c]
Reclassification of reserves to other balance sheet accounts:					
Property		(21)	(73)		(94)
Investments			(40)		(40)
Intangible assets		(14)	(66)		(80)
Inventory		(6)	(15)		(21)
Receivables		(26)			(26)
Other assets			4	(28)	(24)
Dec. 31, 1998 reserve balance	188	34			222
Addition for accelerated integration costs	18	39	10		67
Costs charged against reserves:					
1998 plan	(81)	(20)			(101)
Accelerated integration	(6)	(2)			(8)
Reversal of reserves related to 1998 plan:	(44)	(10)			(54)[d]
Reclassification of reserves to other balance sheet accounts:					
1998 plan—other liabilities	(23)				(23)
Accelerated integration					
Property		(2)	(10)		(12)
Inventories		(8)			(8)
Intangible assets		(9)			(9)
Other liabilities	(4)	(18)			(22)
Dec. 31, 1999 reserve balance	$ 48	$ 4	$ —	$ —	$ 52

(a) In 1998, $33 million of restructuring reserves were reversed due to a reduction of approximately 120 job eliminations and $15 million because of a decision not to rationalize a European pharmaceutical production facility, both of which had been part of the 1996 restructuring plan.

(b) Approximately $85 million of workforce reduction costs originally accrued as part of the 1996 plan were delayed, principally as a result of the failed merger with American Home Products. Monsanto remained committed to accomplishing these workforce reductions and transferred the remaining accrual to the 1998 plan.

(c) Total 1998 restructuring plan of $428 million was partially offset by $68 million from reversal of prior year restructuring reserves no longer needed and $20 million gain from the sale of Orcolite business, resulting in a net charge to earnings of $340 million.

(d) Restructuring liability reversals were required in 1999 as a result of lower actual severance and facility shut-down costs than originally estimated.

As part of restructuring actions approved prior to 1998, Monsanto reorganized U.S. staff operations, closed approximately 20 production, administrative and research facilities and made final payments to complete contractual commitments as part of a U.S. production facility shutdown. These actions eliminated approximately 1,020 positions.

Write-Down of Assets

3.45

BRUNSWICK CORPORATION (DEC)

(In millions)	1999	1998	1997
Net sales	$4,283.8	$3,945.2	$3,657.4
Cost of sales	3,122.4	2,859.1	2,622.4
Cost of sales—strategic charges	27.0	—	15.6
Selling, general and administrative expense	662.7	598.4	576.3
Research and development expense	93.4	87.5	89.4
Asset write-down and strategic charges	151.0	60.0	82.9
Litigation charges	116.0	—	—
Operating earnings	$ 111.3	$ 340.2	$ 270.8

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. Asset Write-Down and Strategic Charges

Despite the Company's successful initiatives to expand distribution and reduce costs in its bicycle business, the profitability of the business eroded as competition from Asian imports substantially reduced market pricing for bicycles. While the price competition affected virtually all bicycles, the effects were extremely pronounced at the opening price points. Consequently, in the fourth quarter of 1999, the Company determined that the goodwill associated with this business was impaired. Additionally, to further reduce costs, the Company committed to plans to exit manufacturing, reduce warehouse capacity and administrative expenses and rationalize product offerings. As a result of these actions, the Company recorded $178.0 million of charges in the Outdoor Recreation segment in the fourth quarter of 1999. These charges included the write-off of goodwill of $133.6 million, inventory write-downs of $27.0 million and $10.5 million of fixed asset write-downs, along with other incremental costs associated with the actions of $6.9 million. Other costs estimated at $7.0 million for severance and other incremental costs are expected to be incurred in the first quarter of 2000.

The write-off of the goodwill was based on an analysis of projected undiscounted cash flows, which were no longer deemed adequate to support the value of goodwill associated with the business. The inventory write-down was required as a result of a substantial decrease in market pricing for bicycles and as a result of the Company's decision to exit manufacturing and rationalize product offerings, which will adversely affect the recoverability of the inventory. The fixed asset write-downs relate to $16.5 million of manufacturing and distribution assets that will be disposed. The realization of these assets was determined based on previous experience and third-party appraisals.

During the third quarter of 1998, the Company recorded a pretax charge of $60.0 million ($41.4 million after tax) in the Indoor and Outdoor Recreation segments to cover exit and asset disposition costs associated with strategic initiatives designed to streamline operations and enhance operating efficiencies in response to the effect of the economic situation in Asia and other emerging markets on its businesses. These strategic actions included exiting and disposing of 15 retail bowling centers in Asia, Brazil and Europe; rationalizing manufacturing of bowling equipment, including closing a pinsetter manufacturing plan in China, accelerating the shutdown of a pinsetter manufacturing plant in German and exiting the manufacture of electronic scorers and components; closing bowling sales and administrative offices in four countries; and rationalizing the manufacture and distribution of outdoor recreation products including the consolidation of certain North American manufacturing operations and the closing of seven domestic distribution warehouses. These actions were substantially completed during 1998.

The 1998 strategic charge includes lease termination costs, severance costs, other incremental costs and asset disposition costs. Lease termination costs of $11.3 million consist primarily of costs to exit leased international bowling facilities as well as distribution and warehouse facilities in the Outdoor Recreation segment. Severance costs of $10.6 million relate to the termination of approximately 750 employees in the Company's bowling businesses and 330 employees in the Company's Outdoor Recreation segment. During 1999, the Company completed the severance actions. Other incremental costs of $9.3 million include contract termination costs related to the manufacture and sale of bowling equipment; cleanup, holding and shutdown costs related to the closing of domestic distribution warehouses and manufacturing facilities; and legal costs. Asset disposition costs primarily relate to the write-down of facilities and equipment at international bowling centers in the Indoor Recreation segment and manufacturing facilities in the Outdoor Recreation segment. Assets to be disposed had a gross carrying value of $35.2 million as of September 30, 1998, with related reserves of $28.8 million. As of December 31, 1999, the asset disposals were substantially completed.

During the third quarter of 1997, the Company announced strategic initiatives to streamline its operations and improve global manufacturing costs and recorded a pretax charge of $98.5 million ($63.0 million after tax) to cover exit and asset disposition costs related to these actions. The initiatives included terminating development efforts on a line of personal watercraft; closing boat plant manufacturing facilities in Ireland and Oklahoma; centralizing European marketing and customer service in the Marine Engine segment; rationalizing manufacturing of bowling equipment including the shutdown of a pinsetter manufacturing plant in Germany and outsourcing the manufacture of certain components in the Company's bowling division; consolidating fishing reel manufacturing; and other actions directed at manufacturing rationalization, product profitability improvements and general and administrative expense efficiencies. These actions were substantially completed during 1998.

These actions included termination of approximately 900 hourly and salaried employees and severance and related benefits totaling $32.6 million. During 1998, the Company substantially completed the severance actions of both hourly and salaried employees. Asset disposition costs consist of the write-down of facilities and equipment related to the development of a line of personal watercraft, boat manufacturing facilities in Ireland and Oklahoma and an international pinsetter plant. Assets to be disposed had a gross carrying value of $30.1 million as of September 30, 1997, with related reserves of $26.4 million. As of December 31, 1999, the asset disposals were substantially completed. Product and inventory write-downs related to exit activities were $15.6 million. Other incremental costs related to exit activities were $23.9 million.

The Company's accrued expense balances and activity relating to the 1999, 1998 and 1997 strategic charges for the years ending December 31, 1999, 1998 and 1997, were as follows:

(In millions)	Severance	Lease Termination	Other Costs	Total
1997 charge	$32.6	$ —	$23.9	$ 56.5
Activity	(9.4)	—	(6.7)	(16.1)
Balance at December 31, 1997	23.2	—	17.2	40.4
1998 charge	10.6	11.3	9.3	31.2
Activity	(17.7)	(0.7)	(15.7)	(34.1)
Balance at December 31, 1998	16.1	10.6	10.8	37.5
1999 charge	—	3.4	3.5	6.9
Activity	(16.1)	(3.1)	(8.8)	(28.0)
Balance at December 31, 1999	$ —	$10.9	$ 5.5	$ 16.4

3.46

FMC CORPORATION (DEC)

(In millions)	1999	1998	1997
Sales	$4,110.6	$4,378.4	$4,259.0
Costs and expenses			
Cost of sales	3,008.4	3,244.0	3,136.8
Selling, general and administrative expenses	575.4	612.7	625.3
Research and development	152.4	157.7	174.0
(Gains) on sales of businesses	(55.5)	—	—
Asset impairments (Note 4)	29.1	—	224.0
Restructuring and other charges (Note 4)	14.7	—	40.9
Total costs and expenses	3,724.5	4,014.4	4,201.0
Income from continuing operations before minority interests, interest income interest expense, income, taxes and cumulative effect of changes in accounting principles	$ 386.1	$ 364.0	$ 58.0

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4: Asset Impairments and Restructuring and Other Charges

In the third quarter of 1999, FMC recorded asset impairments of $29.1 million ($17.8 million after tax, or $0.55 per share on a diluted basis), and restructuring and other one-time charges of $14.7 million ($9.0 million after tax, or $0.28 per share).

Asset impairments of $20.7 million were required to write off the remaining net book values of two U.S. lithium facilities. Both facilities were constructed to run pilot and development quantities for new lithium-based products. During the third quarter of 1999, management determined that it would not be feasible to use the facilities as currently configured.

Additionally, an impairment charge of $8.4 million was required to write off the remaining net book value of a small caustic soda facility in Green River, Wyoming. Estimated future cash flows related to this facility indicated that an impairment of the full value had occurred.

Restructuring and other one-time charges of $14.7 million resulted primarily from strategic decisions to divest or restructure a number of businesses and support departments, including certain food machinery, agricultural products, and energy systems operations and certain corporate and shared service support departments. Of the total charge, $2.9 million related to actions, including headcount reductions, were required to achieve planned synergies from recently acquired businesses in Specialty Chemicals and Energy Systems. Restructuring spending under all 1999 programs totaled $4.7 million in 1999 and includes severance payments for approximately 225 individuals. The remaining restructuring reserves related to these programs are $10.0 million at December 31, 1999, and are expected to be utilized by the fourth quarter of 2000. The majority of cost savings related to these programs will be realized in 2000 and beyond.

FMC recorded pretax charges of $264.9 million ($180.9 million after tax, or $4.92 per share on a diluted basis) in the fourth quarter of 1997. Of this amount, $224.0 million ($154.0 million after tax, or $4.19 per share) related to asset impairments primarily in the phosphorous chemicals and process additives businesses, and $40.9 million ($26.9 million after tax, or $0.73 per share) was provided to cover restructuring and other activities in several businesses. Restructuring and other reserves related to the 1997 charge totaled $3.5 million and $12.3 million at December 31, 1999 and 1998, respectively. Restructuring spending in 1999, 1998 and 1997 related to these reserves was $8.8 million, $16.9 million and $6.7 million, respectively.

3.47

LABARGE, INC. (JUN)

(Dollars in thousands)	1999	1998	1997
Net sales	$89,143	$99,292	$96,666
Costs and expenses:			
Cost of sales	71,416	76,420	77,442
Selling and administrative expense	14,269	14,407	11,380
Loss due to revaluation of impaired assets	4,573	—	—
Interest expense	1,451	997	942
Equity in loss (income) of joint venture	—	120	(4)
Loss from NotiCom	1,221	—	—
Minority interest income (loss)	165	(89)	—
Other income, net	(361)	(113)	(95)
	92,734	91,742	89,665
Net (loss) earnings before income taxes	$ (3,591)	$ 7,550	$ 7,001

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 (In Part): Acquisitions and Investments

Investments

On June 2, 1999, TransMedica International, Inc. ("TransMedica") defaulted on the payment of a $2.0 million note due the Company. As a result, the Company reevaluated the value of its assets related to TransMedica and elected to reserve the full amount ($4.6 million). The Company is continuing its effort to recover the amounts it believes are owed it by TransMedica.

History of TransMedica

In fiscal 1993, LaBarge, Inc. entered into an agreement with TransMedica (formerly known as Venisect, Inc.) to design, develop and manufacture a patented medical laser device, the Laser Lancet®.

Since August 1995, the Company has acquired approximately 9.5% of TransMedica's common stock for $2.3 million. The Company made an initial $250,000 cash investment in fiscal 1996, and converted approximately $1.2 million of accounts receivable and provided an additional $800,000 in operating capital in fiscal 1997. In June 1998, TransMedica issued the Company an interest-bearing promissory note in the amount of $2.0 million and warrants to purchase an additional 4% of TransMedica stock for $25 per share in exchange for $900,000 of accounts receivable and additional credit of $1.1 million for new production of Laser Lancet devices. The note is secured by substantially all of TransMedica's assets.

On October 16, 1998, the Company filed a Petition for Specific Performance and Declaratory Judgment in the Circuit Court for St. Louis County, Missouri, seeking resolution of LaBarge's right to develop and manufacture new laser products and determination of the number of Laser Lancet devices. TransMedica is presently obligated to purchase from LaBarge under an exclusive manufacturing agreement between the two companies.

On June 3, 1999, the Company amended its suit to include payment of the $2.0 million note receivable plus interest due thereon, that was due June 2, 1999, but as of August 20, 1999, which remains unpaid by TransMedica.

3.48

PERKINELMER, INC. (DEC)

(Dollars in thousands)	1999	1998	1997
Sales:			
Products	$1,206,038	$784,520	$860,598
Services	157,091	69,862	66,884
Total sales	1,363,129	854,382	927,482
Cost of sales:			
Products	746,417	496,861	553,551
Services	107,043	54,126	53,195
Revaluation of acquired inventory	9,857	—	—
Total cost of sales	863,317	550,987	606,746
Selling, general and administrative expenses	327,142	203,740	220,976
Research and development expenses	71,248	46,026	44,541
In-process research and development charges	23,000	2,300	—
Restructuring charges, net	11,520	50,027	—
Asset impairment charges (Note 4)	18,000	7,400	28,200
Gains on dispositions	(17,750)	(125,822)	—
Operating income from continuing operations	$ 66,652	$119,724	$ 27,019

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4: Asset Impairment Charges

During the third quarter of 1999, in connection with its ongoing review of its portfolio of businesses, the Company conducted a strategic review of certain units within its business segments. The strategic review triggered an impairment review of long-lived assets of certain business units that are expected to be disposed. The Company calculated the present value of expected cash flows of certain business units to determine the fair value of those assets. Accordingly, in the third quarter of 1999, the Company recorded noncash impairment charges and wrote down goodwill by $15 million in the Instruments segment and $3 million in the Optoelectronics segment. Sales and operating profit for the businesses under strategic review were approximately $54 million and $2 million, respectively, in 1999.

During the second quarter of 1998, the Company recorded a $7.4 million noncash impairment charge related to an automotive testing facility in the Instruments segment. The impairment charge applied to fixed assets and resulted from projected changes in the principal customer's demand for services. The Company calculated the present value of expected cash flows of the testing facility to determine the fair value of the assets.

During the second quarter of 1997, the Company recorded a noncash impairment change of $28.2 million, with $26.7 million related to IC Sensors in the Optoelectronics segment and $1.5 million related to the goodwill of an environmental services business in Other. As a result of IC Sensors' inability to achieve the improvements specified in its corrective action plan, it continued operating at a loss in the second quarter of 1997, triggering an impairment review of its long-lived assets. A revised operating plan was developed to restructure and stabilize the business. The revised projections by product line provided the basis for measurement of the asset impairment charge. The Company calculated the present value of expected cash flows of IC Sensors' product lines to determine the fair value of the assets. Accordingly, in the second quarter of 1997, the Company recorded an impairment charge of $26.7 million, for a write-down of goodwill of $13.6 million and fixed assets of $13.1 million. The components of the revised operating plan included hiring a new general manager, transferring assembly and test operations to a lower-cost environment (Batam, Indonesia), introducing new products and reviewing manufacturing processes to improve production yields. All of these components were implemented during 1997 and 1998. In February 2000, the Company sold its IC Sensors business. The Company does not expect a material gain or loss on disposition.

Intangible Asset Amortization

3.49

FORTUNE BRANDS, INC. AND SUBSIDIARIES (DEC)

(In millions)	1999	1998	1997
Net sales	$5,524.7	$5,240.9	$4,844.5
Cost of products sold	2,873.1	2,667.9	2,540.4
Excise taxes on spirits and wine	401.8	443.7	418.7
Advertising, selling, general and administrative expenses	1,542.6	1,401.5	1,301.6
Amortization of intangibles	85.5	108.2	104.2
Write-down of goodwill	1,126.0	—	—
Restructuring charges	136.8	—	209.1
Interest and related expenses	106.8	102.7	116.7
Other (income) expenses, net	(27.2)	5.0	14.1
Income (loss) from continuing operations before income taxes	$ (720.7)	$ 511.9	$ 139.7

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Significant Accounting Policies

Intangibles

Goodwill is amortized on a straight line basis over its estimated useful life, principally over a forty-year period, except for certain amounts related to businesses acquired prior to 1971, which are not being amortized because they have been determined to have continuing value over an indefinite period.

The Company evaluates the recoverability of goodwill by estimating the future discounted cash flows of the businesses to which the goodwill relates. The rate used in determining discounted cash flows is a rate corresponding to the Company's cost of capital. Estimated cash flows are then determined by disaggregating the Company's business segments to an operational and organizational level for which meaningful identifiable cash flows can be determined. When estimated future discounted cash flows are less than the carrying value of the net assets (tangible and identifiable intangibles) and related goodwill, impairment losses of goodwill are charged to operations. Impairment losses, limited to the carrying value of goodwill, represent the excess of the sum of the carrying value of the net assets (tangible and identifiable intangible) and goodwill over the discounted cash flows of the business being evaluated. In determining the estimated future cash flows, the Company considers current and projected future levels of income as well as business trends, prospects and market and economic conditions. Prior to April 1, 1999, the assessment of recoverability and measurement of impairment of goodwill was based on undiscounted cash flows.

Included in intangible assets, at December 31, 1999 and 1998, were $880.1 million and $909.4 million, respectively, of identifiable intangibles, net of cumulative amortization, comprised primarily of brands and trademarks which are being amortized over their useful life of up to 40 years.

Change in Accounting for Goodwill

Effective April 1, 1999, the Company elected to change its method for assessing recoverability of goodwill from one based on undiscounted cash flows to one based on discounted cash flows. The Company determined that using a discounted cash flow methodology is a preferable policy. The rate used in determining discounted cash flows is a rate corresponding to the Company's cost of capital. Management believes that fair value (i.e., discounted cash flow) is preferable because it is consistent with the basis used for investment decisions (acquisitions and capital projects) and takes into account the specific and detailed operating plans and strategies of each business. This change represents a change in accounting principle which is indistinguishable from a change in estimate, and accordingly, the effect of the change was recorded in the second quarter of 1999.

This change resulted in a non-cash write-down of goodwill of $1,126 million ($6.76 per share) in the second quarter of 1999. The write-downs by business segment were: golf products—$517.7 million; spirits and wine—$502.7 million; and office products—$105.6 million.

Foreign Currency Transactions

3.50

THE QUAKER OATS COMPANY AND SUBSIDIARIES (DEC)

(Dollars in millions)	1999	1998	1997
Net sales	$4,725.2	$4,842.5	$ 5,015.7
Cost of goods sold	2,136.8	2,374.4	2,564.9
Gross profit	2,588.4	2,468.1	2,450.8
Selling, general and administrative expenses	1,904.1	1,872.5	1,938.9
(Gains) losses on divestitures, restructuring charges and asset impairments—net	(2.3)	128.5	1,486.3
Interest expense	61.9	69.6	85.8
Interest income	(11.7)	(10.7)	(6.7)
Foreign exchange loss—net	18.1	11.6	10.8
Income (loss) before income taxes	$ 618.3	$ 396.6	$(1,064.3)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Derivative Financial and Commodity Instruments (In Part)

The Company uses a variety of futures, swaps, options and forward contracts in its management of foreign currency exchange rate, commodity price and interest rate exposures. Instruments used as hedges must be effective at reducing the risks associated with the underlying exposure and must be designated as a hedge at the inception of the contract.

Accordingly, changes in the market value of the instruments must have a high degree of inverse correlation with changes in the market value or cash flows of the underlying hedged item. Summarized below are the specific accounting policies by market risk category.

Foreign Currency Exchange Rate Risk

The Company uses forward contracts, purchased options and currency swap agreements to manage foreign currency exchange rate risk related to certain projected cash flows from foreign operations and net investments in foreign subsidiaries. The fair value method is used to account for these instruments. Under the fair value method, the instruments are carried at fair value in the consolidated balance sheets as a component of other current assets (deferred charges) or other accrued liabilities (deferred revenue). Changes in the fair value of derivative instruments that are used to manage exchange rate risk in foreign currency denominated cash flows and net investments in highly inflationary economies are recognized in the consolidated statements of income as foreign exchange loss or gain. Changes in the fair value of such instruments used to manage exchange rate risk on net investments in economies that are not highly inflationary are recognized in the consolidated balance sheets as a component of accumulated other comprehensive income in common shareholders' equity. To the extent an instrument is no longer effective as a hedge of a net investment due to a change in the underlying exposure, losses and gains are recognized currently in the consolidated statements of income as foreign exchange loss or gain.

Income Statement Hedges (In Part)

Foreign Currency Hedges

The Company uses foreign currency options and forward contracts to manage the impact of foreign currency fluctuations recognized in the Company's operating results. Included in the consolidated statements of income were losses (gains) from foreign currency hedge instruments of $1.0 million, $(0.8) million and $2.5 million in 1999, 1998 and 1997, respectively. As of December 31, 1999, the Company had $50.8 million in forward contracts outstanding to manage exposure to foreign currency movements. These contracts mature in 2000.

Sale of Assets

3.51

OPTICAL COATING LABORATORY, INC. AND SUBSIDIARIES (OCT)

(Dollars in thousands except per share amounts)	1999	1998	1997
Revenues			
Revenues	$347,145	$255,624	$217,829
Cost of sales	239,582	169,670	143,207
Gross profit	107,563	85,954	74,622
Costs and expenses			
Operating expenses:			
Research and development	26,258	17,137	14,903
Selling and administrative	41,572	43,926	42,836
Impairment loss		8,628	
Restructuring expenses		586	
Program settlement, net	(2,696)		
Loss on asset disposal	934		
Legal settlement, net	(2,960)		
In-process research and development charges	2,906		
Amortization of intangibles	2,236	805	936
Total operating expenses	68,250	71,082	58,675
Income from operations	$ 39,313	$ 14,872	$ 15,947

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Amounts in thousands)

4. Loss on Asset Disposal

In the fourth quarter of fiscal 1998, due to excess capacity, the Company removed from service and began negotiations for the sale of a large continuous coating machine. As sales price estimates at that time and for subsequent quarters exceeded the carrying amount of the equipment, losses were previously not recorded. In the second quarter of 1999, due to the need for manufacturing space, the Company made the decision to accelerate the sale of the machine and to sell the machine for less than book value, if necessary. Consequently, the machine, with a carrying value of $1.4 million, was sold for $460,000 net of removal and shipping costs and the Company recognized a loss of $934,000 in the second quarter of fiscal 1999 on the sale of the machine.

Minority Interest

3.52

THE GOODYEAR TIRE & RUBBER COMPANY (DEC)

(Dollars in millions)	1999	1998	1997
Net sales	$12,880.6	$12,626.3	$13,065.3
Cost of goods sold	10,351.4	9,672.9	10,015.6
Selling, administrative and general expense	2,016.7	1,881.1	1,886.7
Rationalizations	171.6	(29.7)	265.2
Interest expense	179.4	147.8	119.5
Other (income) and expense	(147.9)	(77.4)	24.5
Foreign currency exchange	(27.6)	(2.6)	(34.1)
Minority interest in net income of subsidiaries	40.3	31.5	44.6
Income from continuing operations before income taxes	$ 296.7	$ 1,002.7	$ 743.3

Equity in Losses of Investee

3.53

CLEVELAND-CLIFFS INC AND CONSOLIDATED SUBSIDIARIES (DEC)

(In millions)	1999	1998	1997
Revenues			
Product sales and services	$305.7	$444.1	$391.4
Royalties and management fees	48.5	49.7	47.5
Total operating revenues	354.2	493.8	438.9
Interest income	3.3	5.4	6.3
Other income	3.9	4.7	10.9
Total revenues	361.4	503.9	456.1
Costs and expenses			
Cost of goods sold and operating expenses	319.0	398.0	354.9
Administrative, selling and general expenses	16.1	18.7	17.1
Equity loss in Cliffs and Associates Limited	9.1	2.3	1.5
Interest expense	3.7	.4	2.6
Other expenses	8.8	12.7	7.4
Total costs and expenses	356.7	432.1	383.5
Income before income taxes	$ 4.7	$ 71.8	$ 72.6

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2 (In Part): Investments in Associated Companies

Ferrous Metallics

Cliffs and Associates Limited, a joint venture in Trinidad and Tobago, has completed construction of a facility to produce premium quality HBI to be marketed to the steel industry. The venture's participants, through subsidiaries, include the Company, 46.5 percent; The LTV Corporation ("LTV"), 46.5 percent; and Lurgi AG of Germany, 7 percent, with the Company as manager and sales agent. Following is a summary of project expenditures:

(In millions)	Company's Share	Total Project
Capital expenditures:		
1996	$13.1	$ 28.2
1997	35.8	77.0
1998	16.7	35.9
1999	11.2	24.1
Total	$76.8	$165.2
Start-up expense:		
1996	$ —	$ .1
1997	1.5	3.2
1998	2.3	4.8
1999	9.1	19.5
Total	$12.9	$27.6
Investment at December 31:		
1996	$14.4	
1997	57.5	
1998	79.4	
1999	84.1	
Capitalized interest:		
1996	$ .3	
1997	2.3	
1998	4.5	
1999	1.3	
Total	$ 8.4	

Merger Costs

3.54

EXXON MOBIL CORPORATION (DEC)

(Millions of dollars)	1999	1998	1997
Revenue			
Sales and other operating revenue, including excise taxes	$182,529	$165,627	$197,735
Earnings from equity interests and other revenues	2,998	4,015	4,011
Total revenue	$185,527	$169,642	$201,746
Costs and other deductions			
Crude oil and product purchases	$ 77,011	$ 62,145	$ 83,441
Operating expenses	16,806	17,666	19,475
Selling, general and administrative expenses	13,134	12,925	13,574
Depreciation and depletion	8,304	8,355	8,228
Exploration expenses, including dry holes	1,246	1,506	1,252
Merger related expenses	625	—	—
Interest expense	695	568	863
Excise taxes	21,646	20,926	21,183
Other taxes and duties	34,765	33,203	33,867
Income applicable to minority and preferred interests	145	265	526
Total costs and other deductions	$174,377	$157,559	$182,409
Income before income taxes	$ 11,150	$ 12,083	$ 19,337

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. Merger of Exxon Corporation and Mobil Corporation

On November 30, 1999, a wholly-owned subsidiary of Exxon Corporation (Exxon) merged with Mobil Corporation (Mobil) so that Mobil became a wholly-owned subsidiary of Exxon (the "Merger"). At the same time, Exxon changed its name to Exxon Mobil Corporation (ExxonMobil). Under the terms of the agreement, approximately 1.0 billion shares of ExxonMobil common stock were issued in exchange for all the outstanding shares of Mobil common stock based upon an exchange ratio of 1.32015. Following the exchange, former shareholders of Exxon owned approximately 70 percent of the corporation, while former Mobil shareholders owned approximately 30 percent of the corporation. Each outstanding share of Mobil preferred stock was converted into one share of a new class of ExxonMobil preferred stock.

As a result of the Merger, the accounts of certain refining, marketing and chemicals operations jointly controlled by the combining companies have been included in the consolidated financial statements. These operations were previously accounted for by Exxon and Mobil as separate companies using the equity method of accounting.

The Merger was accounted for as a pooling of interests. Accordingly, the consolidated financial statements give retroactive effect to the Merger, with all periods presented as if Exxon and Mobil had always been combined. Certain reclassifications have been made to conform the presentation of Exxon and Mobil.

The following table sets forth summary data for the separate companies and the combined amounts for periods prior to the Merger.

	Nine Months Ended September 30	Year Ended December 31	
(Millions of dollars)	1999	1998	1997
Revenues			
Exxon	$ 89,378	$117,772	$137,242
Mobile	42,782	53,531	65,906
Adjustments[(1)]	6,033	7,987	9,925
Eliminations	(7,248)	(9,648)	(11,327)
ExxonMobil	$130,945	$169,642	$201,746
Net income			
Exxon	$ 3,725	$ 6,370	$ 8,460
Mobil	1,901	1,704	3,272
ExxonMobil	$ 5,626	$ 8,074	$ 11,732

(1) Consolidation of activities previously accounted for using the equity model of accounting.

In association with the Merger, $625 million pre-tax ($469 million after-tax) of costs were recorded as merger related expenses. Charges included separation expenses of approximately $350 million related to workforce reductions (approximately 1,750 employees at year-end 1999), plus implementation and merger closing costs. The reserve balance, primarily related to severance, at year end 1999 of approximately $330 million, is expected to be expended in 2000.

Certain property—primarily refining, marketing, pipeline and natural gas distribution assets—must be divested as a condition of the regulatory approval of the Merger by the U.S. Federal Trade Commission and the European Commission. These assets, with a carrying value of approximately $3 billion, are expected to be sold in the year 2000. The properties have historically earned approximately $200 million per year.

Litigation Settlement

3.55

AMERICAN HOME PRODUCTS CORPORATION AND SUBSIDIARIES (DEC)

(In thousands)	1999	1998	1997
Net sales	$13,550,176	$13,462,687	$14,196,026
Cost of goods sold	3,692,522	3,616,832	4,101,309
Selling, general and administrative expenses	5,039,862	4,924,919	5,292,585
Research and development expenses	1,739,960	1,654,745	1,558,035
Interest expense, net	213,866	207,157	370,696
Other income, net	(237,408)	(277,942)	(121,306)
Gain on sale of business	—	(592,084)	—
Litigation charge	4,750,000	—	—
Special charges	277,000	343,600	180,000
	15,475,802	9,877,227	11,381,319
Income (loss) before federal and foreign taxes	$ (1,925,626)	$ 3,585,460	$ 2,814,707

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

10 (In Part): Contingencies and Litigation Settlement

The Company is involved in various legal proceedings, including product liability and environmental matters of a nature considered normal to its business. It is the Company's policy to accrue for amounts related to these legal matters if it is probable that a liability has been incurred and an amount is reasonably estimable.

The Company is a defendant in numerous legal actions, many of which are purported class actions, relating to the antiobesity products *Redux* or *Pondimin,* which the Company estimated were used in the United States, prior to their 1997 voluntary market withdrawal, by approximately 6 million people. These actions allege, among other things, that the use of *Redux* and/or *Pondimin,* independently or in combination with the prescription drug phentermine (which the Company did not manufacture, distribute or market), caused certain serious conditions, including valvular heart disease.

On October 7, 1999, the Company announced a comprehensive, national settlement to resolve litigation brought against the Company regarding the use of *Redux* or *Pondimin.* This nationwide, class action settlement is open to all *Redux* or *Pondimin* users in the United States, regardless of whether they have lawsuits pending. The settlement agreement is subject to judicial approval. Preliminary approval was granted on November 23, 1999, and a fairness hearing is scheduled for May 2000. Payments by the Company will be made into settlement Funds A and B. Payments to the settlement funds in 1999 were $75,000,000, with approximately $1.78 billion expected to be paid over approximately the next two years (approximately $1.0 billion of which is subject to final judicial approval). Payments to provide settlement benefits, if needed, may continue for approximately 16 years after final judicial approval. Fund A is intended to cover refunds, medical screening costs, additional medical services and cash payments, education and research costs, and administration costs. Fund B will compensate claimants with significant heart valve disease. The settlement covers all claims arising out of the use of *Redux* or *Pondimin* except for claims of primary pulmonary hypertension (PPH). The settlement provides opportunities during three different time periods for claimants to opt out of the settlement. Under certain circumstances, the Company will receive credits for future settlement payments to claimants who opt out of the settlement. The Company may terminate the settlement at its discretion based on the number of initial opt outs. The initial opt out period ends March 30, 2000. The nationwide, class action settlement states that it shall not be construed to be an admission or evidence of any liability or wrongdoing whatsoever by the Company or the truth of any of the claims alleged.

The Company recorded a litigation charge of $4,750,000,000 ($3,287,500,000 after-tax or $2.51 per share—diluted) in the 1999 third quarter to provide for expected payments to the settlement funds contemplated by the nationwide, class action settlement as discussed above, other judgments and settlements (including estimated claims for PPH and any opt outs), and future legal costs, net of available insurance. At December 31, 1999, $4,632,419,000 of the litigation accrual remained; $1,400,000,000 and $3,232,419,000 were included in accrued expenses and other noncurrent liabilities, respectively. The amount of the reserve is based upon, among other things, the assumption that the Company will not terminate the nationwide, class action settlement based upon the number of initial opt outs and that the settlement will receive final judicial approval. A receivable of $316,092,000 from the Company's insurance carriers related to these litigation expenditures was included in other current assets at December 31, 1999. The Company believes that this receivable is fully recoverable.

The scientific studies conducted to date and clinical experience indicate that the health of the overwhelming majority of people who took *Redux* or *Pondimin* has not been adversely affected. The studies also show no increased risk of valvular heart disease among persons who took the drugs for three months or less—more than 75% of those who took the drugs.

Purchased R&D

3.56

E. I. DU PONT DE NEMOURS AND COMPANY AND CONSOLIDATED SUBSIDIARIES (DEC)

(Dollars in millions)	1999	1998	1997
Sales	$26,918	$24,767	$24,089
Other income	974	981	1,005
Total	27,892	25,748	25,094
Cost of goods sold and other operating charges	16,991	15,556	15,544
Selling, general and administrative expenses	2,595	2,115	2,061
Depreciation	1,444	1,452	1,361
Amortization of goodwill and other intangible assets	246	108	20
Research and development expense	1,617	1,308	1,072
Interest expense	535	520	389
Purchased in-process research and development (Note 4)	2,250	1,443	1,478
Employee separation costs and write-down of assets	524	633	340
Total	26,202	23,135	22,265
Income from continuing operations before income taxes and minority interest	$ 1,690	$ 2,613	$ 2,829

NOTES TO FINANCIAL STATEMENTS
(Dollars in millions)

4. Purchased In-Process Research and Development

Purchased in-process research and development represents the value assigned in a purchase business combination to research and development projects of the acquired business that were commenced but not yet completed at the date of acquisition, for which technological feasibility has not been established and which have no alternative future use in research and development activities or otherwise. In accordance with Statement of Financial Accounting Standards No. 2, "Accounting for Research and Development Costs," as interpreted by FASB Interpretation No. 4, amounts assigned to purchased in-process research and development meeting the above criteria must be charged to expense at the date of consummation of the purchase business combination.

In 1999, estimated charges of $2,186 and $64 were recorded in conjunction with the purchase of the remaining 80 percent interest in Pioneer Hi-Bred International, Inc. and the purchase of the global Herberts coatings business from Hoechst AG, respectively, based on preliminary allocations of purchase price.

In 1998, charges of $60 and $103 were recorded to revise the preliminary allocation for Protein Technologies International and the ICI Polyester resins and intermediates businesses, respectively, upon revision of preliminary purchase price allocations for these acquisitions. In addition, a charge of $50 was recorded in conjunction with the 1998 acquisition of the ICI polyester films business based on preliminary allocations of the purchase price for this acquisition and a charge of $1,230 was recorded in conjunction with the 1998 purchase of Merck & Co.'s interest in The DuPont Merck Pharmaceutical Company, based on preliminary allocations of purchase price.

In 1997, a charge of $903 was recorded in conjunction with the purchase of a 20 percent interest in Pioneer. In addition, charges of $500 and $75 were recorded in conjunction with the purchase of Protein Technologies International and the ICI polyester resins and intermediates businesses, respectively, based on preliminary allocations of purchase price.

3.57

INTEL CORPORATION (DEC)

(In millions)	1999	1998	1997
Net revenues	$29,389	$26,273	$25,070
Cost of sales	11,836	12,088	9,945
Research and development	3,111	2,509	2,347
Marketing, general and administrative	3,872	3,076	2,891
Amortization of goodwill and other acquisition-related intangibles	411	56	—
Purchased in-process research and development	392	165	—
Operating costs and expenses	19,622	17,894	15,183
Operating income	$ 9,767	$ 8,379	$ 9,887

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Acquisitions

During 1999 and 1998, the Company completed a number of acquisitions that were accounted for using the purchase method of accounting.

In February 1999, the Company acquired Shiva Corporation in a cash transaction. Shiva's products include remote access and virtual private networking solutions for the small-to-medium enterprise market segment and the remote access needs of campuses and branch offices.

In July 1999, the company acquired privately held Softcom Microsystem, Inc. in a cash transaction. Softcom develops and markets semiconductor products for original equipment manufacturers in the networking and communications market segments. Softcom's high-performance components are designed for networking gear (access devices, routers and switches) used to direct voice and data across the Internet as well as traditional enterprise networks.

In July 1999, the Company acquired Dialogic Corporation in a cash transaction. The acquisition is aimed at expanding the Company's standard high-volume server business in the networking and telecommunications market segments. Dialogic designs, manufactures and markets computer hardware and software enabling technology for computer telephony systems.

In August 1999, the Company acquired Level One Communications in a stock-for-stock transaction. Approximately 34 million shares of Intel common stock were issued in connection with the purchase. In addition, Intel assumed Level One Communications' convertible debt with a fair value of approximately $212 million. Level One Communications provides silicon connectivity solutions for high-speed telecommunications and networking applications.

In September 1999, the company acquired privately held NetBoost Corporation in a cash transaction. NetBoost develops and markets hardware and software solutions for communications equipment suppliers and independent software vendors in the networking and communications market segments.

In October 1999, the Company acquired privately held IPivot, Inc. in a cash transaction. IPivot designs and manufactures Internet commerce equipment that manages large volumes of Internet traffic more securely and efficiently.

In November 1999, the Company acquired DSP Communications, Inc. in a cash transaction. DSP Communications is a leading supplier of solutions for digital cellular communications products, including chipsets, reference designs, software and other key technologies for lightweight wireless handsets.

In January 1998, the Company acquired Chips and Technologies, Inc. in a cash transaction. Chips and Technologies was a supplier of graphics accelerator chips for mobile computing products.

In May 1998, the Company purchased the semiconductor operations of Digital Equipment Corporation. Assets acquired consisted primarily of property, plant and equipment. Following the completion of the purchase, lawsuits between the companies that had been pending since 1997 were dismissed with prejudice.

For 1999 and 1998, $392 million and $165 million, respectively, were allocated to purchased in-process research and development, and expensed upon acquisition of the above companies, because the technological feasibility of products under development had not been established and no future alternative uses existed.

These purchase transactions are further described below:

(In millions)	Consid-eration	Purchased In-process Research & Development	Goodwill & Identified Intangibles	Form of Consideration
1999				
Shiva	$ 132	$ —	$ 99	Cash and options assumed
Softcom	$ 149	$ 9	$ 139	Cash and options assumed
Dialogic	$ 732	$ 83	$ 614	Cash and options assumed
Level One Communications	$2,137	$231	$2,007	Common stock and options assumed
NetBoost	$ 215	$ 10	$ 205	Cash and options assumed
IPivot	$ 496	$ —	$ 505	Cash and options assumed
DSP Communications	$1,599	$ 59	$1,491	Cash and options assumed
1998				
Chips and Technologies	$337	$165	$ 126	Cash and options assumed
Semiconductor operations of Digital	$585	$ —	$ 32	Cash

Consideration includes the cash paid, less any cash acquired; the value of stock issued and options assumed; and excludes any debt assumed.

In addition to the transactions described above, Intel purchased other businesses in smaller transactions. The charge for purchased in-process research and development related to these other acquisitions was not significant. The total amount allocated to goodwill and identified intangibles for these transactions was $175 million, which represents a substantial majority of the consideration for these transactions.

The consolidated financial statements include the operating results of acquired businesses from the dates of acquisition. The operating results of Softcom, Level One Communications and NetBoost have been included in the Network Communications Group operating segment. The operating results of Shiva, Dialogic and IPivot have been included in the Communications Products Group operating segment. The operating results of DSP Communications have been included in the Wireless Communications and Computing Group operating segment. All of these groups are part of the "all other" category for segment reporting purposes. The operating results of Chips and Technologies have been included in the Intel Architecture Business Group operating segment.

The unaudited pro forma information below assumes that companies acquired in 1999 and 1998 had been acquired at the beginning of 1998 and includes the effect of amortization of goodwill and identified intangibles from that date. The impact of charges for purchased in-process research and development has been excluded. This is presented for informational purposes only and is not necessarily indicative of the results of future operations or results that would have been achieved had the acquisitions taken place at the beginning of 1998.

(In millions, except per share amounts—unaudited)	1999	1998
Net revenues	$29,894	$27,101
Net income	$6,948	$5,218
Basic earnings per common share	$2.08	$1.55
Diluted earnings per common share	$1.99	$1.46

Sale of Receivables

3.58

BALL CORPORATION AND SUBSIDIARIES (DEC)

($ in millions, except per share amounts)	1999	1998	1997
Net sales	$3,584.2	$2,896.4	$2,388.5
Costs and expenses			
Cost of sales (excluding depreciation and amortization)	2,988.0	2,438.4	2,022.0
Depreciation and amortization (Notes 7 and 8)	162.9	145.0	117.5
Selling and administrative	140.9	119.4	106.1
Receivable securitization fees and product development (Note 5)	13.6	13.8	12.5
Headquarters relocation, plant closures, dispositions and other costs (Note 4)	—	7.9	(9.0)
	3,305.4	2,790.5	2,249.1
Earnings before interest and taxes	$ 278.8	$ 105.9	$ 139.4

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5 (In Part): Accounts Receivable

Accounts receivable are net of an allowance for doubtful accounts of $8.8 million and $7.0 million at December 31, 1999, and 1998, respectively.

Trade Accounts Receivable Securitization Agreement

A securitization agreement provides for the ongoing, revolving sale of a designated pool of trade accounts receivable of Ball's U.S. packaging businesses. In December 1998, the designated pool of receivables was increased to provide for sales of up to $125 million from the previous amount of $75 million. Net funds received from the sale of the accounts receivable totaled $122.5 million at both December 31, 1999, and 1998. Fees incurred in connection with the sale of accounts receivable totaled $7 million in 1999 and $4 million in each of 1998 and 1997.

Environmental Cleanup

3.59

HECLA MINING COMPANY (DEC)

(Dollars and shares in thousands, except per share amounts)	1999	1998	1997
Sales of products	$163,614	$159,231	$163,948
Cost of sales and other direct product costs	129,476	127,933	126,742
Depreciation, depletion and amortization	23,417	22,206	21,009
	152,893	150,139	147,751
Gross profit	10,721	9,092	16,197
Other operating expenses			
General and administrative	7,449	7,583	7,976
Exploration	5,934	4,866	7,422
Depreciation and amortization	321	389	311
Provision for (benefit from) closed operations and environmental matters	30,100	734	(724)
Reduction in carrying value of mining properties	4,577	—	715
	48,381	13,572	15,700
Income (loss) from operations	$(37,660)	$ (4,480)	$ 497

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 5: Environmental and Reclamation Adjustments

In 1999, Hecla recorded charges totaling $27.3 million for future environmental and reclamation expenditures at the Grouse Creek property and the Bunker Hill Superfund site. The Grouse Creek mine has been on a care-and-maintenance status since the second quarter of 1997, following completion of mining in the Sunbeam pit. The accrual adjustment at Grouse Creek is based upon anticipated changes to the closure plan developed in the third quarter of 1999, including increased dewatering requirements and other expenditures. The changes to the reclamation plan at Grouse Creek were necessitated principally by the need to dewater the tailings impoundment rather than reclaim it as a wetland as originally planned. Hecla is currently working with federal and state agencies on the development of an effective plan for dewatering the tailings impoundment. At the Bunker Hill Superfund site, estimated future costs were increased based upon results of sampling activities completed through 1999 and current cost estimates to remediate residential yards and commercial properties. Although Hecla has updated its current cost estimates for the Grouse Creek and Bunker Hill sites, Hecla will continue to reassess its obligations as new information is developed. Depending on the results of any reassessment, it is reasonably possible that Hecla's estimate of its obligations may change in the near term.

Distributions on Preferred Securities of Subsidiary Trust

3.60

FOSTER WHEELER CORPORATION AND SUBSIDIARIES (DEC)

(In thousands, except per share amounts)	1999	1998	1997
Revenues:			
Operating revenues	$3,867,030	$4,536,765	$4,059,965
Other income (including interest: 1999—$13,576; 1998—$19,455; 1997—$21,669)	77,044	60,227	112,050
Total revenues	3,944,074	4,596,992	4,172,015
Costs and expenses:			
Cost of operating revenues	3,569,196	4,166,257	3,791,998
Selling, general and administrative expenses	235,549	253,401	268,026
Other deductions (including interest: 1999—$55,032; 1998—$62,535; 1997—$54,675)	97,686	79,969	89,544
Robbins Facility write-down	214,000	47,014	—
Minority interest	2,988	2,562	2,931
Dividends on preferred security of subsidiary trust	15,181	—	—
Total costs and expenses	4,134,600	4,549,203	4,152,499
(Loss)/earnings before income taxes	$ (190,526)	$ 47,789	$ 19,516

NOTES TO FINANCIAL STATEMENTS

10. Mandatorily Redeemable Preferred Securities

On January 13, 1999, FW Preferred Capital Trust I, a Delaware Business Trust owned by the Corporation issued $175,000 in Preferred Trust Securities. These Preferred Trust Securities are entitled to receive cumulative cash distributions at an annual rate of 9.0%. Distributions are paid quarterly in arrears on April 15, July 15, October 15 and January 15 of each year. Such distributions may be deferred for periods up to five years. The maturity date is January 15, 2029. Foster Wheeler can redeem these Preferred Trust Securities on or after January 15, 2004.

Royalties

3.61

THE ESTEE LAUDER COMPANIES INC. (JUN)

(In millions, except per share data)	1999	1998	1997
Net sales	$3,961.5	$3,618.0	$3,381.6
Cost of sales	899.9	819.5	765.1
Gross profit	3,061.6	2,798.5	2,616.5
Operating expenses:			
Selling, general and administrative	2,572.1	2,357.6	2,224.6
Related party royalties	32.6	31.8	32.8
	2,604.7	2,389.4	2,257.4
Operating income	$ 456.9	$ 409.1	$ 359.1

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Related Party Royalties and Trademarks

Under agreements covering the purchase by the Company of trademarks for a percentage of related sales, royalty payments totaling $14.9 million, $14.1 million and $15.1 million in fiscal 1999, 1998 and 1997, respectively, have been charged to income. Such payments are made to stockholders of the Company. During fiscal 1996, the Company purchased a stockholders' rights to receive certain U.S. royalty payments for $88.5 million, which amount is being amortized over a five-year period. In fiscal 1999, 1998 and 1997, $17.7 million was amortized as a charge against income.

Nonrecurring/Unusual Losses

3.62

AMERICAN GREETINGS CORPORATION (FEB)

(Thousands of dollars, except per share amounts)	1999	1998	1997
Net sales	$2,205,706	$2,198,765	$2,161,089
Costs and expenses:			
Material, labor and other production costs	757,080	790,688	805,124
Selling, distribution and marketing	894,323	876,822	839,916
Administrative and general	228,183	233,457	234,838
Non-recurring items	13,925	(22,125)	—
Interest	29,326	22,992	30,749
Other expense (income)	1,272	4,494	(3,868)
	1,924,109	1,906,328	1,906,759
Income before income taxes	$ 281,597	$ 292,437	$ 254,330

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note B: Non-Recurring Items

During the quarter ended November 30, 1998, the Corporation recorded a restructuring charge of $13,925 ($8,342 net of tax, or earnings per share of $0.12). The primary components of this charge were employee severance and termination benefit costs associated with a headcount reduction of approximately 300 management, salaried and clerical positions. The balance of the charge is comprised of costs associated with exiting the Corporation's kiosk business and lease exit costs due to the closure of certain sales offices. At February 28, 1999, $5,544 was included in accounts payable and accrued liabilities, representing the portion of the restructuring charge not yet expended.

On August 12, 1997, the Corporation divested the net assets of two subsidiaries, Acme Frame Products, Inc., a manufacturer and distributor of picture frames, and Wilhold, Inc., a manufacturer and distributor of hair accessories. As a result of the transaction, the Corporation recorded a one-time pre-tax gain of $22,125 ($13,192 net of tax, or earnings per share of $0.18).

3.63

AVON PRODUCTS, INC. (DEC)

(In millions, except per share data)	1999	1998	1997
Net sales	$5,289.1	$5,212.7	$5,079.4
Costs, expenses and other:			
Cost of sales*	2,031.5	2,053.0	2,051.0
Marketing, distribution and administrative expenses	2,603.0	2,570.0	2,490.6
Special charges	105.2	116.5	—
Operating profit	$ 549.4	$ 473.2	$ 537.8

* 1999 and 1998 include special and non-recurring charges of $46.0 and $37.9, respectively, for inventory write-downs. The accompanying notes are an integral part of these statements.

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

13. Special and Non-Recurring Charges

In October 1997, the Company announced a world-wide business process redesign program to streamline operations and improve profitability through margin improvement and expense reductions. The special and non-recurring charges associated with this program totaled $151.2 pretax ($121.9 net of tax, or $.47 per share on a basic and diluted basis) for the year ended December 31, 1999 and $154.4 pretax ($122.8 net of tax, or $.46 per share on a basic and diluted basis) for the year ended December 31, 1998.

Special and non-recurring charges by business segment are as follows:

	1999	1998
North America	$ 33.6	$ 84.6
Latin America	14.7	6.3
Europe	69.8	18.2
Pacific	11.8	27.3
Corporate	21.3	18.0
Total	$151.2	$154.4

Special and non-recurring charges by category of expenditures are as follows for the years ended December 31:

1999	Special Charges	Cost of Sales Charge	Total
Employee severance costs	$ 57.0	$ —	$ 57.0
Inventories	—	46.0	46.0
Write-down of assets to net realizable value	26.4	—	26.4
Recognition of foreign currency translation adjustment	9.8		9.8
Other	12.0	—	12.0
	$105.2	$46.0	$151.2

1998	Special Charges	Cost of Sales Charge	Total
Employee severance costs	$ 56.4	$ —	$ 56.4
Inventories	—	37.9	37.9
Write-down of assets to net realizable value	31.8	—	31.8
Field program buy-out	14.4	—	14.4
Other	13.9	—	13.9
	$116.5	$37.9	$154.4

Employee severance costs are expenses, both domestic and international, associated with the realignment of the Company's global operations. Certain employee severance costs were accounted for in accordance with the Company's existing FAS 112, ("Employers' Accounting for Postemployment Benefits") severance plans. Remaining severance costs were accounted for in accordance with other accounting literature. The workforce will be reduced by approximately 3,700 employees, or 9% of the total. Approximately one-half of the terminated employees related to the facility closures. As of December 31, 1999, substantially all employees have been terminated.

Inventory-related charges represent losses to write down the carrying value of non-strategic inventory prior to disposal. The 1999 charges primarily result from a new business strategy for product dispositions which fundamentally changes the way the Company markets and sells certain inventory. This new strategy, approved and effective in March 1999, is meant to complement other redesign initiatives, with the objective of reducing inventory clearance sales, building core brochure sales and building global brands. The 1998 charges resulted from the closure of facilities, discontinuation of certain product lines, size-of-line reductions and a change in strategy for product dispositions.

The 1999 write-down of assets (primarily fixed and other assets) relates to the restructuring of operations in Western Europe, including the closure of a jewelry manufacturing facility in Ireland, and the write-down of software, the use of which is no longer consistent with the strategic direction of the Company. By centralizing certain key functional areas and exiting unprofitable situations, the Company plans to increase operating efficiencies and ultimately, profit growth in the long term. The 1998 write-down of assets relates to the closure of a Far East buying office and manufacturing facilities in Puerto Rico and the Dominican Republic. As a result of ongoing government restrictions, the Company has also decided to close certain branches and a regional office in China. Also, write-downs include assets (primarily fixed and intangible assets) associated with the divestiture of the Discovery Toys business unit, which was effective January 15, 1999.

The field program buy-out represents costs to terminate the Company's prior representative recruitment program in the U.S. The recognition of foreign currency translation adjustment relates to the closure of the jewelry manufacturing facility in Ireland. "Other" category primarily represents lease and contract termination costs, litigations costs, and other costs associated with the facility closures. The liability balance included in other accrued liabilities as of December 31, 1999 and 1998 is as follows:

	Special Charges	Cost of Sales Charge	Total
Provision	$116.5	$37.9	$154.4
Cash expenditures	(66.0)		(66.0)
Non-cash write-offs	(22.0)	(37.9)	(59.9)
Balance at December 31, 1998	28.5	—	28.5
Provision	105.2	46.0	151.2
Cash expenditures	(67.1)		(67.1)
Non-cash write-offs	(40.4)	(46.0)	(86.4)
Balance at December 31, 1999	$ 26.2	$ —	$ 26.2

The balance at December 31, 1999 relates primarily to employee severance costs that will be paid during 2000.

3.64

TRICON GLOBAL RESTAURANTS, INC. AND SUBSIDIARIES (DEC)

(In millions, except per share amounts)	1999	1998	1997
Revenues			
Company sales	$ 7,099	$ 7,852	$ 9,112
Franchise and license fees	723	627	578
	7,822	8,479	9,690
Costs and expenses, net			
Company restaurants			
Food and paper	2,238	2,521	2,949
Payroll and employee benefits	1,956	2,243	2,614
Occupancy and other operating expenses	1,814	2,030	2,491
	6,008	6,794	8,054
General and administrative expenses	920	941	956
Other (income) expense	(16)	(24)	8
Facility actions net (gain) loss	(381)	(275)	247
Unusual items	51	15	184
Total costs and expenses, net	6,582	7,451	9,449
Operating profit	$1,240	$1,028	$ 241

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 5 (In Part): Items Affecting Comparability of Net Income (Loss)

Unusual Items

	1999	1998	1997
U.S.	$48	$11	$ 85
International	3	4	99
Worldwide	$51	$15	$184
After-tax	$29	$ 3	$165

On January 31, 2000, AmeriServe Food Distribution, Inc. ("AmeriServe"), our primary U.S. distributor, filed for protection under Chapter 11 of the U.S. Bankruptcy Code. As a result of the bankruptcy, we wrote off approximately $41 million of amounts owed to us by AmeriServe, including a $15 million unsecured loan. See Note 22. In addition to the AmeriServe write-off, unusual items included the following in 1999: (1) an increase in the estimated costs of settlement of certain wage and hour litigation and associated defense and other costs incurred, as more fully described in Note 21; (2) favorable adjustments to our 1997 fourth quarter charge related to lower actual costs; (3) the writedown to estimated fair market value less cost to sell of our idle Wichita processing facility; (4) costs associated with the pending formation of international unconsolidated affiliates in Canada and Poland; (5) the impairment of enterprise-level goodwill in one of our international businesses; and (6) additional severance and other exit costs related to 1998 strategic decisions to streamline the infrastructure of our international businesses. The estimated fair market value of our idle Wichita processing facility was determined by using the estimated selling price based primarily on an evaluation by a qualified third party.

Unusual items in 1998 included: (1) an increase in the estimated costs of settlement of certain wage and hour litigation and associated defense and other costs incurred; (2) severance and other exit costs related to 1998 strategic decisions to streamline the infrastructure of our international businesses; (3) favorable adjustments to our 1997 fourth quarter charge related to anticipated actions that were not taken, primarily severance; (4) the writedown to estimated fair market value less costs to sell of our minority interest in a privately held non-core business, previously carried at cost; and (5) reversals of certain valuation allowances and lease liabilities relating to better-than-expected proceeds from the sale of properties and settlement of lease liabilities associated with properties retained upon the sale of a Non-core Business.

Unusual items in 1997 included: (1) $120 million ($125 million after-tax) of unusual asset impairment and severance charges included in our 1997 fourth quarter charge described above; (2) charges to further reduce the carrying amounts of the Non-core Businesses held for disposal to estimated market value, less costs to sell; and (3) charges relating to the estimated costs of settlement of certain wage and hour litigation and the associated defense and other costs incurred.

3.65

VLASIC FOODS INTERNATIONAL INC. (JUL)

(In thousands, except per share amounts)	1999	1998	1997
Net sales	$1,307,986	$1,357,274	$1,508,285
Costs and expenses			
Cost of products sold	922,357	978,025	1,048,433
Marketing and selling expenses	244,810	245,119	266,475
Administrative expenses	62,799	64,063	53,050
Research and development expenses	8,034	7,907	8,620
Other expense (income)	1,421	(2,927)	2,446
Special items	135,314	42,450	12,634
Total costs and expenses	1,374,735	1,334,637	1,391,658
Earnings (loss) before interest and taxes	$ (66,749)	$ 22,637	$ 116,627

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. Special Items

Special Charges (Credits)

	1999	1998	1997
Swift-Armour divestiture	$137,729	$ —	$ —
Kattus divestiture	(3,200)	14,400	—
Dublin mushroom farm restructuring	3,000	—	—
Fiscal 1998 restructuring program	(3,215)	28,050	—
Fiscal 1997 restructuring program	—	—	12,634
United Kingdom restructuring	1,000	—	—
Total	$135,314	$42,450	$12,634

Also, during the third quarter of fiscal 1999, we recorded a special provision for taxes of $7 million on the repatriation of foreign dividends (Note 9).

Year 2000 Costs

3.66

TARGET CORPORATION (JAN)

(Millions, except per share data)	1999	1998	1997
Sales	$33,212	$30,203	$27,019
Net credit revenues	490	459	468
Total revenues	33,702	30,662	27,487
Cost of sales	23,029	21,085	18,944
Selling, general and administrative expense	7,490	6,843	6,108
Depreciation and amortization	854	780	693
Interest expense	393	398	416
Earnings before income taxes and extraordinary charges	$ 1,936	$ 1,556	$ 1,326

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Summary of Accounting Policies (In Part)

Revenues

Impact of Year 2000

Year 2000 related costs, included in selling, general and administrative expense, were expensed as incurred. In 1999, we expensed $16 million related to year 2000 readiness. Prior to 1999, we expensed $32 million. In addition, we accelerated the timing of $15 million of planned capital expenditures, which are recorded in property and equipment at cost less accumulated depreciation.

PENSIONS AND OTHER POSTRETIREMENT BENEFITS

3.67 Effective for fiscal years beginning after December 15, 1997, *Statement of Financial Accounting Standards No. 132* states the disclosure requirements for pensions and other postretirement benefits. *SFAS No. 132* does not supersede FASB Statements No. 87, No. 88, and No. 106 as to the measurement or recognition of pensions and other postretirement benefits.

3.68 The disclosure requirements of *SFAS No. 132* include, but are not limited to, disclosing the actuarial assumption rates used in accounting for pensions and other postretirement benefits. *SFAS No. 132* also requires disclosure of the assumed health care cost trend rate for other postretirement benefits. Tables 3-8, 3-9 and 3-10 show the actuarial assumption rates used by the survey companies for the years 1996–1999 in accounting for pension benefits. Table 3-11 shows the health care cost trend rate used by the survey companies in 1999 to account for other postretirement benefits. As shown in Table 3-11, 357 survey companies disclosed the health care cost trend rate. Of those 357 survey companies, 318 disclosed one rate for all employees and 39 disclosed two rates—the rate for employees under age 65 and the rate for employees age 65 and over.

3.69 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.

3.70

TABLE 3-8: ASSUMED DISCOUNT RATE

%	1999	1998	1997	1996
4.5 or less	—	—	—	—
5	3	1	1	—
5.5	—	4	—	—
6	15	17	1	2
6.5	30	194	10	5
7	94	201	229	67
7.5	203	27	159	256
8	82	6	43	113
8.5	4	1	7	10
9	—	—	—	—
9.5	1	—	—	—
10	1	—	—	—
10.5	—	—	—	—
11	—	—	—	—
11.5 or greater	1	1	—	—
Not disclosed	4	6	3	7
Companies Disclosing Defined Benefit Plans	**438**	**458**	**453**	**460**

3.71

TABLE 3-9: ASSUMED RATE OF COMPENSATION INCREASE

%	1999	1998	1997	1996
4.5 or less	244	256	219	201
5	121	115	139	154
5.5	23	22	32	46
6	17	17	23	21
6.5	—	2	2	3
7	—	2	2	5
7.5	3	1	—	—
8	1	2	1	1
8.5	2	1	—	—
9	2	—	—	—
9.5	2	—	—	—
10	—	—	—	—
10.5	—	1	—	—
11	1	—	—	—
11.5 or greater	—	—	—	—
Not disclosed	22	39	35	29
Companies Disclosing Defined Benefit Plans	**438**	**458**	**453**	**460**

3.72

TABLE 3-10: EXPECTED RATE OF RETURN

%	1999	1998	1997	1996
4.5 or less	—	—	—	—
5	2	1	—	—
5.5	2	—	—	—
6	1	4	2	—
6.5	1	3	1	3
7	9	8	5	4
7.5	10	10	7	9
8	38	36	37	44
8.5	45	48	54	56
9	143	135	143	150
9.5	96	103	105	99
10	57	67	66	59
10.5	20	20	18	17
11	5	7	7	7
11.5 or greater	4	1	2	2
Not disclosed	5	15	6	10
Companies Disclosing Defined Benefit Plans	**438**	**458**	**453**	**460**

3.73

TABLE 3-11: HEALTH CARE COST TREND RATE—1999

%	All employees	Employees under age 65	Employees age 65 and over
5.5 or less	41	5	12
6-6.5	84	10	13
7-7.5	90	12	7
8-8.5	55	7	2
9-9.5	37	3	1
10-10.5	8	1	—
11-11.5	2	—	—
12-12.5	—	—	—
13-13.5	1	1	—
14 or greater	—	—	1
Fixed amount (not subject to escalation)	—	—	3
Companies Disclosing Rate	**318**	**39**	**39**

Defined Benefit Plans

3.74

ARVIN INDUSTRIES, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars in millions, unless noted otherwise)

Note 9: Pension and other Postretirement Plans

Substantially all of Arvin's employees in the U.S. are covered by non-contributory trusteed pension plans. Employees of certain of the Company's international operations are covered by either contributory or non-contributory trusteed pension plans. Benefits are based on, in the case of certain plans, final average salary and years of service and, in the case of other plans, a fixed amount for each year of service. Net periodic pension costs are determined using the Projected Unit Credit Cost method. Arvin's funding policy provides that annual contributions to the pension trusts will be at least equal to the minimum amounts required by ERISA in the U.S. and actuarial recommendations or statutory requirements in other countries.

The Company provides certain retiree health care benefits covering a majority of U.S. salaried employees. Employees are generally eligible for benefits upon retirement and completion of a specified number of years of credited service. The plans are contributory based on years of service, with contributions adjusted annually. Arvin generally does not pre-fund these benefits and has the right to modify or terminate these plans in the future.

Certain of Arvin's non-U.S. subsidiaries provide limited non-pension benefits to retirees in addition to government sponsored programs. The cost of these programs is not significant to the Company. Most retirees outside the United States are covered by government sponsored and administered programs.

	Pension Benefits 1999	Pension Benefits 1998	Other Benefits 1999	Other Benefits 1998
Change in benefit obligation				
Benefit obligation at beginning of year	$418.7	$348.9	$38.3	$37.7
Service cost	14.1	10.6	1.3	.8
Interest cost	26.4	25.5	2.8	2.6
Plan participants' contributions	1.5	.8	—	—
Acquisition	—	—	3.6	—
Special termination benefits and curtailment	7.2	—	3.8	—
Amendments	3.6	19.7	—	—
Actuarial (gain)/loss	(34.8)	29.1	(5.6)	(1.0)
Benefits paid	(16.7)	(14.8)	(1.6)	(1.8)
Foreign currency exchange rate changes	(2.8)	(1.1)	—	—
Benefit obligation at end of year	$417. 2	$418.7	$42.6	$38.3
Change in plan assets				
Fair value of plan assets at beginning of year	$425.8	$383.6	$ —	$ —
Actual return on plan assets	59.7	53.6	—	—
Employer contributions	5.9	4.1	1.6	1.8
Plan participants' contributions	1.5	.8	—	—
Benefits and expenses paid	(17.6)	(15.2)	(1.6)	(1.8)
Foreign currency exchange rate changes	(2.6)	(1.1)	—	—
Fair value of plan assets at end of year	$472.7	$425.8	$ —	$ —

The Company's pension obligations for its United States plans were projected to, and the assets were valued as of the end of 1999 and 1998. The plan assets, comprised almost entirely of high-grade stocks and bonds, included 1.3 million shares of Arvin common stock at year-end 1999 and also at year-end 1998.

	Pension Benefits 1999	Pension Benefits 1998	Other Benefits 1999	Other Benefits 1998
Reconciliation of funded status				
Funded status	$ 55.5	$ 7.1	$(42.6)	$(38.3)
Unrecognized net asset	(4.2)	(5.5)	—	—
Unrecognized net gain	(88.2)	(32.9)	(12.0)	(9.8)
Unrecognized prior service cost	27.5	31.3	—	—
Net amount recognized	$ (9.4)	$ —	$(54.6)	$(48.1)
Amounts recognized in the statement of financial position consist of:				
Prepaid benefit cost	$ 8.7	$ 6.6	$ —	$ —
Accrued benefit liability cost	(19.0)	(8.5)	(54.6)	(48.1)
Intangible asset	.9	1.9	—	—
Net amount recognized	$ (9.4)	$ —	$(54.6)	$(48.1)

Assumptions used in determining the projected benefit obligation for the domestic and international plans are as follows:

	Pension Benefits 1999	Pension Benefits 1998	Pension Benefits 1997	Other Benefits 1999	Other Benefits 1998	Other Benefits 1997
United States plans						
Discount rate for obligations	7.50%	6.75%	7.00%	7.50%	6.75%	7.00%
Expected return on plan assets	9.50%	9.50%	9.00%	N/A	N/A	N/A
Average salary increases	4.75%	4.75%	4.75%	N/A	N/A	N/A
International plans						
Discount rate for obligations	6.50%	5.50%	7.00%	N/A	N/A	N/A
Expected return on plan assets	9.00%	9.00%	9.00%	N/A	N/A	N/A
Average salary increases	4.50%	4.00%	5.00%	N/A	N/A	N/A

For measurement purposes, a six-percent annual rate of increase in per capita cost of covered health care benefits was assumed for 2000. The rate was assumed to decrease to five percent for 2001 and remain at that level.

	Pension Benefits			Other Benefits		
	1999	1998	1997	1999	1998	1997
Components of net periodic benefit cost						
Service cost	$ 14.1	$ 10.6	$ 9.4	$1.3	$ .8	$ .9
Interest cost	26.4	25.5	23.2	2.8	2.6	2.6
Expected return on plan assets	(34.3)	(31.6)	(28.0)	—	—	—
Amortization of transition (asset)	(1.4)	(1.3)	(1.4)	—	—	—
Amortization of prior service cost	3.4	3.4	1.9	—	—	—
Recognized actuarial (gain) or loss	.6	1.0	—	(.5)	(.4)	(.4)
Net periodic benefit cost	8.8	7.6	5.1	3.6	3.0	3.1
Special termination benefits and curtailment	6.1	—	—	1.0	—	—
Net periodic benefit cost after curtailment, special termination benefits and settlement	$ 14.9	$ 7.6	$ 5.1	$4.6	$3.0	$3.1

The projected benefit obligation and accumulated benefit obligation for the pension plan with accumulated benefit obligations in excess of plan assets were $13.4 and $8.8 million as of year-end 1999, and $11.9 and $7.4 million as of year-end 1998, respectively. There were no assets held in this plan.

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point increase in assumed health care cost trend rates would have increased the aggregate of service and interest cost for 1999 by $.6 million. The effect of this change on the accumulated postretirement benefit obligation at year-end 1999 would be an increase of $4.7 million. A one-percentage-point decrease in assumed health care cost trend rates would have decreased the aggregate of service and interest cost for 1999 by $.4 million. The effect of this change on the accumulated postretirement benefit obligation at year-end 1999 would be a decrease of $3.7 million.

3.75

BROWN-FORMAN CORPORATION (APR)

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

10. Pension and Postretirement Benefits

The company sponsors various defined benefit pension and postretirement plans covering most full-time employees. Information about these plans is presented below.

Components of net periodic pension benefit income:

		Pension	
	1997	1998	1999
Service cost	$ 9	$ 9	$ 10
Interest cost	16	18	19
Expected return on plan assets	(26)	(29)	(33)
Amortization of:			
Unrecognized prior service cost	1	1	1
Unrecognized net asset	(3)	(3)	(3)
Net periodic benefit income	$ (3)	$ (4)	$ (6)

Prior service costs are amortized on a straight-line basis over the average remaining service period of employees expected to receive benefits.

Components of net periodic postretirement benefit cost:

	Postretirement		
	1997	1998	1999
Service cost	$1	$1	$1
Interest cost	3	3	3
Net periodic benefit cost	$4	$4	$4

Change in benefit obligation:

	Pension		Postretirement	
	1998	1999	1998	1999
Obligation at beginning of year	$250	$284	$40	$42
Service cost	10	10	1	1
Interest cost	18	19	3	3
Plan amendments	—	5	(1)	—
Actuarial loss	19	23	1	2
Benefits paid	(13)	(14)	(2)	(2)
Obligation at end of year	$284	$327	$42	$46

Change in plan assets:

	Pension		Postretirement	
	1998	1999	1998	1999
Fair value at beginning of year	$346	$407	$—	$—
Actual return on plan assets	72	84	—	—
Company contributions	2	1	2	2
Benefits paid	(13)	(14)	(2)	(2)
Fair value at end of year	$407	$478	$—	$—

Plan assets consist primarily of stocks and bonds.

Selected information for plans with accumulated benefit obligations in excess of plan assets:

	Pension		Postretirement	
	1998	1999	1998	1999
Projected benefit obligation	$(26)	$(28)	$(42)	$(46)
Accumulated benefit obligation	(22)	(24)	(42)	(46)
Fair value of plan assets	2	2	—	—

Funded status:

	Pension		Postretirement	
	1998	1999	1998	1999
Funded status	$123	$151	$(42)	$(46)
Unrecognized net gain	(72)	(99)	(12)	(10)
Unrecognized prior service cost	8	11	(1)	(1)
Unrecognized transition asset	(15)	(12)	—	—
Net amount recognized	$ 44	$ 51	$(55)	$(57)

Net amounts recognized in the consolidated balance sheet:

	Pension		Postretirement	
	1998	1999	1998	1999
Prepaid benefit cost	$ 60	$ 68	$ —	$ —
Accrued benefit liability	(22)	(22)	(55)	(57)
Intangible asset	6	5	—	—
Net amount recognized	$44	$51	$(55)	$(57)

Weighted-average assumptions:

	Pension		
	1997	1998	1999
Discount rate	7.5%	7.0%	6.5%
Expected return on plan assets	10.0%	10.0%	10.0%
Rate of compensation increase	4.5%	4.0%	4.0%

	Postretirement		
	1997	1998	1999
Discount rate	7.5%	7.0%	6.5%
Health care cost trend rates:			
Present rate before age 65	7.3%	7.0%	6.6%
Present rate age 65 and after	6.6%	6.3%	6.1%

The health care cost trend rates are projected to decline gradually to 5.0% by 2004 and to remain at that level thereafter. Assumed health care cost trend rates have a significant effect on the amounts reported for postretirement medical plans. A one percentage point increase (or decrease) in assumed health care cost trend rates would have increased (or decreased) the accumulated postretirement benefit obligation as of April 30, 1999 by $6 and the aggregate service and interest costs for 1999 by $1.

3.76

GARAN, INCORPORATED (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 9: Pension and Retirement Plans

The Company contributes to defined benefit pension plans which cover all eligible employees. Pension costs are generally funded currently. Pension expense amounted to $253,899 in 1999, $37,595 in 1998 and $249,721 in 1997. Pension information under FASB No. 132 is as follows:

	1999	1998
Change in benefit obligations		
Benefit obligation at beginning of year	$14,755,787	$12,743,244
Service cost	631,223	535,555
Interest cost	1,097,255	1,027,095
Amendments		415,024
Actuarial loss	391,817	1,266,228
Benefits paid	(260,468)	(259,077)
Settlements	(924,004)	(972,282)
Benefit obligation at end of year	$15,691,610	$14,755,787
Change in plan assets		
Fair value of plan assets at beginning of year	$18,556,352	$16,255,283
Actual return on plan assets	1,480,991	2,771,223
Employer contribution	776,423	761,205
Benefits paid	(260,468)	(259,077)
Settlements	(924,004)	(972,282)
Fair value of plan assets at end of year	$19,629,294	$18,556,352
Reconciliation of funded status		
Funded status	$ 3,937,684	$ 3,800,565
First quarter contribution	784,081	321,422
Unrecognized net transition obligation	447,901	510,901
Unrecognized prior service cost	796,088	982,510
Unrecognized net actuarial (gain) or loss	83,018	(551,810)
Prepaid benefit cost, September 30	$ 6,048,772	$ 5,063,588
Weighted-average assumptions		
Discount rate		
Beginning of year	7.50%	8.00%
End of year	7.50%	7.50%
Expected return on plan assets	9.50%	9.50%
Rate of compensation increase	5.30%	5.30%
Components of net periodic benefit cost		
Service cost	$ 631,223	$ 535,555
Interest cost	1,097,255	1,027,095
Expected return on plan assets	(1,788,449)	(1,561,879)
Amortization of net transition obligation	72,425	70,069
Amortization of prior service cost	186,422	162,942
Amortization of net actuarial loss		5,728
Settlement (gain) or loss	55,023	(201,915)
Net periodic benefit cost	$ 253,899	$ 37,595

The Board of Directors adopted on April 1, 1989 a Supplemental Executive Retirement Plan for certain executive employees to restore pension benefits which had been reduced by legislative action. The Company purchased annuity contracts to fund its obligation for the four participants (three officers-directors and one employee-director of the Company) under such plan and reimbursed the participants for the current tax recognition resulting from such purchases. The respective costs were amortized over the remaining estimated employment lives of the participants. In 1999 and 1998 there were no expenses for the plan, and in 1997 the expense was $436,000. The plan was terminated in May, 1999. See note 14.

The Board of Directors adopted on January 1, 1995, a Supplemental Benefit Restoration Plan for certain employees not covered by the Supplemental Executive Retirement Plan to restore certain pension benefits which had been reduced by legislative action. The Company is currently funding its obligations under the Plan and the 1999, 1998 and 1997 expense for such plan was $180,000, $146,000 and $81,000, respectively.

3.77

THE J.M. SMUCKER COMPANY (APR)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note E: Pensions and Other Postretirement Benefits

The Company has pension plans covering substantially all of its 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 have reached age 55 and attained 10 years of service.

During 1999, the Company adopted Statement of Financial Accounting Standards No. 132, *Employers' Disclosures about Pensions and Other Postretirement Benefits* (SFAS 132). SFAS 132 standardizes disclosure requirements without changing the recognition or measurement of pension or postretirement benefit plans. All disclosures for prior periods shown below have been restated to conform to the disclosure requirements of SFAS 132.

Net periodic benefit cost included the following components:

(Dollars in thousands) Year Ended April 30,	Defined Benefit Pension Plans 1999	1998	1997	Other Postretirement Benefits 1999	1998	1997
Service cost	$1,841	$1,500	$1,592	$ 490	$ 393	$ 424
Interest cost	4,043	3,822	3,705	662	732	708
Expected return on plan assets	(5,703)	(4,398)	(4,179)	—	—	—
Amortization of prior service costs	489	489	472	(61)	(20)	—
Amortization of initial net asset	(91)	(91)	(91)	(27)	(43)	—
Recognized net actuarial gain	(322)	(19)	—	—	—	(12)
Net periodic benefit cost	$ 257	$1,303	$1,499	$1,064	$1,062	$1,120

The following table sets forth the combined status of the plans as recognized in the consolidated balance sheets at April 30, 1999 and 1998:

	Defined Benefit Pension Plans		Other Postretirement Benefits	
	April 30,		April 30,	
(Dollars in thousands)	1999	1998	1999	1998
Change in benefit obligation:				
Benefit obligation at beginning of year	$59,156	$50,840	$ 10,397	$ 9,438
Service cost	1,841	1,500	490	393
Interest cost	4,043	3,822	662	732
Amendments	5,565	271	—	(956)
Actuarial (gain) loss	(598)	4,848	(960)	1,163
Benefits paid	(2,120)	(2,125)	(147)	(373)
Benefit obligation at end of the year	$67,887	$59,146	$ 10,442	$ 10,397
Change in plan assets:				
Fair value of plan assets at beginning of year	$63,313	$50,055	$ —	$ —
Actual return on plan assets	2,493	15,039	—	—
Asset gain (loss)	795	(420)	—	—
Company contributions	773	764	147	373
Benefits paid	(2,120)	(2,125)	(147)	(373)
Fair value of plan assets at end of the year	$65,254	$63,313	$ —	$ —
Funded status of the plan	$ (2,633)	$ 4,157	$(10,442)	$(10,397)
Unrecognized net actuarial gain	(7,426)	(9,566)	(1,458)	(525)
Unrecognized prior service cost	9,847	4,771	(875)	(936)
Unrecognized initial asset	(1,232)	(1,323)	—	—
Accrued benefit cost	$ (1,444)	$ (1,961)	$(12,775)	$(11,858)
Weighted average assumptions:				
Discount rate	7%	7%	7%	7%
Expected return on plan assets	9%	9%	—	—
Rate of compensation increase	5%	5%	—	—

For fiscal 2000, the assumed health care cost trend rates are 7% for participants under age 65 and 5% for participants age 65 or older. The rate for participants under age 65 is assumed to decrease gradually to 5% in the year 2003. The health care cost trend rate assumption has a significant effect on the amount of the obligation and periodic cost reported. A one-percent annual change in the assumed cost trend rate would have the following effect:

	One-Percentage Point	
(Dollars in thousands)	Increase	Decrease
Effect on total service and interest cost components	$ 252	$ (193)
Effect on postretirement benefit obligation	$1,919	$(1,506)

The projected benefit obligation applicable to pension plans with accumulated benefit obligations in excess of plan assets was $12,252,000 and $10,173,000 at April 30, 1999 and 1998, respectively, primarily due to a supplemental retirement benefit plan. The accumulated benefit obligation related to these plans was $9,831,000 and $8,049,000, while the fair value of assets was $3,137,000 and $3,010,000 at April 30, 1999 and 1998, respectively.

Pension plan assets consist of listed stocks and government obligations, including 168,000 of both of the Company's Class A and Class B Common Shares at April 30, 1999 and 1998. The market value of these shares is $6,552,000 at April 30, 1999. The Company paid dividends of $188,000 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 $808,000, $716,000, and $687,000 in 1999, 1998, and 1997, 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 those labor contracts. For those plans not self-administered, the Company is unable to determine its share of either the accumulated plan benefits or net assets available for benefits under those plans.

In addition, certain of the Company's active employees participate in multi-employer 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 $1,569,000, $1,727,000, and $1,439,000 in 1999, 1998, and 1997, respectively.

3.78

TASTY BAKING COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8. Pension Costs

The Company participates in a funded noncontributory pension plan providing retirement benefits for substantially all employees. Benefits under this plan generally are based on the employees' years of service and compensation during the years preceding retirement. Net pension gains and losses in excess of 10% of the greater of the projected benefit obligation or the market value of the plan assets ("the corridor") are recognized in income in the year of occurrence.

The components of pension cost are summarized as follows:

	1999	1998	1997
Service cost-benefits earned during the year	$ 1,646,000	$ 1,439,000	$ 1,292,000
Interest cost on projected benefit obligation	5,114,000	4,913,000	4,910,000
Expected return on plan assets	(6,077,000)	(5,946,000)	(5,469,000)
Prior service cost amortization	(30,000)	(30,000)	(30,000)
Transition amount amortization	(339,000)	(339,000)	(339,000)
Net amount charged to income	$ 314,000	$ 37,000	$ 364,000

The following table sets forth the change in projected benefit obligation, change in plan assets, funded status of the pension plan and net liability recognized in the Company's balance sheet at December 25, 1999 and December 26, 1998:

	1999	1998
Change in projected benefit obligation		
Projected benefit obligation, beginning of year	$ 75,139,000	$ 72,376,000
Service cost	1,646,000	1,439,000
Interest cost	5,114,000	4,913,000
Actuarial (gain) loss	(5,796,000)	785,000
Benefits paid	(4,459,000)	(4,374,000)
Projected benefit obligation, end of year	$ 71,644,000	$ 75,139,000
Change in plan assets		
Fair value of plan assets, beginning of year	$ 69,889,000	$ 67,806,000
Actual return on plan assets	5,049,000	6,457,000
Benefits paid	(4,459,000)	(4,374,000)
Fair value of plan assets, end of year	$ 70,479,000	$ 69,889,000
Net liability recognized in balance sheet		
Funded status of plan, end of year	$ (1,165,000)	$ (5,250,000)
Unrecognized actuarial gain	(7,398,000)	(2,631,000)
Unrecognized prior service income	(104,000)	(134,000)
Unrecognized net transition asset	(678,000)	(1,016,000)
Net liability recognized in balance sheet, end of year	$ (9,345,000)	$ (9,031,000)

The actuarial present value of benefits and projected benefit obligations was determined using a discount rate of 7.50% for fiscal year 1999, 6.75% for fiscal year 1998 and 7.0% for fiscal year 1997. The expected long-term rate of return on assets was 9% and the rate of compensation increase used to measure the projected benefit obligation was 6% for fiscal years 1999, 1998 and 1997. Plan assets are invested in a diverse portfolio that primarily consists of equity and debt securities as well as certain real property with subsequent improvements and additions thereto.

9. Postretirement Benefits Other than Pensions

In addition to providing pension benefits, the company also provides certain unfunded health care and life insurance programs for substantially all retired employees. These benefits are provided through contracts with insurance companies and health service providers. Effective January 1, 1996, the company amended its plan to provide health care benefits to retired employee' spouses. As a result, the unrecognized prior service cost amounted to $1,559,217 which is being amortized over a five year period using the straight line method.

The net periodic postretirement benefit cost included the following components:

	1999	1998	1997
Service cost	$ 314,000	$ 321,000	$ 303,000
Interest cost	973,000	924,000	901,000
Net amortization and deferral	91,000	(58,000)	(220,000)
Net amount charged to income	$1,378,000	$1,187,000	$ 984,000

The following table sets forth the change in projected benefit obligation, funded status of the postretirement benefit plan and the net liability recognized in the Company's balance sheet at December 25, 1999 and December 26, 1998:

	1999	1998
Change in projected benefit obligation		
Projected benefit obligation, beginning of year	$ 14,180,000	$ 13,210,000
Service cost	314,000	321,000
Interest cost	973,000	924,000
Actuarial (gain) loss	(590,000)	881,000
Benefits paid	(1,210,000)	(1,156,000)
Projected benefit obligation, end of year	$ 13,667,000	$ 14,180,000
Net liability recognized in balance sheet		
Funded status of plan, end of year	$(13,667,000)	$(14,180,000)
Unrecognized net gain	(4,997,000)	(4,623,000)
Unrecognized prior service cost	336,000	642,000
Net liability recognized in balance sheet, end of year	$(18,328,000)	$(18,161,000)

The accumulated postretirement benefit obligation was determined using a weighted average discount rate of 7.5% in 1999, 6.75% in 1998 and 7.00% in 1997, and an assumed compensation increase rate of 6% was used for fiscal years ended 1999, 1998 and 1997. For 1999, the health care cost trend rates are anticipated to be 6.79% and 6.34% for indemnified health plans and HMO-type health plans, respectively, gradually declining to 5% in five years and remaining at that level thereafter. The health care cost trend rate assumptions have a significant effect on the amounts reported. For example, a 1% increase in the health care trend rate would increase the accumulated postretirement benefit obligation by $426,000 and $410,000 in 1999 and 1998, respectively and the net periodic cost by $56,000, $53,000 and $52,000 in 1999, 1998 and 1997, respectively. A 1% decrease in the healthcare trend rate would decrease the accumulated postretirement benefit obligation by $376,000 and $373,000 in 1999 and 1998, respectively and the net periodic cost by $52,000 and $47,000 in 1999 and 1998, respectively.

Defined Contribution Plans

3.79

ARCHER DANIELS MIDLAND COMPANY (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 9: Employee Benefit Plans

The Company provides substantially all employees with pension benefits. The Company also provides substantially all domestic employees with postretirement health care and life insurance benefits. It is the Company's policy to fund pension costs as required by applicable laws and regulations. In addition, the Company has savings and investment plans available to eligible employees with one year of service. Total retirement plan expense includes the following components:

	Pension Benefits			Postretirement Benefits		
(In thousands)	1999	1998	1997	1999	1998	1997
Defined benefit plans:						
Service cost (benefits earned during the period)	$23,239	$22,559	$18,928	$4,355	$4,139	$3,303
Interest cost	37,903	33,658	29,557	4,284	4,403	3,843
Expected return on plan assets	(43,844)	(37,159)	(32,222)	—	—	—
Actuarial loss (gain)	969	(53)	401	(769)	(663)	(820)
Net amortization	40	(951)	(1,110)	(111)	(111)	(111)
Net periodic pension expense	18,307	18,054	15,554	7,759	7,768	6,215
Defined contribution plans	17,775	15,497	10,247			
Total retirement plan expense	$36,082	$33,551	$25,801	$7,759	$7,768	$6,215

The following tables set forth changes in the benefit obligation and the fair value of plan assets.

	Pension Benefits		Postretirement Benefits	
(In thousands)	1999	1998	1999	1998
Benefit obligation, beginning	$638,006	$458,148	$ 61,190	$ 58,710
Service cost	23,239	22,559	4,355	4,139
Interest cost	37,903	33,658	4,284	4,403
Actuarial loss (gain)	(6,581)	35,373	8,288	(3,241)
Benefits paid	(23,961)	(21,769)	(2,851)	(2,815)
Plan amendments	35,254	17,442	—	—
Acquisitions/divestitures, net	—	98,683	6,065	—
Foreign currency effects	(7,202)	(6,088)	(1)	(6)
Benefit obligation, ending	$696,658	$638,006	$ 81,330	$ 61,190
Fair value of plan assets, beginning	$613,516	$431,673	$ —	$ —
Actual return on plan assets	15,685	100,521	—	—
Employer contributions	20,378	16,475	2,851	2,815
Benefits paid	(23,961)	(21,769)	(2,851)	(2,815)
Acquisitions/divestitures, net	—	95,243	—	—
Foreign currency effects	(9,641)	(8,627)	—	—
Fair value of plan assets, ending	$615,977	$613,516	$ —	$ —
Funded status	$ (80,681)	$ (24,490)	$(81,330)	$(61,190)
Unamortized transition amount	(14,729)	(17,631)	—	—
Unrecognized net loss (gain)	40,146	15,936	(13,971)	(23,028)
Unrecognized prior service costs	59,600	26,926	4,779	(1,397)
Adjustment for fourth quarter contributions	491	1,434	—	—
Pension asset (liability) recognized in the balance sheet	$ 4,827	$ 2,175	$(90,522)	$(85,615)

At June 30, 1999 and 1998, a prepaid pension benefit cost of $57 million and $49 million, respectively, and an accrued pension benefit liability of $83 million and $71 million, respectively, were recognized in the consolidated balance sheet. For postretirement benefit plans, an accrued benefit liability of $91 million and $86 million was recognized at June 30, 1999 and 1998, respectively.

The following table sets forth the principal assumptions used in developing the benefit obligation and the net periodic pension expense:

	Pension Benefits		Postretirement Benefits	
	1999	1998	1999	1998
Discount rate	7.0%	7.0%	7.0%	7.0%
Expected return on plan assets	8.9%	8.9%	N/A	N/A
Rate of compensation increase	4.5%	4.5%	N/A	N/A

The projected benefit obligation, accumulated benefit obligation and fair value of plan assets for the U.S. retirement plans with accumulated benefit obligations in excess of plan assets were $539 million, $455 million and $386 million, respectively, as of June 30, 1999, and $473 million, $323 million and $384 million, respectively, as of June 30, 1998.

For measurement purposes, an 8.3% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2000. The rate was assumed to decrease gradually to 5.5% for 2004 and remain at that level thereafter.

Assumed health care cost trend rates have a significant impact on the amounts reported for the health care plans. A 1% change in assumed health care cost trend rates would have the following effect:

(In thousands)	1% Increase	1% Decrease
Effect on total of service and interest cost components	$1,091	$(1,011)
Effect on accumulated postretirement benefit obligations	$6,655	$(6,261)

3.80

THE CLOROX COMPANY (JUN)

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

18 (In Part): Employee Benefit Plans

The expenses of employee termination related to the First Brands merger were charged to merger, integration, restructuring and asset impairment costs. The Company has defined contribution plans for most of its domestic employees not covered by collective bargaining agreements. Cost is based on the Company's profitability and on participants' deferrals. The aggregate cost of the defined contribution and multi-employer pension plans was $21 in 1999, $26 in 1998 and $24 in 1997.

Supplemental Retirement Plans

3.81

BOISE CASCADE CORPORATION AND SUBSIDIARIES (DEC)

NOTES TO FINANCIAL STATEMENTS

5 (In Part): Retirement and Benefit Plans

We also sponsor contributory savings and supplemental retirement plans for most of our salaried and hourly employees. The program for salaried employees includes an employee stock ownership plan. Under that plan, our Series D ESOP convertible preferred stock (see Note 7) is being allocated to eligible participants through 2004, as principal and interest payments are made on the ESOP debt guaranteed by the Company. Total expense for these plans was $24,200,000 in 1999, compared with $22,197,000 in 1998 and $20,910,000 in 1997.

7 (In Part): Shareholders' Equity

Preferred Stock

At December 31, 1999, 4,982,209 shares of 7.375% Series D ESOP convertible preferred stock were outstanding. The stock is shown in the Balance Sheets at its liquidation preference of $45 per share. The stock was sold in 1989 to the trustee of our Savings and Supplemental Retirement Plan for salaried employees (see Note 5). Each ESOP preferred share is entitled to one vote, bears an annual cumulative dividend of $3.31875, and is convertible at any time by the trustee to 0.80357 share of common stock. The ESOP preferred shares may not be redeemed for less than the liquidation preference.

3.82

FEDERATED DEPARTMENT STORES, INC. (JAN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

11 (In Part): Retirement Plans

The Company has defined benefit plans ("Pension Plans") and defined contribution plans ("Savings Plans") which cover substantially all employees who work 1,000 hours or more in a year. In addition, the Company has defined benefit supplementary retirement plans which include benefits, for certain employees, in excess of qualified plan limitations. For the 52 weeks ended January 29, 2000, January 30, 1999 and January 31, 1998, net retirement expense for these plans totaled $53 million, $30 million and $35 million, respectively.

Measurement of plan assets and obligations for the Pension Plans and the defined benefit supplementary retirement plans 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 7.75% as of December 31, 1999 and 6.75% as of December 31, 1998. The assumed weighted average rate of increase in future compensation levels under such plans was 5.0% as of December 31, 1999 and December 31, 1998. The long-term rate of return on assets (Pension Plans only) was 9.75% as of December 31, 1999 and December 31, 1998.

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Supplementary Retirement Plans

The following provides a reconciliation of benefit obligations, plan assets and funded status of the supplementary retirement plans as of December 31, 1999 and 1998:

(In millions)	1999	1998
Change in projected benefit obligation		
Projected benefit obligation, beginning of year	$ 132	$ 94
Service cost	4	4
Interest cost	9	8
Acquisition	1	—
Actuarial (gain) loss	(22)	36
Benefits paid	(7)	(10)
Projected benefit obligation, end of year	$ 117	$ 132
Change in plan assets		
Fair value of plan assets, beginning of year	$ —	$ —
Company contributions	7	10
Benefits paid	(7)	(10)
Fair value of plan assets, end of year	$ —	$ —
Funded status	$(117)	$(132)
Unrecognized net loss	24	49
Unrecognized prior service cost	4	6
Accrued benefit cost	$ (89)	$ (77)
Amounts recognized in the statement of financial position		
Accrued benefit cost	(91)	(99)
Intangible asset	2	5
Accumulated other comprehensive income	—	17
Net amount recognized	$ (89)	$ (77)

The accumulated benefit obligation for the supplementary retirement plan was $91 million and $99 million as of December 31, 1999 and December 31, 1998, respectively.

Net pension costs for the supplementary retirement plans included the following actuarially determined components:

(Millions)	52 Weeks Ended January 29, 2000	52 Weeks Ended January 30, 1999	52 Weeks Ended January 31, 1998
Service cost	$ 4	$ 4	$2
Interest cost	9	8	5
Amortization of prior service cost	1	1	2
Recognition of net actuarial loss	4	3	—
Net pension expense	$18	$16	$9

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 plans.

Multiemployer Plans

3.83

COURIER CORPORATION (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

G. Retirement Plans

The Company and its consolidated subsidiaries maintain various retirement plans covering substantially all of its employees. Retirement costs of multi-employer union plans consist of defined contributions determined in accordance with the respective collective bargaining agreements. Retirement benefits for non-union employees are provided through the Courier Profit Sharing and Savings Plan, which includes an Employee Stock Ownership Plan (ESOP). Retirement costs amounted to $2,330,000 in fiscal 1999, $2,202,000 in fiscal 1998 and $1,730,000 in fiscal 1997.

The Profit Sharing and Savings Plan is qualified under Section 401(k) of the Internal Revenue Code. The plan allows eligible employees to contribute up to 16% of their compensation, with the Company matching 25% of the first 6% of employee contributions. The Company also makes contributions to the plan annually based on profits each year for the benefit of all eligible non-union employees.

Shares of Company common stock may be allocated to participants' ESOP accounts annually based on their compensation as defined in the plan. During fiscal years 1999, 1998 and 1997, no such shares were allocated to eligible participants. At September 25, 1999, the ESOP held 177,741 shares on behalf of the participants.

3.84

HARTMARX CORPORATION (NOV)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Employee Benefits (In Part)

Pension Plans (In Part)

The Company participates with other companies in the apparel industry in making collectively-bargained payments to pension funds, which are not administered by the Company. The contribution rate of applicable payroll is based on the amounts negotiated between the union and the participating industry employers. Pension costs relating to multi-employer plans were approximately $1.4 million in 1999, $6.4 million in 1998 and $7.6 million in 1997. As discussed elsewhere in this footnote, certain current pension costs and obligations related to a multi-employer plan were assumed by the Company's single employer plan, effective as of October 1, 1998. The Multi-Employer Pension Plan Amendments Act of 1980 (the "Act") amended ERISA to establish funding requirements and obligations for employers participating in multi-employer plans, principally related to employer withdrawal or termination of such plans.

The present value of accumulated benefits of one multi-employer plan has been substantially in excess of the plan assets currently available for such benefits. The employer participants in this underfunded multi-employer plan along with the Union of Needletrades, Industrial & Textile Employees ("UNITE") and the Pension Benefit Guaranty Corporation ("PBGC") entered into an agreement during 1996 intended to provide further clarity regarding the future of the plan. Among other things, employee benefit accruals were frozen at existing levels and each employer's current and future contribution rate was frozen at 10.33% of wages. Each participating employer's maximum contingent withdrawal liability was individually capped as of December 31, 1994 and is being reduced by approximately 90% of the amounts contributed subsequent to January 1, 1996. Withdrawal liabilities arising from the bankruptcy of any participating employer will no longer be reallocated to the remaining participating employers. If a funding deficiency, as defined under the Act, occurs in the future, each employer's mass withdrawal liability would be fixed at the December 31, 1994 amount less the cumulative credited contributions (the "net withdrawal liability"). That net withdrawal liability would be payable over 20 years in quarterly installments plus interest at a fixed annualized rate of 6.2%. Through September 30, 1998, approximately $15.5 million of the contributions made by the Company were applied to reduce the amount which would represent its contingent net withdrawal liability, estimated at approximately $56.1 million as of September 30, 1998.

Effective October 1, 1998, the Company entered into a separate agreement with the trustees of the underfunded multi-employer plan as discussed above, along with UNITE which, among other things, provides for an assumption by the Company sponsored pension plan of the retirement liabilities of certain current, terminated vested and retired employees of the Company who were participants in the underfunded multi-employer plan. This agreement has been approved by the Internal Revenue Service and the Pension Benefit Guaranty Corporation. The Company's remaining contingent net actuarial withdrawal liability to the underfunded multi-employer plan of approximately $56.1 million was satisfied by the assumption of a near equivalent amount of these liabilities. Also effective October 1, 1998, the Company ceased future contributions to the multi-employer plan for the applicable employees (aggregating approximately $6 million on an annualized basis). The costs associated with the accrual of benefits going forward, along with the interest associated with prior service cost, are being reflected by the Company sponsored pension plan.

3.85

LEGGETT & PLATT, INCORPORATED AND SUBSIDIARIES (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

H (In Part): Employee Benefit Plans

Contributions to union sponsored, defined benefit, multiemployer pension plans were $.7, $.2, and $.2 in 1999, 1998, and 1997, respectively. These plans are not administered by the Company and contributions are determined in accordance with provisions of negotiated labor contracts. As of 1999, the actuarially computed values of vested benefits for these plans were primarily equal to or less than the net assets of the plans. Therefore, the Company would have no material withdrawal liability. However, the Company has no present intention of withdrawing from any of these plans, nor has the Company been informed that there is any intention to terminate such plans.

Net pension expense, including Company sponsored defined benefit plans, multiemployer plans and other plans, was $4.3, $2.1 and $2.1 in 1999, 1998 and 1997, respectively.

Amendment of Plan

3.86

DEL MONTE FOODS COMPANY AND SUBSIDIARIES (JUN)

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

Note 9: Retirement Benefits

Effective July 1, 1998, the Company adopted SFAS No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits." SFAS No. 132 amends only the disclosure requirements with respect to pensions and other postretirement benefits. Adoption of this statement has not impacted the Company's consolidated financial position, results of operations or cash flows, and any effect has been limited to the form and content of its disclosures.

The Company sponsors three non-contributory defined benefit pension plans and several unfunded defined benefit postretirement plans providing certain medical, dental and life insurance benefits to eligible retired, salaried, non-union hourly and union employees.

	Pension Benefits June 30,		Other Benefits June 30,	
	1999	1998	1999	1998
Change in benefit obligation:				
Benefit obligation at beginning of year	$292	$279	$ 108	$ 104
Service cost	3	3	1	1
Interest cost	20	21	8	8
Amendments	—	—	(24)	—
Plan participants' contributions	—	—	3	2
Contadina acquisition	—	—	—	1
Actuarial (gains) losses	(10)	14	(12)	—
Benefits paid	(26)	(25)	(9)	(8)
Benefit obligation at end of year	$279	$292	$ 75	$ 108
Change in plan assets:				
Fair value of plan assets at beginning of year	$299	$276	$ —	$ —
Actual return on plan assets	14	35	—	—
Employer contributions	10	13	6	6
Plan participants' contributions	—	—	3	2
Benefits paid	(26)	(25)	(9)	(8)
Fair value of plan assets at end of year	$297	$299	$ —	$ —
Funded status	$ 18	$ 7	$ (75)	$(108)
Unrecognized net actuarial gain	(28)	(31)	(43)	(35)
Unrecognized prior service cost	(1)	(1)	(31)	(8)
Net amount recognized	$ (11)	$ (25)	$(149)	$(151)

The net amount recognized for pension benefits as of June 30, 1999 and 1998 of $11 and $25, respectively, consisted of prepaid benefit costs.

	Pension Benefits June 30,		Other Benefits June 30,	
Weighted Average Assumptions as of June 30	1999	1998	1999	1998
Discount rate used in determining projected benefit obligation	7.50%	7.00%	7.50%	7.00%
Rate of increase in compensation levels	5.00	5.00	—	—
Long-term rate of return on assets	9.00	9.00	—	—

The Company amended its defined benefit postretirement plans during fiscal 1999. The plan amendment requires a significant increase in retiree contributions. The Company has announced that retiree contributions will be increased additionally in fiscal 2000 and 2001.

The components of net periodic pension cost for all defined benefit plans and other benefit plans are as follows:

	Pension Benefits June 30,			Other Benefits June 30,		
	1999	1998	1997	1999	1998	1997
Components of net periodic benefit cost						
Service cost for benefits earned during period	$ 3	$ 3	$ 3	$ 1	$ 1	$ 1
Interest cost on projected benefit obligation	20	21	21	8	8	9
Actual return on plan assets	(26)	(24)	(35)	—	—	—
Amortization of prior service cost	—	—	—	(1)	(1)	(1)
Recognized net actuarial (gain) loss	(1)	(1)	13	(3)	(3)	(3)
Benefit cost (credit)	$ (4)	$ (1)	$ 2	$ 5	$ 5	$ 6

For measurement purposes, a 9.6% annual rate of increase in the per capita cost of covered health care benefits was assumed for fiscal 2000. The rate was assumed to decrease gradually to 6.00% in the year 2004 and remain at that level thereafter.

It has been the Company's policy to fund the Company's retirement plans in an amount consistent with the funding requirements of federal law and regulations and not to exceed an amount that would be deductible for federal income tax purposes. Contributions are intended to provide not only for benefits attributed to service to date but also for those benefits expected to be earned in the future. Del Monte's defined benefit retirement plans were previously determined to be underfunded under federal ERISA guidelines. In connection with the Company's recapitalization, the Company entered into an agreement with the Pension Benefit Guaranty Corporation, dated April 7, 1997, whereby the Company will contribute a total of $55 to its defined benefit pension plans through calendar 2001, of which approximately $35 had been contributed by June 30, 1999. The contributions to be made in calendar 1999, 2000 and 2001 are secured by a $20 letter of credit. This letter of credit is subject to periodic reduction as contributions are made in accordance with the agreement.

The health care cost trend rate assumption has a significant effect on the amounts reported. An increase in the assumed health care cost trend by 1% in each year would increase the postretirement benefit obligation as of June 30, 1999 by $7 and the aggregate of the service and interest cost components of net periodic postretirement benefit cost for the period then ended by $1. A decrease in the assumed health care cost trend by 1% in each year would decrease the postretirement benefit obligation as of June 30, 1999 by $(7) and the aggregate of the service and interest cost components of net periodic postretirement benefit cost for the period then ended by $(1).

In addition, the Company participates in several multi-employer pension plans which provide defined benefits to certain of its union employees. The contributions to multi-employer plans for the years ended June 30, 1999, 1998 and 1997 were $7, $6 and $4, respectively. The Company also sponsors defined contribution plans covering substantially all employees. Company contributions to the plans are based on employee contributions or compensation. Contributions under such plans totaled $2, $1 and $1 for the years ended June 30, 1999, 1998 and 1997.

Change to Cash Balance Plan

3.87

FOSTER WHEELER CORPORATION (DEC)

NOTES TO FINANCIAL STATEMENTS
(In thousands of dollars, except per share amounts)

6. Pensions and Other Postretirement Benefits

Pension Benefits

The Corporation and its domestic and foreign subsidiaries have several pension plans covering substantially all full-time employees. Under the plans, retirement benefits are primarily a function of both years of service and level of compensation; the domestic plans are noncontributory. Effective January 1, 1999, a new cash balance program was established. The pension benefit under the previous formulas remain the same for current employees if so elected, however, new employees will be offered only the cash balance program. The cash balance plan resembles a savings account. Amounts are credited based on age and a percentage of earnings. At termination or retirement, the employee receives the balance in the account in a lump-sum. Under the cash balance program, future increases in earnings will not apply to prior service costs. It is the Corporation's policy to fund the plans on a current basis to the extent deductible under existing Federal tax regulations. Such contributions, when made, are intended to provide not only for benefits attributed to service to date, but also those expected to be earned in the future.

The Corporation has a 401(k) plan for salaried employees. The Corporation, for the years 1999, 1998 and 1997, contributed a 50% match of the employees' contributions, which amounted to a cost of $5,200, $5,400 and $5,500, respectively.

Other Benefits

In addition to providing pension benefits, the Corporation and some of its domestic subsidiaries provide certain health care and life insurance benefits for retired employees. Employees may become eligible for these benefits if they reach normal retirement age while working for the Corporation. Benefits are provided through insurance companies.

The following chart contains the disclosures for pension and other benefits for the years 1999, 1998 and 1997.

	Pension Benefits		Other Benefits	
	1999	1998	1999	1998
Projected benefit obligation (PBO)				
PBO at beginning of period	$597,997	$500,744	$ 89,861	$ 87,352
Service cost	30,728	29,581	1,454	1,008
Interest cost	35,915	35,972	5,641	6,092
Plan participants contributions	4,293	4,730	753	778
Plan amendments	(565)	2,965	(400)	—
Actuarial (gain)/loss	(32,231)	58,718	(12,943)	2,048
Benefits paid	(47,228)	(34,952)	(7,130)	(7,417)
Special termination benefits/other	(1,940)	239	—	—
PBO at end of period	586,969	597,997	77,236	89,861
Plan assets				
Fair value of plan assets beginning of period	576,668	542,601	—	—
Actual return on plan assets	83,397	51,154	—	—
Employer contributions	11,812	11,590	6,377	6,639
Plan participant contributions	4,293	4,730	753	778
Benefits paid	(39,138)	(34,952)	(7,130)	(7,417)
Other	(142)	1,545)	—	—
Fair value of plan assets at end of period	636,890	576,668	0	0
Funded status				
Funded status	49,921	(21,329)	(77,236)	(89,861)
Unrecognized net actuarial loss/(gain)	51,261	121,878	(8,407)	4,536
Unrecognized prior service cost	13,193	16,912	(21,978)	(23,742)
Prepaid (accrued) benefit cost	$114,375	$117,461	$(107,621)	$(109,067)

	Pension Benefits			Other Benefits		
	1999	1998	1997	1999	1998	1997
Net periodic benefit cost						
Service cost	$ 30,728	$ 29,581	$ 25,363	$ 1,454	$ 1,008	$ 1,000
Interest cost	35,915	35,972	33,526	5,641	6,092	6,264
Expected return on plan assets	(52,164)	(52,534)	(61,031)	—	—	—
Amortization of transition asset	(2,969)	(3,031)	(4,637)	—	—	—
Amortization of prior service cost	2,805	2,625	1,373	(2,164)	(2,123)	(2,211)
Recognized actuarial (gain)/loss/other	5,477	(275)	14,261	—	(46)	—
SFAS #87 net periodic pension cost	19,792	12,338	8,855	4,931	4,931	5,053
SFAS #88 cost	3,136*	—	—	—	—	—
Total net periodic pension cost	$ 22,928	$ 12,338	$ 8,855	$ 4,931	$ 4,931	$ 5,053
Weighted average assumptions						
Discount rate	6.92%	6.33%	7.77%	8.0%	7.0%	7.25%
Long term rate of return	9.46%	9.85%	10.0%			
Salary scale	4.55%	4.46%	5.48%			

* Under the provision of SFAS No. 88 "Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits," reduction of workforce under the Realignment Plan and early retirement resulted in a charge of $3,136 in 1999.

Assumed health care cost trend rates have a significant effect on the amounts reported for the other benefit plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

	1-Percentage Point Increase	1-Percentage Point Decrease
Effect on total of service and interest cost components	$ 208	$ (195)
Effect on postretirement benefit obligations	2,783	(2,804)
Health care cost trend:		
1999	8.0%	
Decline to 2011	5.0%	

Curtailment Gains/Losses

3.88

BAUSCH & LOMB INDUSTRIES (DEC)

NOTES TO FINANCIAL STATEMENTS
(Dollar amounts in millions—except per share data)

12. Employee Benefits

The Company's benefit plans which in the aggregate cover substantially all U.S. employees and employees in certain other countries, consist of defined benefit pension plans, defined contribution plans and a participatory defined benefit postretirement plan.

The information provided below pertains to the Company's defined benefit pension and postretirement plans. The following table provides reconciliations of the changes in benefit obligations, fair value of plan assets and funded status for the two-year period ending December 25, 1999.

	Pension Benefit Plans		Postretirement Benefit Plan	
	1999	1998	1999	1998
Reconciliation of benefit obligation				
Obligation at beginning of year	$257.1	$214.0	$ 68.1	$ 75.5
Service cost	9.8	9.2	1.2	1.3
Interest cost	16.9	16.2	4.3	4.8
Participant contributions	(1.7)	(1.6)	—	—
Plan amendments	—	0.4	—	—
Divestitures/acquisitions	(30.3)	0.8	—	—
Currency translation adjustments	(2.8)	1.8	—	—
Curtailment gains	(1.9)	—	(1.4)	—
Benefit payments	(18.0)	(14.6)	(6.5)	(6.3)
Actuarial loss (gain)	5.2	30.9	(3.4)	(7.2)
Obligation at end of year	$234.3	$257.1	$ 62.3	$ 68.1
Reconciliation of fair value of plan assets				
Fair value of plan assets at beginning of year	$236.5	$201.6	$ 39.3	$ 33.9
Actual return on plan assets	46.5	38.4	10.4	11.7
Divestitures/acquisitions	(30.3)	0.1	—	—
Employer contributions	7.5	8.2	—	—
Participant contributions	1.7	1.6	—	—
Benefit payments	(18.0)	(14.6)	(6.5)	(6.3)
Currency translation adjustments	(2.9)	1.2	—	—
Fair value of plan assets at end of year	$241.0	$236.5	$ 43.2	$ 39.3
Reconciliation of funded status to net amount recognized on the balance sheet				
Funded status at end of year	$ 6.7	$ (20.6)	$(19.1)	$(28.8)
Unrecognized transition (asset) obligation	(7.6)	3.5	—	—
Unrecognized prior-service cost	10.0	11.6	(1.2)	(1.3)
Unrecognized actuarial gain	(10.9)	(0.9)	(46.5)	(45.8)
Net amount recognized	$ (1.8)	$ (6.4)	$(66.8)	$(75.9)

The plan assets shown above for the pension benefit plans include 52,800 shares of the Company's Common stock. In 1999, three plans were sold as part of the biomedical divestiture, and in 1998, one plan was acquired with the purchase of the surgical businesses.

The following table provides information related to underfunded pension plans:

	1999	1998
Projected benefit obligation	$13.9	$25.0
Accumulated benefit obligation	11.4	20.9
Fair value of plan assets	0.1	1.8

The Company's postretirement benefit plan was underfunded for each of the past two years.

The following table provides the amounts recognized in the balance sheet as of the end of each year:

	Pension Benefit Plans		Postretirement Benefit Plan	
	1999	1998	1999	1998
Prepaid benefit cost	$ 9.8	$ 13.6	$ —	$ —
Accrued benefit liability	(11.6)	(20.0)	(66.8)	(75.9)
Net amount recognized	$ (1.8)	$ (6.4)	$(66.8)	$(75.9)

The following table provides the components of net periodic benefit cost for the plans for fiscal years 1999, 1998 and 1997:

	Pension Benefit Plans			Postretirement Benefit Plan		
	1999	1998	1997	1999	1998	1997
Service cost	$ 9.8	$ 9.2	$ 8.3	$ 1.2	$ 1.3	$ 1.2
Interest cost	17.0	16.2	14.7	4.3	4.8	4.9
Expected return on plan assets	(21.1)	(18.9)	(16.8)	(3.5)	(3.0)	(2.6)
Amortization of transition obligation	0.7	0.7	0.7	—	—	—
Amortization of prior-service cost	1.7	1.8	1.8	(0.2)	(0.1)	(0.2)
Amortization of net gain	(0.4)	(0.3)	(0.2)	(3.0)	(2.7)	(2.6)
Net periodic benefit cost	7.7	8.7	8.5	(1.2)	0.3	0.7
Curtailment loss (gain)	2.2	—	—	(1.4)	—	(1.0)
Net periodic benefit cost after curtailments	$ 9.9	$ 8.7	$ 8.5	$ (2.6)	$ 0.3	$ (0.3)

The 1997 curtailment resulted from several plant closings that occurred as part of restructuring initiatives. In 1999, the curtailment was related to the divestiture of the sunglass business.

Key assumptions used to measure benefit obligations in the Company's benefit plans are shown in the following table:

	1999	1998
Weighted Average Assumptions		
Discount rate	7.2%	6.8%
Expected return on plan assets	7.8%	8.6%
Rate of compensation increase	4.6%	4.3%

For amounts pertaining to postretirement benefits, a 6.75% annual rate of increase in the per capita cost of covered health care benefits was assumed for 1999. This rate is assumed to decrease to 5.5% in the year 2000 and remain constant thereafter. To demonstrate the significance of this rate on the expense reported, a one percentage point change in the assumed health care cost trend rate would have the following effect:

	1% Increase	1% Decrease
Effect on total service and interest cost components of net periodic postretirement health care benefit cost	$0.6	$(0.6)
Effect on the health care component of the accumulated postretirement benefit obligation	$6.1	$(5.1)

The costs associated with defined contribution plans totaled $11.9, $12.0 and $8.4 for 1999, 1998 and 1997, respectively.

POSTEMPLOYMENT BENEFITS

3.89 *Statement of Financial Accounting Standards No. 112* requires that entities providing postemployment benefits to their employees accrue the cost of such benefits. *SFAS No. 112* does not require that the amount of postemployment benefits be disclosed. Accordingly, many of the survey companies make little or no disclosure about postemployment benefits in the years following the year of adopting *SFAS No. 112.*

3.90 Examples of disclosures for postemployment benefits follow:

3.91

ALBERTSON'S, INC. (JAN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars in millions)

Employee Benefit Plans (In Part)

Statement of Financial Accounting Standards No. 112, "Employers' Accounting for Postemployment Benefits" requires employers to recognize an obligation for benefits provided to former or inactive employees after employment but before retirement. The Company is self-insured for certain of its employees' short-term and long-term disability plans which are the primary benefits paid to inactive employees prior to retirement. Following is a summary of the obligation for postemployment benefits included in the Company's Consolidated Balance Sheets:

	2000	1999
Included with salaries and related liabilities	$11	$ 7
Included with other long-term liabilities	53	64
	$64	$71

3.92

BAKER HUGHES INCORPORATED (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (In millions of dollars)

Note 14 (In Part): Employee Benefit Plans

Postemployment Benefits

During the periods reported, the Company provided certain postemployment disability and medical benefits to substantially all qualifying former or inactive Baker Hughes U.S. employees (other than those employed at the time by Western Atlas) following employment but before retirement. Starting on January 1, 1999, these same benefits were provided to substantially all qualified and former and active Western Atlas employees. Disability income benefits ("Disability Benefits"), available at the date of hire, are provided through a qualified plan which has been funded by contributions from the Company and employees. The primary asset of the plan is a guaranteed insurance contract with an insurance company which currently earns interest at 6.5%. The actuarially determined obligation is calculated at a discount rate of 7.25%. Disability Benefits expense was $1.3 million, $2.9 million, $.5 million and $1.1 million in 1999, 1998, the Transition Period and 1997, respectively. The continuation of medical, life insurance and Thrift Plan benefits while on disability and the service related salary continuance benefits ("Continuation Benefits") were provided through a nonqualified, unfunded plan until April 1997. The continuation of the medical benefit portion of the plan was merged into the disability income benefits plan beginning in April 1997. Expense for Continuation Benefits, which is primarily interest cost on the projected benefit obligation, was $5.7 million, $3.6 million, $.6 million and $3.1 million for 1999, 1998, the Transition Period and 1997, respectively.

The following table sets forth the funded status and amounts recognized in the Company's consolidated statements of financial position for Disability Benefits and Continuation Benefits:

	1999	1998
Actuarial present value of accumulated benefit obligation	$(39.0)	$(44.7)
Plan assets at fair value	14.9	15.1
Accumulated benefit obligation in excess of plan assets	(24.1)	(29.6)
Prior service costs	(1.8)	.1
Unrecognized net (gain) loss	(.8)	9.3
Postemployment liability	$(26.7)	$(20.2)

Health care cost assumptions used to measure the Continuation Benefits obligation are similar to the assumptions used in determining the obligation for postretirement health care benefits. Additional assumptions used in the accounting for Continuation Benefits were a discount rate of 7.25% in 1999, 6.5% in 1998, and increases in compensation of 5% for all periods presented.

3.93

THE ESTEE LAUDER COMPANIES INC. (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 11: Postemployment Benefits Other Than to Retirees

The Company provides certain postemployment benefits to eligible former or inactive employees and their dependents during the period subsequent to employment but prior to retirement. These benefits include certain disability and health care coverage and severance benefits. The cost of providing these benefits was not material to the Company's consolidated financial position or results of operations.

3.94

WESTVACO CORPORATION (OCT)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

M (In Part): Employee Retirement, Postretirement and Postemployment Benefits

Postemployment Benefits

The Company provides limited postemployment benefits to former or inactive employees, including short-term disability, workers' compensation and severance.

EMPLOYEE COMPENSATORY PLANS

3.95 Effective for fiscal years beginning after December 15, 1995, *Statement of Financial Accounting Standards No. 123* establishes accounting and reporting standards for stock-based compensation plans. *SFAS No. 123* encourages entities to use a "fair value based method" in accounting for employee stock-based compensation plans but allows the "intrinsic value based method" prescribed by *APB Opinion No. 25. SFAS No. 123* amends *Opinion No. 25* to require pro forma disclosures of net income and earnings per share as if the "fair value based method" was used.

3.96 Table 3-12 lists the types of employee compensatory plans, both stock based and cash awards, disclosed by the survey companies. The "stock award" caption in Table 3-12 represents restricted stock awards, performance awards, and bonuses paid by issuing stock.

3.97 Examples of employee compensatory plan disclosures follow.

3.98

TABLE 3-12: EMPLOYEE COMPENSATORY PLANS

	Number of Companies			
	1999	**1998**	**1997**	**1996**
Stock options	587	590	591	584
Stock award	320	291	302	298
Savings/investment	279	263	257	248
Stock purchase	135	123	132	108
Employee stock ownership	120	121	124	132
Profit-sharing	108	117	104	105
Incentive compensation	92	68	67	70
Deferred compensation	71	67	53	50

Stock Option Plans

3.99

ORACLE CORPORATION (MAY)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Organization and Significant Accounting Policies

Accounting for Stock-Based Compensation

Effective June 1, 1996, the Company adopted the disclosure provisions of SFAS No. 123, "Accounting for Stock-Based Compensation." In accordance with the provisions of SFAS No. 123, the Company applies Accounting Principles Board Opinion 25 and related interpretations in accounting for its employee stock option plans. See Note 9 for a summary of the pro forma effects on reported net income and earnings per share for fiscal 1999, 1998 and 1997 based on the fair value of options and shares granted as prescribed by SFAS No. 123.

9 (In Part): Stockholders' Equity

Stock Option Plans

The Company's 1985 Stock Option Plan provided for the issuance of incentive stock options to employees of the Company and non-qualified options to employees, directors, consultants and independent contractors of the Company. Under the terms of this plan, options were generally granted at not less than fair market value, became exercisable as established by the Board of Directors (generally ratably over four to five years), and generally expire ten years from the date of grant. As of May 31, 1999, options to purchase 1,142,493 shares were outstanding and vested. As of May 31, 1999, there were no options for shares of Common Stock available for future grant under this plan.

In fiscal 1991, the Company adopted both the 1990 Directors Stock Option Plan and the 1990 Executive Officers Stock Option Plan which provide for the issuance of non-qualified stock options to directors and non-qualified or incentive stock options to executive officers of the Company, respectively. Under the terms of these plans, options to purchase up to 21,667,500 shares of Common Stock were reserved for issuance, generally are granted at not less than fair market value, become exercisable as established by the Board of Directors (generally ratably over four years), and generally expire ten years from the date of grant. As of May 31, 1999, options to purchase 985,536 shares of Common Stock were outstanding and vested. Options for 5,215,894 shares were available for future grant under these plans at May 31, 1999.

In fiscal 1992, the Company adopted the 1991 Long-term Equity Incentive Plan which provides for the issuance of non-qualified stock options and incentive stock options, as well as stock purchase rights, stock appreciation rights (in connection with options), and long-term performance awards to eligible employees, officers, directors who are also employees or consultants, and advisors of the Company. Under the terms of this plan, options to purchase 50,625,000 shares of Common Stock were reserved for issuance, generally are granted at not less than fair market value, become exercisable as established by the Board of Directors (generally ratably over four years), and generally expire ten years from the date of grant. An additional 40,500,000 shares of Common Stock were reserved for issuance under the plan in each of fiscal 1994 and fiscal 1996. In fiscal 1999 and fiscal 1997, an additional 75,000,000 and 76,500,000 shares of Common Stock were reserved for issuance under the plan, respectively. As of May 31, 1999, options to purchase 116,590,054 shares of Common Stock were outstanding, of which 48,005,454 shares were vested. Options for 113,827,143 shares were available for future grant under the plan at May 31, 1999. To date, the Company has not issued any stock purchase rights, stock appreciation rights or long-term performance awards under this plan.

In fiscal 1993, the Company's Board of Directors adopted the 1993 Directors Stock Option Plan (the "1993 Directors Plan") which provides for the issuance of non-qualified stock options to outside directors. Under the terms of this plan, options to purchase 5,062,500 shares of Common Stock were reserved for issuance, are granted at not less than fair market value, become exercisable over four years, and expire ten years from the date of grant. Under the terms of the 1993 Directors Plan, all grants of options to purchase shares of the Company's Common Stock are automatic and nondiscretionary. Each individual who becomes an outside director shall automatically be granted options to purchase 75,000 shares. The 1993 Directors Plan also provides for subsequent stock option grants. On May 31 of each year, each outside director will be granted options to purchase 27,000 shares of the Company's Common Stock, provided that on such date the outside director has served on the Company's Board of Directors for at least six months. In addition, in lieu of the grant of an option to purchase 27,000 shares of Common Stock, each outside director who has served as the Chairman of the Executive or Finance and Audit Committee of the Company's Board of Directors will be granted options to purchase 60,000 shares of Common Stock on May 31 of each year, provided that the outside director has served as a Chairman of any such committee for at least one year. In addition, an outside director who is the Chairman of the Compensation Committee of the Company's Board of Directors and who has served on the Compensation Committee for at least one year, will be granted options to purchase 37,500 shares of Common Stock on May 31 of each year beginning May 31, 1998. As of May 31,1999, options to purchase 1,377,422 shares of Common Stock were outstanding, of which 691,919 were vested. Options for 2,998,841 shares were available for future grant under this plan at May 31, 1999.

In December 1997, the Company reduced the exercise price of approximately 20% of the outstanding Common Stock options held by the Company's employees to the fair market value per share as of the date of the reduction in price. The Company repriced these employee stock options in an effort to retain employees at a time when a significant percentage of employee stock options had exercise prices that were above fair market value. The Company believes that stock options are a valuable tool in compensating and retaining employees. Executive officers and directors were excluded from this repricing.

The following table summarizes stock option plan activity:

	Shares Under Option	Weighted Average Exercise Price
Balance, May 31, 1996	$ 90,490,335	$ 7.13
Granted	25,748,127	17.13
Exercised	(13,221,398)	3.61
Canceled	(4,850,043)	11.11
Balance, May 31, 1997	98,167,021	10.00
Granted	46,774,301	19.81
Exercised	(12,553,566)	5.77
Canceled	(28,693,824)	22.22
Balance, May 31, 1998	103,693,932	11.55
Granted	42,003,358	17.88
Exercised	(16,755,780)	9.35
Canceled	(8,846,005)	15.32
Balance, May 31, 1999	$120,095,505	$13.80

As of May 31, 1999, the Company had reserved 242,137,383 shares of Common Stock for the exercise of options. The range of exercise prices for options outstanding at May 31, 1999 was $0.47 to $39.71. The range of exercise prices for options is due primarily to the fluctuating price of the Company's stock over the period of the grants.

The following table summarizes information about stock options outstanding at May 31, 1999:

Range of Exercise Price	Number Outstanding as of 5/31/99	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable as of 5/31/99	Weighted Average Exercise Price of Exercisable Options
$0.47-$1.96	12,485,052	2.45	$ 1.13	11,877,536	$ 1.09
$2.04-$9.48	12,946,938	4.74	$ 6.79	12,904,912	$ 6.79
$9.52-$14.75	12,461,089	6.86	$12.18	6,851,252	$10.96
$14.78-$15.06	8,722,704	6.69	$14.96	6,138,387	$14.96
$15.08-$15.17	17,327,607	7.92	$15.16	3,599,148	$15.17
$15.28-$15.28	5,393,292	6.75	$15.28	2,386,491	$15.28
$15.75-$16.29	15,384,810	9.03	$16.24	177,574	$16.00
$16.33-$16.71	12,966,466	9.06	$16.46	48,763	$16.64
$16.72-$16.94	2,622,742	7.98	$16.85	703,440	$16.93
$17.04-$39.71	19,784,805	8.36	$21.17	6,137,899	$18.46
$0.47-$39.71	120,095,505	7.09	$13.80	50,825,402	$ 9.58

Stock Purchase Plan

In October 1987, the Company adopted an Employee Stock Purchase Plan (the "1987 Purchase Plan") and reserved 81,000,000 shares of Common Stock for issuance thereunder. In September 1992, the plan was amended to reserve an additional 2,531,250 shares of Common Stock. The 1987 Purchase Plan was terminated on September 30, 1992 and the remaining shares became available for issuance under the 1992 Purchase Plan.

In August 1992, the Company adopted the Employees Stock Purchase Plan (1992) (the "Employee Stock Purchase Plan") and reserved 20,250,000 shares of Common Stock for issuance thereunder. An additional 20,250,000, 15,750,000 and 45,000,000 shares of Common Stock were reserved for issuance under the plan in fiscal 1994, fiscal 1997 and fiscal 1999 respectively. Under the stock purchase plan, the Company's employees may purchase shares of Common Stock at a price per share that is 85% of the lesser of the fair market value as of the beginning of the end of the semi-annual option period. Through May 31 1999, 50,991,049 shares had been issued and 50,258,951 shares were reserved for future issuances under this plan.

During fiscal 1999, 1998 and 1997, the Company issued 9,029,635, 8,164,883 and 6,942,677 shares, respectively, under the Employee Stock Purchase Plan. If the Company had elected to recognize the compensation cost based on the fair value of the employee's purchase rights, the cost would have been estimated using the Black-Scholes model, with the following assumptions for each of the two six-month periods in fiscal 1999, 1998 and 1997: (i) dividend yield of zero percent for all periods, (ii) expected life of one-half year for all periods, (iii) expected volatility of 48%, 39% and 37.5% and (iv) risk-free interest rates within a range of 4.7%-5.5%. The weighted-average fair value of each purchase right granted in fiscal 1999, 1998 and 1997 was $6.40, $6.23 and $4.23 per share, respectively.

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Accounting for Stock-Based Competition

Pro forma information regarding net income and earnings per share is required by SFAS No. 123. This information is required to be determined as if the Company had accounted for its employee stock purchase plan and employee stock options granted subsequent to May 31, 1996 under the fair value method of that statement.

The fair value of options granted for fiscal years ending May 31, 1999, 1998 and 1997 reported below has been estimated at the date of grant using a Black-Scholes option pricing model with the following weighted average assumptions:

Employee Stock Options	1999	1998	1997
Expected life from vest date (in years):			
Employees	0.59	0.45	0.41
Officers and directors	0.66-6.17	0.43-6.14	0.43-6.14
Risk-free interest rates	4.5-5.7%	5.6-6.6%	5.6-6.8%
Volatility	48.0%	39.0%	37.5%
Dividend yield	—	—	—

The Black-Scholes option valuable model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions, including the expected stock price volatility. The Company's options have characteristics significantly different from those of traded options, and changes in the subjective input assumptions can materially affect the fair value estimate. Based upon the above assumptions, the weighted average fair value of employee stock options granted during fiscal 1999, 1998 and 1997 was $6.91, $6.21 and $7.73 per share, respectively.

For purposes of pro forma disclosures, the estimated fair value of the options is amortized over the options' vesting period. Had the Company's stock option and stock purchase plan been accounted for under SFAS No. 123, net income and earnings per share would have been reduced to the following pro forma amounts:

(In thousands, except per share data)	1999	1998	1997
Net income:			
As reported	$1,289,758	$813,695	$821,457
Pro forma	$1,095,969	$656,711	$737,288
Earnings per share:			
Basic	$ 0.89	$ 0.55	$ 0.56
Diluted	$ 0.87	$ 0.54	$ 0.54
Proforma basic	$ 0.76	$ 0.45	$ 0.50
Proforma diluted	$ 0.74	$ 0.44	$ 0.49

The effects of applying SFAS No. 123 on pro forma disclosures of net income and earnings per share for fiscal 1999, 1998 and 1997 are not likely to be representative of the pro forma effects on net income and earnings per share in future years for the following reasons: i) the number of future shares to be issued under these plans is not known, ii) the effect of an additional year of vesting on options granted in prior years is not considered in the assumptions as of May 31, 1999 and iii) the assumptions used to determine the fair value can vary significantly.

3.100

REPUBLIC SERVICES, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (All tables in millions, except per share data)

8. Stock Options

In July 1998, the Company adopted the 1998 Stock Incentive Plan ("Stock Incentive Plan") to provide for grants of options to purchase shares of Common Stock to employees, non-employee directors and independent contractors of the Company who are eligible to participate in the Stock Incentive Plan. Options granted under the Stock Incentive Plan are non-qualified and are granted at a price equal to the fair market value of the Company's Common Stock at the date of grant. Generally, options granted have a term of ten years from the date of grant, and vest in increments of 25% per year over a four year period on the yearly anniversary date of the grant. Options granted to non-employee directors have a term of ten years and vest immediately at the date of grant. The Company has reserved 20.0 million shares of Common Stock for issuance pursuant to options granted under the Stock Incentive Plan.

Prior to the Initial Public Offering, employees of the Company were granted stock options under AutoNation stock option plans. As of March 1, 1999, options to purchase approximately 8.0 million shares of AutoNation common stock held by the Company's employees were canceled by AutoNation, and the Company's Compensation Committee granted replacement options on a one-for-one basis ("Replacement Options"). The Replacement Options to purchase shares of Common Stock retained the vesting and exercise rights of the original options, subject to certain exercise limitations for individuals who signed stock option repricing agreements with AutoNation. The exercise prices for individual replacement options were established to maintain the unrealized gain or loss on each option for AutoNation stock that was cancelled. Compensation expense related to the granting of certain replacement options at exercise prices below the fair market value of the Common Stock at the date of grant was approximately $2.0 million and has been included in selling, general and administrative expenses in the Company's Consolidated Statement of Operations for the year ended December 31, 1999.

In October 1999, the Board of Directors approved the Company's annual grant of options for fiscal year 2000. This grant allows participants to acquire approximately 2.8 million shares of Common Stock at an exercise price of $11 7/8 per share, which was the quoted market price as of the grant date.

The following table summarizes stock option activity for the year ended December 31, 1999:

	Shares	Weighted-Average Exercise Price
Options outstanding at beginning of year	.6	$18.12
Granted to replace AutoNation options	8.0	17.38
Granted, other	6.5	15.47
Cancelled	(.1)	17.68
Options outstanding at December 31, 1999	15.0	$16.57

The following table summarizes information about the Company's outstanding and exercisable stock options at December 31, 1999:

	Outstanding			Exercisable	
Range of Exercise Price	Shares	Weighted-Average Remaining Contractual Life (Yrs.)	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
$6.38–$17.06	3.8	8.7	$12.75	—	$ —
$17.50	8.0	6.6	17.50	—	—
$18.06–$33.86	3.2	8.9	18.81	.3	21.04
	15.0	7.6	$16.57	.3	$21.04

The Company applies Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," in accounting for stock-based employee compensation arrangements whereby no compensation cost related to stock options is deducted in determining net income. Had compensation cost for stock option grants under the Company's Stock Incentive Plan been determined pursuant to SFAS No. 123, "Accounting for Stock-Based Compensation," the Company's net income would have decreased accordingly. Using the Black-Scholes option pricing model, the Company's pro forma net income and pro forma weighted average fair value of options granted, with related assumptions, assuming the Replacement Options were outstanding during the periods presented, are as follows:

	1999	1998	1997
Pro forma net income	$177.4	$122.0	$88.9
Pro forma earnings per share	1.01	.90	.93
Pro forma weighted average fair value of the Company's stock options granted	7.02	17.16	31.85
Risk free interest rates	6.34%	4.76%	5.74%
Expected lives	5 years	5 years	5 years
Expected volatility	40.0%	40.0%	40.0%

3.101

ROBERT HALF INTERNATIONAL INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note I: Stock Plans

Under various stock plans, officers, employees and outside directors may receive grants of restricted stock or options to purchase common stock. Grants are made at the discretion of the Stock Plan Committee of the Board of Directors. Grants generally vest between two and seven years.

Options granted under the plans have exercise prices ranging from 85% to 100% of the fair market value of the Company's common stock at the date of grant, consist of both incentive stock options and nonstatutory stock options under the Internal Revenue Code. The terms range from 27 months to 10 years.

Recipients of restricted stock do not pay any cash consideration to the Company for the shares, have the right to vote all shares subject to such grant, and receive all dividends with respect to such shares, whether or not the shares have vested. Compensation expense is recognized on a straight-line basis over the vesting period. Vesting is accelerated upon the death or disability of the recipients.

The Company accounts for these plans under APB Opinion 25. Therefore, no compensation cost has been recognized for its stock option plans. Had compensation cost for the stock options granted subsequent to January 1, 1995, been based on the estimated fair value at the award dates, as prescribed by Statement of Financial Accounting Standards No. 123, the Company's pro forma net income and net income per share would have been as follows (in thousands, except per share amounts):

	1999	1998	1997
Net income			
As reported	$141,441	$131,580	$93,697
Pro forma	$127,924	$124,622	$90,212
Net income per share			
Basic			
As reported	$ 1.57	$ 1.44	$ 1.03
Pro forma	$ 1.42	$ 1.36	$ .99
Diluted			
As reported	$ 1.53	$ 1.39	$ 1.00
Pro forma	$ 1.41	$ 1.33	$ .97

The pro forma amounts do not include amounts for stock options granted before January 1, 1995. Therefore, the pro forma amounts may not be representative of the disclosed effects on pro forma net income and net income per share for future years.

The fair value of each option is estimated, as of the grant date, using the Black-Scholes option pricing model with the following assumptions used for grants in 1999, 1998 and 1997, respectively: no dividend yield for any year; expected volatility of 43% to 52%; risk-free interest rates of 4.6% to 6.4%, 4.6% to 5.7% and 5.7% to 6.9%, respectively, and expected lives of 1.5 to 5.5 years for 1999 and 4.5 to 7.3 years for both 1998 and 1997.

The following table reflects activity under all stock plans from December 31, 1996 through December 31, 1999, and the weighted average exercise prices:

		Stock Option Plans	
	Restricted Stock Plans	Number of Shares	Weighted Average Price Per Share
Outstanding,			
December 31, 1996	2,473,555	8,661,531	$ 9.53
Granted	847,469	1,944,656	$29.68
Exercised	—	(1,446,404)	$ 3.98
Restrictions lapsed	(859,399)	—	—
Forfeited	(45,578)	(515,537)	$15.29
Outstanding,			
December 31, 1997	2,416,047	8,644,246	$14.52
Granted	759,377	3,523,816	$40.11
Exercised	—	(1,400,023)	$ 6.04
Restrictions lapsed	(737,938)	—	—
Forfeited	(25,066)	(412,977)	$26.05
Outstanding,			
December 31, 1998	2,412,420	10,355,062	$23.93
Granted	1,146,390	3,401,420	$24.77
Exercised	—	(360,322)	$ 5.46
Restrictions lapsed	(783,683)	—	—
Forfeited	(47,949)	(609,442)	$31.76
Outstanding,			
December 31, 1999	2,727,178	12,786,718	$24.25

The following table summarizes information about options outstanding as of December 31, 1999:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding as of December 31, 1999	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable as of December 31, 1999	Weighted-Average Exercise Price
$ 1.44 to $12.13	2,934,188	4.53	$ 7.19	2,934,188	$ 7.19
$13.04 to $20.81	2,796,398	8.02	$19.18	639,306	$18.27
$21.25 to $27.63	2,726,785	6.61	$23.38	692,473	$22.69
$27.88 to $38.63	2,718,647	8.55	$37.28	869,030	$37.49
$38.69 to $59.00	1,610,700	8.53	$43.60	310,435	$44.64
	12,786,718	7.10	$24.25	5,445,432	$17.43

At December 31, 1999, the total number of available shares to grant under the plans (consisting of either restricted stock or options) was 1,144,872.

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SBC COMMUNICATIONS INC. (DEC)

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

Note 13: Stock-Based Compensation

Under various SBC plans, senior and other management employees and non-employee directors have received stock options, stock appreciation rights (SARs), performance stock units and nonvested stock units. Stock options issued through December 31, 1999 carry exercise prices equal to the market price of the stock at the date of grant and have maximum terms ranging from five to ten years. Beginning in 1994 and ending in 1999, certain Ameritech employees were awarded grants of nonqualified stock options with dividend equivalents. Depending upon the grant, vesting of stock options may occur up to four years from the date of grant. Performance stock units are granted to key employees based upon the common stock price at date of grant and are awarded in the form of common stock and cash at the end of a two- or three-year period, subject to the achievement of certain performance goals. Nonvested stock units are valued at market price of the stock at date of grant and vest over a three- to five-year period. Up to 310 million shares may be issued under these plans.

SBC measures compensation cost for these plans using the intrinsic value-based method of accounting as allowed in Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" (FAS 123). Accordingly, no compensation cost for SBC's stock option plans has been recognized. Had compensation cost for stock option plans been recognized using the fair value-based method of accounting at the date of grant for awards in 1999, 1998 and 1997 as defined by FAS 123, SBC's net income would have been $7,969, $7,537 and $3,962, and basic net income per share would have been $2.34, $2.21 and $1.17. The compensation cost that has been charged against income for SBC's other stock-based compensation plans totaled $36, $83 and $65 for 1999, 1998 and 1997.

For purposes of these pro forma disclosures, the estimated fair value of the options granted is amortized to expense over the options' vesting period. The fair value for these options was estimated at the date of grant, using a Black-Scholes option pricing model with the following weighted-average assumptions used for grants in 1999, 1998 and 1997: risk-free interest rate of 5.31%, 5.69% and 6.47%; dividend yield of 1.65%, 2.38% and 2.98%; expected volatility factor of 15%, 18% and 19%; and expected option life of 4.5, 5.0 and 4.9 years.

As of December 31, 1998; 29,390 shares of nonperformance-based restricted stock issued to Ameritech employees were outstanding under the Ameritech plans. Shareowners' equity reflects deferred compensation for the unvested stock awarded. This amount was reduced and charged against operations (together with any change in market price) as the employees vested in the stock. All restricted stock under Ameritech plans vested as a result of the Ameritech merger with an SBC subsidiary in 1999.

Information related to options and SARs is summarized below:

	Number	Weighted-Average Exercise Price
Outstanding at January 1, 1997	126,464,343	$20.03
Granted	56,229,919	25.52
Exercised	(27,891,733)	18.49
Forfeited/Expired	(10,567,550)	22.85
Outstanding at December 31, 1997 (60,656,487 exercisable at weighted-average price of $19.36)	144,234,979	22.27
Granted	34,516,726	39.46
Exercised	(25,767,038)	20.61
Forfeited/Expired	(6,747,545)	29.64
Outstanding at December 31, 1998 (73,187,564 exercisable at weighted-average price of $20.85)	146,237,122	26.26
Granted	26,139,492	48.70
Exercised	(19,095,315)	23.13
Forfeited/Expired	(4,118,769)	39.06
Outstanding at December 31, 1999 (116,276,298 exercisable at weighted-average price of $26.91)	149,162,530	$30.24

Information related to options and SARs outstanding at December 31, 1999:

Exercise Price Range	$10.90 –$17.39	$17.40 –$29.99	$30.00 –$35.49	$35.50 –$59.00
Number of options and SARs:				
Outstanding	13,145,846	82,990,276	9,845,528	43,180,880
Exercisable	13,145,846	74,948,465	9,845,528	18,336,459
Weighted-average exercise price:				
Outstanding	$15.07	$23,93	$34.16	$46.10
Exercisable	$15.07	$23.53	$34.16	$45.30
Weighted-average remaining contractual life	3.93 years	6.29 years	8.30 years	8.83 years

The weighted-average, grant-date fair value of each option granted during 1999, 1998 and 1997 was $9.31, $8.71 and $5.36.

As of December 31, additional shares available under stock options with divided equivalents were 1,526,514 in 1999, 1,505,625 in 1998 and 1,325,201 in 1997.

Options and SARs held by the continuing employees of PAC at the time of the AirTouch Communications, Inc. (Air Touch) spinoff were supplemented with an equal number of options and SARs for common shares of spunoff operations. The exercise prices for outstanding options and SARs held by continuing employees of PAC were adjusted downward to reflect the value of the supplemental spunoff operations' options and SARs. The balance sheet reflects a related liability equal to the difference between the current market price of spunoff operations stock and the exercise prices of the supplemental options outstanding. The spunoff operations options and SARs have been adjusted for Vodafone's acquisition of AirTouch and for Vodafone's five-for-one stock split in 1999. As of December 31, 1999, 404,825 supplemental spunoff operations options and SARs were outstanding with expiration dates ranging from 2000 to 2003. Outstanding options and SARs that were held by employees of the wireless operations at the spinoff date were replaced by options and SARs for common shares of spunoff operations. The spunoff operations assumed liability for these replacement options and SARs.

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STARBUCKS CORPORATION (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 11 (In Part): Employee Stock and Benefit Plans

Stock Option Plans

The Company maintains several stock option plans under which the Company may grant incentive stock options and non-qualified stock options to employees, consultants and non-employee directors. Stock options have been granted at prices at or above the fair market value on the date of grant. Options vest and expire according to terms established at the grant date.

The following summarizes all stock option transactions from September 30, 1996 through October 3, 1999:

	Shares Subject to Options	Weighted Average Exercise Price Per Share	Shares Subject to Exercisable Options	Weighted Average Exercise Price Per Share
Outstanding, September 30, 1996	15,572,456	$ 6.35	6,633,934	$ 4.22
Granted	5,859,592	16.62		
Exercised	(2,763,830)	4.96		
Cancelled	(760,896)	10.65		
Outstanding, September 28, 1997	17,907,322	9.66	7,427,352	5.43
Granted	6,508,632	18.52		
Exercised	(3,683,078)	6.13		
Cancelled	(1,229,478)	11.79		
Outstanding, September 27, 1998	19,503,398	13.10	7,560,806	8.49
Granted	8,051,998	22.97		
Exercised	(3,522,908)	9.53		
Cancelled	(1,461,937)	18.99		
Outstanding, October 3, 1999	22,570,551	$16.84	12,080,825	$13.55

At October 3, 1999, there were 10,620,149 shares of common stock available for issuance pursuant to future stock option grants.

Additional information regarding options outstanding as of October 3, 1999, is as follows:

Range of Exercise Prices		Shares	Options Outstanding Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Options Exercisable Shares	Options Exercisable Weighted Average Exercise Price
$ 0.37	$ 6.28	2,483,329	3.71	$ 4.58	2,469,329	$ 4.57
6.31	9.41	2,480,518	5.68	8.57	2,191,796	8.51
9.69	18.41	9,148,398	7.51	16.93	5,281,766	16.43
19.42	26.25	7,948,806	9.09	21.96	2,137,934	21.98
35.31	35.31	509,500	9.68	35.31	—	—
$ 0.37	$35.31	22,570,551	7.50	$16.84	12,080,825	$13.55

Employee Stock Purchase Plan

The Company has an employee stock purchase plan which provides that eligible employees may contribute up to 10% of their base earnings, up to $25,000 annually, toward the quarterly purchase of the Company's common stock. The employee's purchase price is 85% of the lesser of the fair market value of the stock on the first business day or the last business day of the quarterly offering period. No compensation expense is recorded in connection with the plan. The total number of shares issuable under the plan is 8,000,000. There were 492,231 shares issued under the plan during fiscal 1999 at prices ranging from $14.05 to $25.18. There were 271,778 shares issued under the plan during fiscal 1998 at prices ranging from $15.99 to $19.58. There were 185,492 shares issued under the plan during fiscal 1997 at prices ranging from $11.79 to $12.86. Of the 18,555 employees eligible to participate, 4,972 were participants in the plan as of October 3, 1999.

Deferred Stock Plan

The Company has a Deferred Stock Plan for certain key employees that enables participants in the plan to defer receipt of ownership of common shares from the exercise of non-qualified stock options. The minimum deferral period is five years. As of October 3, 1999, receipt of 848,550 shares was deferred under the terms of this plan. The rights to receive these shares, represented by common stock units, are included in the calculation of basic and diluted earnings per share as common stock equivalents.

Accounting for Stock-Based Compensation

The Company accounts for its stock-based awards using the intrinsic value method in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued To Employees" and its related interpretations. Accordingly, no compensation expense has been recognized in the financial statements for employee stock arrangements.

SFAS No. 123, "Accounting for Stock-Based Compensation," requires the disclosure of pro forma net income and net income per share as if the Company adopted the fair-value method of accounting for stock-based awards as of the beginning of fiscal 1996. The fair value of stock-based awards to employees is calculated using the Black-Scholes option-pricing model with the following weighted average assumptions:

	Employee Stock Options			Employee Stock Purchase Plan		
	1999	1998	1997	1999	1998	1997
Expected life (years)	1.5–6	1.5–6	1.5–6	.25	.25	.25
Expected volatility	50%	45%	40%	44–66%	37–45%	45–47%
Risk-free interest rate	4.60–6.21%	5.28–6.05%	5.41–6.54%	4.26–5.63%	5.26–5.74%	5.27–5.53%
Expected dividend yield	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

The Company's valuations are based upon a multiple option valuation approach and forfeitures are recognized as they occur. The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options, which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions, including the expected stock-price volatility. The Company's employee stock options have characteristics significantly different from those of traded options, and changes in the subjective input assumptions can materially affect the fair value estimate.

As required by SFAS No. 123, the Company has determined that the weighted average estimated fair values of options granted during fiscal 1999, 1998 and 1997 were $8.86, $7.20 and $5.42 per share, respectively. Had compensation costs for the Company's stock-based compensation plans been accounted for using the fair value method of accounting described by SFAS No. 123, the Company's net earnings and earnings per share would have been as follows (in thousands, except earnings per share):

Fiscal year ended	As Reported	Pro Forma Under SFAS No. 123
October 3, 1999		
Net earnings	$101,693	$75,326
Net earnings per common share		
Basic	$ 0.56	$ 0.41
Diluted	$ 0.54	$ 0.40
September 27, 1998		
Net earnings	$ 68,372	$51,595
Net earnings per common share		
Basic	$ 0.39	$ 0.30
Diluted	$ 0.37	$ 0.28
September 28, 1997		
Net earnings	$ 55,211	$45,808
Net earnings per common share		
Basic	$ 0.35	$ 0.29
Diluted	$ 0.33	$ 0.28

In applying SFAS No. 123, the impact of outstanding stock options granted prior to 1996 has been excluded from the pro forma calculations; accordingly, the 1999, 1998 and 1997 pro forma adjustments are not necessarily indicative of future period pro forma adjustments.

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YOUNG & RUBICAM INC. AND SUBSIDIARY COMPANIES (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Stock-Based Compensation

SFAS No. 123, "Accounting for Stock-Based Compensation," encourages entities to account for employee stock options or similar equity instruments using a fair value approach. However, it also allows an entity to continue to measure compensation costs using the method prescribed by Accounting Principles Bulletin ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees." Y&R has elected to continue to account for such plans under the provisions of APB Opinion No. 25 and has included, in Note 15, the required SFAS No. 123 pro forma disclosures of net income (loss) and earnings (loss) per share as if the fair value-based method of accounting had been applied.

Note 15: Options

The Young & Rubicam Inc. 1997 Incentive Compensation Plan (the "ICP") provides for grants of stock options, stock appreciation rights ("SARS"), restricted stock, deferred stock, other stock-related awards, and performance or annual incentive awards that may be settled in cash, stock or other property ("Awards"). Under the ICP, the total number of shares of Y&R common stock reserved and available for delivery to participants in connection with Awards is 19,125,000, plus the number of shares of Y&R common stock subject to awards under pre-existing plans that become available (generally due to cancellation or forfeiture) after the effective date of the ICP; provided, however, that the total number of shares of Y&R common stock with respect to which incentive stock options may be granted shall not exceed 1,000,000. Any shares of Y&R common stock delivered under the ICP may consist of authorized and unissued shares or treasury shares.

The Board of Directors is authorized to grant stock options, including incentive stock options, non-qualified stock options, and SARS entitling the participant to receive the excess of the fair market value of a share of common stock on the date of exercise over the grant price of the SAR. The exercise price per share subject to an option and the grant price of a SAR is determined by the Board of Directors, but must not be less than the fair market value of a share of common stock on the date of grant. The maximum term of each option or SAR, the times at which each option or SAR will be exercisable, and provisions requiring forfeiture of unexercised options or SARS at or following termination of employment generally is fixed by the Board of Directors, except no option or SAR may have a term exceeding ten years.

Generally, options granted prior to 1999 under the ICP become exercisable over a three-year vesting period beginning on the third anniversary of the date of grant and expire ten years from the date of grant. The three-year vesting period for options granted in 1999 generally begins on the first anniversary of the date of grant. However, the Board of Directors may, at is discretion, accelerate the exercisability, the lapsing of restrictions, or the expiration of deferral or vesting periods of any award, and such accelerated exercisability, lapse, expiration and vesting shall occur automatically in the case of a "change in control" of Y&R except to the extent otherwise provided in the award agreement. In addition, the Board of Directors may provide that the performance goals relating to any performance-based awards will be deemed to have been met upon the occurrence of any change in control.

At the closing of the Recapitalization in 1996, the Board of Directors granted the Rollover Options, which were immediately vested and exercisable. Each Rollover Option has an exercise price of $1.92 per share, with certain limited exceptions outside of the United States. Of the Rollover Options, 50% have a term of five years and the remaining 50% have a term of seven years.

At the closing of the Recapitalization, the Board of Directors also granted to employees options to purchase 5,200,590 shares of Y&R common stock at $7.67 per share and, in 1997, additional options to purchase 1,891,200 shares of Y&R common stock at $7.67 per share (the "Additional Options"). As a result of the granting of the Additional Options in 1997, Y&R recognized a compensation charge of $1.3 million reflecting the difference between the estimated fair market value of Y&R common stock on the date of grant and the exercise price of the Additional Options. All options granted to employees in connection with the Recapitalization were pursuant to and are governed by the stock option plan in existence prior to the effective date of the ICP.

Additionally, at the closing of the Recapitalization, Y&R granted to Hellman & Friedman Capital Partners III, L.P. ("HFCP") and certain other investors options to purchase 2,598,105 shares of Y&R common stock at $7.67 per share which were exercisable immediately and expire on the seventh anniversary of the closing. Substantially all of the HFCP options were exercised in 1999.

Y&R has adopted SFAS No. 123 (see Note 1). In accordance with the provisions of SFAS No. 123, Y&R applies APB Opinion No. 25, and related interpretations, in accounting for its plans. If Y&R had elected to recognize compensation expense based upon the fair value at the grant date for awards under its plans consistent with the methodology prescribed by SFAS No. 123, Y&R's net income in 1999 would be decreased by $8.3 million and the net income per common share would be decreased by $0.12 and $0.10, for basic and diluted earnings per share, respectively. Y&R's net loss would be increased by $7.8 million and $6.3 million for the years ended December 31, 1998 and 1997, respectively, and the net basic and diluted loss per common share would be increased by $0.13 for each of the years ended December 31, 1998 and 1997.

These SFAS No. 123 pro forma amounts may not be representative of future disclosures since the estimated fair value of stock options is amortized to expense over the vesting period, and additional options may be granted in future years. The fair value for these options was estimated at the date of grant using the Black-Scholes option pricing model with the following assumptions for the period ended December 31, 1999, 1998 and 1997, respectively:

	1999	1998	1997
Expected term	4 years	6 years	10 years
Risk-free rate	5.22%–6.23%	4.26%–5.84%	5.59%–7.12%
Dividend yield	0.26%	0%	0%
Expected volatility	28.60%	24.90%	0%

Since Y&R's common stock was publicly traded for the first time in 1998 as a result of the Offering, we did not have sufficient historical information to make a reasonable assumption as to the expected volatility of our common stock price in the future. As a result, the assumption in the table above reflects the expected volatility of stock prices of entities similar to Y&R. In addition, the decrease in the expected term of options for 1998 as compared to 1997 is due to the creation of an active, liquid market for Y&R's common stock resulting from the Offering.

The weighted-average fair value and weighted-average exercise price of options granted on and subsequent to the Recapitalization for which the exercise price equals the fair value of Y&R common stock on the grant date was $12.30 and $38.76 in 1999, respectively, $7.80 and $22.59 in 1998, respectively, and $5.28 and $12.33 in 1997, respectively.

In 1997, Y&R granted options to certain executives at exercise prices below the fair value of Y&R common stock on the date of grant. The weighted-average fair value and weighted-average exercise price of these options was $6.76 and $7.67 in 1997, respectively.

The Black-Scholes option valuation model was developed for use in estimating the weighted-average fair value of traded options, which have no vesting restriction and are fully transferable. Because Y&R's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

Transactions involving options are summarized as follows:

	Options Outstanding	Weighted-Average Exercise Price
January 1, 1997	24,622,260	$ 3.76
Granted	11,469,150	11.56
Exercised	(4,250,790)	2.19
Cancelled	(827,415)	4.50
December 31, 1997	31,013,205	6.84
Granted	2,472,933	22.59
Exercised	(2,178,436)	3.10
Cancelled	(1,230,060)	10.81
December 31, 1998	30,077,642	8.23
Granted	4,414,179	38.76
Exercised	(7,927,665)	4.54
Cancelled	(2,228,060)	13.65
December 31, 1999	24,336,096	$14.47

At December 31, 1999, 1998 and 1997, Y&R had exercisable options of 8,494,699, 14,963,354, and 17,242,995, respectively.

The following information is as of December 31, 1999:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable	Weighted-Average Exercise Price
$1.92	6,083,314	3.11	$ 1.92	6,083,314	$ 1.92
$7.67	4,322,980	6.24	7.67	2,221,361	7.67
$12.00–$15.00	8,312,700	8.10	12.40	103,650	12.59
$25.00–$31.00	1,420,223	8.94	28.55	86,374	30.22
$37.00–$49.00	4,196,879	9.47	38.98	—	—
Total at December 31, 1999	24,336,096	6.81	$14.47	8,494,699	$ 3.84

Stock Award Plans

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BURLINGTON INDUSTRIES, INC. AND
SUBSIDIARY COMPANIES (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note Q: Stock-Based Compensation

Under the Company's various Equity Incentive Plans, the Company is authorized to award restricted shares of the Company's common stock, options to purchase common stock, or Performance Unit/Share awards that are dependent upon achievement of specified performance goals and are payable in common stock and cash. Stock options granted generally have a maximum term of 10 years. Under these plans at October 2, 1999, 85,368 shares of common stock are reserved to settle Performance Unit/Share awards currently outstanding and 2,736,145 shares to settle additional future awards remain available.

A summary of the Company's stock option activity and related information follows:

	1999		1998		1997	
	Options (000)	Weighted-Average Exercise Price	Options (000)	Weighted-Average Exercise Price	Options (000)	Weighted-Average Exercise Price
Outstanding at beginning of year	3,689	$11.79	5,754	$11.58	6,203	$11.57
Granted	1,093	9.15	253	14.78	27	11.70
Exercised	—	—	(2,136)	11.46	(323)	11.41
Forfeited	(274)	10.83	(182)	13.07	(153)	11.68
Outstanding at end of year	4,508	$11.21	3,689	$11.79	5,754	$11.58
Exercisable at end of year	3,313	$11.58	3,447	$ 8.40	3,483	$11.57
Per share weighted-average fair value of options granted during the year	$5.47		$6.66		$5.24	

The following table summarizes information about stock options outstanding at October 2, 1999:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number (000)	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number (000)	Weighted-Average Exercise Price
$ 5.38 to 11.00	1,509	7.3	$ 9.44	531	$ 9.98
$11.63 to 13.63	2,707	4.7	$11.66	2,700	$11.65
$14.00 to 21.93	292	6.8	$16.17	82	$19.49
	4,508	5.7	$11.21	3,313	$11.58

The Company has elected to follow Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees." Under APB 25, no compensation expense is recognized for the Company's employee stock options because the exercise price of the options equals the market price of the underlying stock on the date of grant. Total compensation cost charged (credited) to income related to restricted share and Performance Unit awards was $0.0 million, $(0.8) million, and $4.3 million for the 1999, 1998 and 1997 fiscal years, respectively.

The following pro forma information regarding net income (loss) and net income (loss) per share is required when APB 25 accounting is elected, and was determined as if the Company had accounted for its employee stock options under the fair value method of SFAS No. 123, "Accounting for Stock-Based Compensation." The fair values for these options were estimated at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions: risk-free interest rates of 4.82%, 5.84%, and 6.12% for fiscal year 1999, 1998 and 1997, respectively; volatility factors of the expected market price of the Company's common stock of 0.49 for 1999, 0.25 for 1998 and 0.34 for 1997; dividend yields of 0%; and a weighted-average expected life of the options of eight years for 1999 and six years for 1998 and 1997. For purposes of pro forma disclosures, the estimated fair values of the options are amortized to expense over the option's vesting periods (in thousands except for per share information):

	1999	1998	1997
Net income (loss):			
As reported	$(31,494)	$80,452	$58,698
Pro forma	$(33,543)	$78,212	$56,266
Diluted earnings (loss) per share:			
As reported	$ (0.57)	$ 1.32	$ 0.95
Pro forma	$ (0.61)	$ 1.28	$ 0.91

During the initial phase-in period, as required by SFAS No. 123, the pro forma amounts were determined based on stock options granted after the 1995 fiscal year only. Therefore, the pro forma amounts for compensation cost may not be indicative of the effects of pro forma net income and pro forma net income per share for future years.

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FERRO CORPORATION AND SUBSIDIARIES (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. Stock Plans

The Company maintains a stock option plan, a performance share plan and a savings and stock ownership plan which includes an investment savings plan and an ESOP for the benefit of its employees.

The stock option plan provides for the issuance of stock options at no less than the then current market price. Stock options have a maximum term of 10 years and vest evenly over four years.

Information pertaining to these stock options is shown below.

	1999	1998	1997
Options granted	648,557	642,935	682,942
Average option price	$ 22.36	23.58	19.56
Options exercised	350,862	277,139	379,149
Average option price	$ 16.05	12.96	11.18
Options which became exercisable	520,263	461,739	363,454
Average option price	$ 19.31	18.29	17.85
Options unexercised at year-end	3,021,144	2,820,764	2,478,641
Option price range per share	$ 8.89 to $29.25	8.89 to 29.25	8.89 to 22.67
Options cancelled	89,409	23,673	25,304
Options available for granting future options	818,125	1,377,273	1,996,535

Significant option groups outstanding at December 31, 1999 and the related weighted-average price for the exercisable options and remaining life information are as follows:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Shares	Average Exercise Price	Life (years)	Remaining Average Shares	Average Exercise Price
$26-30	142,017	$28.46	9.2	6,875	$28.66
22-26	694,445	22.98	6.9	347,828	22.88
18-22	1,376,410	20.29	6.9	633,839	19.96
10-18	764,715	15.79	4.6	669,735	15.79
8-10	43,557	8.89	1.0	43,557	8.89
$ 8-30	3,021,144	$19.99	6.3	1,701,834	$18.67

All options were granted at an exercise price equal to the fair market value of the Company's common stock at the date of grant. The weighted-average fair market value at date of grant for options granted during 1999, 1998 and 1997 was $8.39, $8.16 and $6.89 per option, respectively. The fair value of options at date of grant was estimated using the Black-Scholes model with the following weighted-average assumptions:

	1999	1998	1997
Expected life (years)	8.1	8.5	8.5
Interest rate	5.42%	5.85	5.84
Volatility	33.50	25.25	25.25
Dividend yield	2.22	1.88	1.88

On a pro forma basis, had compensation cost for the Company's stock option plan been determined based on the fair value at the grant date, the Company's net income and earnings per share would have been reduced to the pro forma amounts shown below:

	1999	1998	1997
Net income (loss) as reported	$73,015	69,282	(37,277)
Net income (loss) pro forma	69,958	67,013	(39,138)
Income (loss) per share (diluted) as reported	$ 1.85	1.67	(1.08)
Income (loss) per share (diluted) pro forma	$ 1.76	1.61	(1.13)

The pro forma effects on net income (loss) are not representative of the pro forma effects on net income in future years because they do not take into consideration pro forma compensation expense related to grants made prior to 1996.

The Company maintains a performance share plan whereby awards, expressed as shares of common stock of the Company, are earned only if the Company meets specific performance targets over a three-year period. The plan pays 50% cash and 50% common stock for the value of any earned performance shares. Performance share awards in the amount of 769,337 shares, 832,007 shares and 601,802 shares were outstanding at the end of 1999, 1998 and 1997, respectively. The Company accrues amounts based on performance reflecting the value of cash and common stock, which is anticipated to be earned. The effect of the plan was to reduce income by $2.1 million, $3.5 million and $2.7 million in 1999, 1998 and 1997, respectively.

The ESOP provides for the Company to match eligible employee pre-tax savings. Amounts expensed under the ESOP were $3.5 million, $3.5 million and $3.3 million in 1999, 1998 and 1997, respectively.

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GLOBAL MARINE INC. AND SUBSIDIARIES (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Stock-Based Compensation Plans

The Company accounts for its stock option and stock-based compensation plans using the intrinsic-value method prescribed by Accounting Principles Board ("APB") Opinion No. 25. Accordingly, the Company computes compensation cost for each employee stock option granted as the amount by which the quoted market price of the Company's common stock on the date of grant exceeds the amount the employee must pay to acquire the stock. The amount of compensation cost, if any, is charged to income over the vesting period. With respect to performance-based stock awards, under which the number of shares issued is dependent on the attainment of certain long-term performance goals, compensation expense is charged to income over the performance (vesting) period but is adjusted for changes in the market price of the stock during the period. (See Note 6.)

6. Stock-Based Compensation Plans

The Company has stock-based compensation plans under which it may grant options to purchase a fixed number of shares of the Company's common stock. Under one such plan for outside directors, one half of each stock option grant becomes exercisable one year after the grant date with the remainder exercisable after two years. Under all other plans, stock options become exercisable in increments of 25 percent each year beginning one year after the grant date. Stock options expire ten years after the grant date and become exercisable in full if more than 50 percent of the Company's outstanding common stock is acquired by a person or a single group of persons. At December 31, 1999, there were 3,091,795 shares available for future grants.

Under certain plans, the Company may also grant shares of common stock at nominal or no cost. Under such plans, the Company has granted to certain employees, at nominal or no cost, a variable number of shares of common stock, the exact number being dependent on the Company's attainment of certain long-term performance goals ("performance-based stock awards").

Estimates of fair values of stock options and performance-based stock awards on the grant dates in the disclosures which follow were computed using the Black-Scholes option-pricing model based on the following assumptions:

	1999	1998	1997
Expected price volatility range	54% to 67%	49% to 53%	48%
Risk-free interest rate range	5.0% to 5.9%	4.4% to 5.7%	5.8% to 6.6%
Expected dividends	none	none	none
Expected life of stock options	5 years	5 years	5 years
Expected life of performance-based stock awards	3 years	3 years	3 years

Stock Options

A summary of the status of stock options granted is presented below:

	Number of Shares Under Option	Weighted Average Exercise Price
Shares under option at December 31, 1996	8,092,834	$ 4.88
Granted	1,011,400	$22.91
Exercised	(2,636,527)	$ 4.02
Canceled	(37,900)	$15.51
Shares under option at December 31, 1997	6,429,807	$ 8.01
Granted	2,083,400	$23.27
Exercised	(991,018)	$ 4.56
Canceled	(139,100)	$19.96
Shares under option at December 31, 1998	7,383,089	$12.55
Granted	3,242,250	$ 9.65
Exercised	(996,952)	$ 3.60
Canceled	(164,926)	$18.15
Shares under option at December 31, 1999	9,463,461	$12.40
Options exercisable at December 31		
1997	4,457,868	$ 3.92
1998	3,972,889	$ 5.28
1999	3,977,054	$ 9.05

All stock options granted in 1997 through 1999 had exercise prices equal to the market price of the Company's common stock on the date of grant. The weighted average per-share fair value of options as of the grant date was $5.52 in 1999, $11.54 in 1998, and $11.37 in 1997.

The following table summarizes information with respect to stock options outstanding at December 31, 1999:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding at 12/31/99	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable at 12/31/99	Weighted Average Exercise Price
$1.6875 to $3.8125	1,232,472	3.8 years	$ 3.03	1,232,472	$ 3.03
$4.125 to $7.6875	3,857,980	7.0 years	$ 6.60	1,372,948	$ 4.62
$9.3125 to $13.00	909,520	7.0 years	$10.41	443,345	$ 9.86
$14.5625 to $20.75	1,557,864	8.1 years	$19.06	465,989	$20.04
$24.9375 to $34.1875	1,905,625	8.2 years	$25.73	462,300	$26.40
	9,463,461	7.0 years	$12.40	3,977,054	$ 9.05

Performance-Based Stock Awards

Under certain plans, the Company has offered shares of Company stock to certain key employees at nominal or no cost to the employee. The exact number of shares that each employee will receive is dependent on Company performance over three-year periods as measured against performance goals with respect to net income and cash flow, among other measures. The performance period applicable to each offer ends on December 31 of the second full year following the year of the grant. A summary of the status of performance-based stock awards is presented in the table which follows:

	1999	1998	1997
Number of contingent shares at beginning of year	446,356	428,668	593,750
Granted	225,000	315,000	68,600
Issued	(82,187)	(178,162)	(141,098)
Forfeited/canceled	(92,285)	(119,150)	(92,584)
Number of contingent shares at end of year	496,884	446,356	428,668
Shares vested at December 31	—	97,479	252,777
Fair value at grant date	$ 10.54	$ 24.94	$ 20.67

Pro Forma Disclosures

As discussed in Note 1 under "Stock-Based Compensation Plans," the Company accounts for its stock-based compensation plans under APB Opinion No. 25. Accordingly, no compensation cost has been recognized for those stock options with exercise prices equal to the market price of the stock on the date of grant. The amount of compensation cost included in income for the Company's performance-based stock awards was a charge of $1.0 million in 1999, a credit of $1.2 million in 1998, and a charge of $6.3 million in 1997. Had compensation cost for the Company's stock-based compensation plans been determined based on fair values as of the dates of grant, the Company's net income and earnings per share would have been reported as follows:

(In millions, except per share amounts)	1999	1998	1997
Net income:			
As reported	$89.5	$223.3	$310.6
Pro forma	$79.6	$215.0	$311.5
Basic earnings per share:			
As reported	$0.51	$ 1.29	$ 1.81
Pro forma	$0.46	$ 1.24	$ 1.82
Diluted earnings per share:			
As reported	$0.51	$ 1.27	$ 1.76
Pro forma	$0.45	$ 1.22	$ 1.77

The pro forma figures in the preceding table may not be representative of pro forma amounts in future years.

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SILICON GRAPHICS, INC. (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Stock-Based Compensation

We account for stock-based employee compensation arrangements under the intrinsic value method presented by Accounting Principles Board Opinion No. 25, ("APB 25") and related interpretations.

Note 13 (In Part): Stockholders' Equity

Stock Award Plans

We have various stock award plans which provide for the grant of incentive and nonstatutory stock options and the issuance of restricted stock to employees and certain other persons who provide consulting or advisory services to SGI. We grant incentive stock options at not less than the fair market value on the date of grant; the board of directors determines the prices of nonstatutory stock option grants and restricted stock. Under the plans, options and restricted stock generally vest over a fifty-month period from the date of grant.

In addition, we have a Directors' Stock Option Plan which allows for the grant of nonstatutory stock options to nonemployee directors at not less than the fair market value at the date of grant. Eligible directors are granted an option to purchase 30,000 shares of common stock on the date of their initial election as a director. On November 1 of each year, each eligible director is granted an option to purchase an additional 10,000 shares of common stock. These options generally vest in installments over a four-year period. At June 30, 1999, 876,200 shares were available for future option grants under the Directors' Stock Option Plan.

In July 1998, we effected an option exchange program to allow employees (excluding senior executives) to exchange their out-of-the-money options for new options at a more favorable exercise price. The new options have an exercise price of $11.125, the fair value on the date the exchange was announced, vest over the longer of two years or the original vesting schedule and could not be exercised prior to January 1999. As a result of the program, options to purchase approximately 12,800,000 shares with a weighted average exercise price of $19.70 were exchanged for new options.

At June 30, 1999, 1998 and 1997, there were 18,437,793, 10,832,173, and 10,849,128 unused shares, respectively, available for grant, and there was 820,625, 580,316 and 303,620 shares of restricted stock, respectively, subject to repurchase.

Activity under all of the stock award plans was as follows:

	1999		1998		1997	
	Number of Shares Under Option	Weighted Average Exercise Price	Number of Shares Under Option	Weighted Average Exercise Price	Number of Shares Under Option	Weighted Average Exercise Price
Balance at July 1	34,394,843	$16.59	34,753,548	$16.92	38,056,701	$19.53
Options granted	20,013,148	$12.14	11,536,447	$13.18	18,817,420	$20.49
Options exercised	(3,151,195)	$ 8.05	(6,146,202)	$ 8.93	(3,703,246)	$10.47
Options forfeited	(12,803,398)	$19.70	(5,748,950)	$19.86	(4,862,813)	$26.98
Options canceled	(7,838,056)	$17.15	—	$ —	(13,554,514)	$27.37
Balance at June 30	30,615,342	$13.15	34,394,843	$16.59	34,753,548	$16.92
Exercisable at June 30	13,286,532	$13.86	17,337,552	$17.12	18,346,324	$13.72

Additional information about options outstanding at June 30, 1999 is as follows:

	Options Outstanding			Options Exercisable	
Exercise Price Range	Number of Shares	Weighted Average Exercise Price	Weighted Average Contractual Life (years)	Number of Shares	Weighted Average Exercise Price
$ 0.96–$10.00	2,070,419	$ 7.02	2.5	1,869,276	$ 6.84
$10.19–$11.25	14,498,029	$11.13	6.7	5,761,399	$11.14
$11.31–$15.00	11,071,730	$13.74	8.5	3,093,467	$13.25
$15.06–$42.50	2,975,164	$25.06	6.0	2,562,390	$25.86
	30,615,342	$13.15		13,286,532	$13.86

Stock Purchase Plan

We have an employee stock purchase plan under which eligible employees may purchase stock at 85% of the lower of the closing prices for the stock at the beginning of a twenty-four-month offering period or the end of each six-month purchase period. The purchase periods generally begin in May and November. Purchases are limited to 10% of each employee's compensation. At June 30, 1999, we had issued 22,174,495 shares under the plan and we have reserved 2,885,505 shares for future issuance.

Grant Date Fair Values

The weighted average estimated fair value of employee stock options granted at grant date market prices during fiscal 1999, 1998 and 1997 was $5.18, $6.32 and $5.94 per share, respectively. The weighted average exercise price of employee stock options granted at grant date market prices during fiscal 1999, 1998 and 1997 was $12.14, $13.20 and $20.56 per share, respectively. There were no employee stock options granted at below grant date market prices during fiscal 1999. The weighted average estimated fair value of employee stock options granted at below grant date market prices during fiscal 1998 and 1997 was $10.92 and $13.54 per share, respectively. The weighted average exercise price of employee stock options granted at below grant date market prices during fiscal 1998 and 1997 was $8.91 and $12.56 per share, respectively. The weighted average fair value of restricted stock granted during fiscal 1999, 1998 and 1997 was $12.51, $20.79 and $18.93 per share, respectively. The weighted average estimate fair value of shares granted under the Stock Purchase Plan during fiscal 1999, 1998 and 1997 was $4.97, $5.81 and $7.06 per share, respectively.

We estimated the weighted average fair value of options granted at the date of grant using a Black-Scholes option pricing model with the following weighted average assumptions:

	Employee Stock Options			Stock Purchase Plan Shares		
Years ended June 30	1999	1998	1997	1999	1998	1997
Expected life (in years)	1.9	2.3	2.7	0.5	0.5	0.5
Risk-free interest rate	5.26%	5.58%	6.38%	4.97%	5.68%	5.45%
Volatility	0.71	0.61	0.50	0.56	0.76	0.57
Dividend yield	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

Pro Forma Information

We have elected to follow APB 25 in accounting for our employee stock options. Under APB 25, we recognize no compensation expense in our financial statements except in connection with the grant of restricted stock for nominal consideration and unless the exercise price of our employee stock options is less than the market price of the underlying stock on the grant date. Total compensation expense recognized in our financial statements for stock-based awards under APB 25 for fiscal 1999, 1998 and 1997 was $5 million, $13 million and $5 million, respectively.

We determined the following pro forma information regarding net income and earnings per share as if we had accounted for our employee stock options and employee stock purchase plan under the fair value method prescribed by SFAS 123. For purposes of pro forma disclosures, the estimated fair value of the stock awards is amortized to expense over the vesting periods. The pro forma information is as follows (in thousands, except per share amounts):

	1999	1998	1997
Pro forma net loss	$(13,696)	$(538,260)	$(14)
Pro forma net loss per share:			
Basic	$ (0.08)	$ (2.89)	$ —
Diluted	$ (0.08)	$ (2.89)	$ —

3.109

WESTPOINT STEVENS INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Principles

Stock Based Compensation

The Company grants stock options for a fixed number of shares in accordance with certain of its benefit plans. The Company accounts for stock option grants in accordance with APB Opinion No. 25, Accounting for Stock Issued to Employees, and, accordingly, recognizes no compensation expense for the stock option grants if the exercise price is equal to or more than the fair value of the shares at the date of grant. Pro forma information regarding net income and earnings per share, as calculated under the provisions of Statement No. 123, Accounting for Stock-Based Compensation, are disclosed in Note 6—Stockholders' Equity.

6 (In Part): Stockholders' Equity (Deficit)

Stock Options and Restricted Stock

The Company has granted stock options under various stock plans to key employees and to non-employee directors. Also the Company granted certain contractual stock options which were not granted pursuant to any plan. The Omnibus Stock Incentive Plan (the "Omnibus Stock Plan"), an amendment and restatement of the 1993 Management Stock Option Plan, covers approximately 5.4 million shares of Common Stock, and also replaced the 1994 Non-Employee Directors Stock Option Plan after the 300,000 shares of Common Stock authorized under that plan had been granted. The Omnibus Stock Plan allows for six categories of incentive awards: options, stock appreciation rights, restricted shares, deferred shares, performance shares and performance units. Key employees are granted options under the various plans at terms (purchase price, expiration date and vesting schedule) established by a committee of the Board of Directors. Options granted either in accordance with contractual arrangements or pursuant to the various plans have been at a price which is approximately equal to fair market value on the date of grant. Such options are exercisable on the date of grant for a period of ten years. The Company has elected to follow Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" (APB 25) and related Interpretations in accounting for its employee stock options because, as discussed below, the alternative fair value accounting provided for under Statement No. 123, "Accounting for Stock-Based Compensation," requires the use of option valuation models that were not developed for use in valuing employee stock options. Under APB 25, because the exercise price of the Company's employee stock options equals the market price of the underlying stock on the date of grant, no compensation expense is recognized.

Pro forma information regarding net income and earnings per share is required by Statement 123, which also requires that the information be determined as if the Company has accounted for its employee stock options granted using the fair value method of that Statement. The fair value for these options was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions for 1999, 1998 and 1997, respectively: risk-free interest rates of 5.8%, 5.6% and 6.1%; no dividend yield; volatility factors of the expected market price of the Company's common stock of .300, .265 and .25; and a weighted-average expected life of the option of 8 years.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period. Pro forma stock based compensation costs resulted in 1999 pro forma net income of $96.6 million (or pro forma diluted net income per share of $1.71), 1998 pro forma net income of $35.5 million (or pro forma diluted net income per share of $.59) and 1997 pro forma net income of $75.5 million (or pro forma diluted net income per share of $1.20).

Changes in outstanding options were as follows:

	Number of Shares (In thousands)			Weighted Average Option Price
	Qualified Plans	Contractual	Total	Per Share
Options outstanding at December 31, 1996	3,380	410	3,790	$ 9.78
Granted	1,176	20	1,196	$20.07
Exercised and terminated	(514)	(390)	(904)	$ 7.15
Options outstanding at December 31, 1997	4,042	40	4,082	$13.37
Granted	754	—	754	$34.08
Exercised and terminated	(605)	—	(605)	$ 8.79
Options outstanding at December 31, 1998	4,191	40	4,231	$17.71
Granted	2,477	—	2,477	$25.98
Exercised and terminated	(817)	(20)	(837)	$14.30
Options outstanding at December 31, 1999	5,851	20	5,871	$21.42

At December 31, 1999, options for 2,635,863 shares were exercisable at prices ranging from $6.25 to $36.81 per share.

During 1999, the Company awarded to certain key employees 510,000 restricted shares, of which 500,000 were not granted pursuant to any plan. The awards are subject to certain vesting requirements and accordingly 501,000 restricted shares were actually issued. The value of such stock was established by the market price on the date of grant and was recorded as unearned compensation. The unearned compensation is shown as a reduction of stockholders' equity in the accompanying Consolidated Balance Sheets and is being amortized ratably over the applicable restricted stock vesting period. During 1999, $0.3 million was charged to expense related to restricted shares. In conjunction with one of the restricted stock awards, income tax withholding obligations were paid by the Company on November 26, 1999, and the Company received reimbursement for those income tax withholding obligations (plus interest) from the employee on February 4, 2000.

Stock Bonus Plan

The Company sponsors an employee benefit plan, the WestPoint Stevens Inc. 1995 Key Employee Stock Bonus Plan, as amended, (the "Stock Bonus Plan"), covering 2,000,000 shares of the Company's Common Stock. Under the Stock Bonus Plan, the Company may grant bonus awards of shares of Common Stock to key employees based on the Company's achievement of targeted earnings levels during the Company's fiscal year. For 1999, 1998 and 1997, respectively, bonus awards were deemed earned by forty-four, forty-nine and forty-seven employees covering an aggregate of 194,604 shares, 266,121 shares and 398,456 shares of Common Stock. For performance year 1999 the Stock Bonus Plan provided for vesting of the bonus awards of 10 percent on January 1 of the year following the year of award and 10 percent in each of the next nine years if the employee continues employment with the Company and for performance years prior to 1999 the Stock Bonus Plan provided for the vesting of the bonus awards of 20 percent on January 1 of the year following the year of award and 20 percent in each of the next four years if the employee continues employment with the Company. The Company charged $7.9 million, $6.6 million and $4.4 million to expense in 1999, 1998 and 1997, respectively, in connection with the Stock Bonus Plan.

Savings/Investment Plans

3.110

THE HOME DEPOT, INC. AND SUBSIDIARIES (JAN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 6: Employee Benefit Plans

During fiscal 1996, the Company established a defined contribution plan ("401(k)") pursuant to Section 401(k) of the Internal Revenue Code. The 401(k) covers substantially all associates that meet certain service requirements. The Company makes weekly matching cash contributions to purchase shares of the Company's common stock, up to specified percentages of associates' contributions as approved by the Board of Directors.

During fiscal 1988, the Company established a leveraged Employee Stock Ownership Plan and Trust ("ESOP") covering substantially all full-time associates. At January 30, 2000, the ESOP held a total of 32,208,550 shares of the Company's common stock in trust for plan participants' accounts. The ESOP purchased the shares in the open market with contributions received from the Company in fiscal 1998 and 1997, and from the proceeds of loans obtained from the Company during fiscal 1992, 1990 and 1989 totaling approximately $81 million. All loans payable to the Company in connection with the purchase of such shares have been paid in full.

During February 1999, the Company made its final contribution to the ESOP plan and amended its 401(k) plan. In the amendment, the Company elected to increase its percentage contribution to the 401(k) in lieu of future ESOP contributions.

The Company adopted a non-qualified ESOP Restoration Plan in fiscal 1994. The Company also made its final contribution to the ESOP Restoration Plan in February 1999 and established a new 401(k) Restoration Plan. The primary purpose of the new plan is to provide certain associates deferred compensation that they would have received under the 401(k) matching contribution if not for the maximum compensation limits under the Internal Revenue Code of 1986, as amended. The Company has established a "rabbi trust" to fund the benefits under the 401(k) Restoration Plan. Compensation expense related to this plan for fiscal years 1999, 1998 and 1997 was not material. Funds provided to the trust are primarily used to purchase shares of the Company's common stock in the open market.

The Company's combined contributions to the 401(k) and ESOP were $57 million, $41 million and $33 million for fiscal years 1999, 1998 and 1997, respectively.

3.111

PILGRIMS PRIDE CORPORATION (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note G: Savings Plan

The Company maintains a Section 401(k) Salary Deferral Plan (the "Plan"). Under the Plan, eligible U.S. employees may voluntarily contribute a percentage of their compensation. The Plan provides for a contribution of up to four percent of compensation subject to an overall Company contribution limit of five percent of the U.S. operation's income before taxes. Under this plan, the Company's expenses were $4.6 million, $1.7 million and $1.2 million in 1999, 1998 and 1997, respectively.

3.112

STORAGE TECHNOLOGY CORPORATION AND SUBSIDIARIES (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 11 (In Part): Employee Benefit Plans and Options

Employee Profit Sharing and Thrift Plan

StorageTek has a Profit Sharing and Thrift Plan whereby employee participants may contribute a portion of their compensation, subject to limits under the Internal Revenue Code. The plan provides for a matching contribution by the Company equal to 50% of the first 6% of the participant's contributions. Effective January 1, 2000, the Company will make a matching contribution equal to 100% of the first 3% of each participant's contributions and a 50% match of the next 4% of each participant's contributions. Company contributions in excess of the matching contribution are contingent upon realization of profits by the Company which, at the sole discretion of the Board of Directors, are adequate to justify a corporate contribution.

The following contributions were made or authorized by the Company to the Profit Sharing and Thrift Plan (in thousands of dollars):

	Year Ended		
	December 31, 1999	December 25, 1998	December 26, 1997
Matching contributions	$9,374	$8,987	$ 7,772
Additional contributions			11,100
	$9,374	$8,987	$18,872

Stock Purchase Plans

3.113

AMERICA ONLINE, INC. (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 16 (In Part): Stock Plans

Employee Stock Purchase Plan

In May 1992, the Company's Board of Directors adopted a non-compensatory Employee Stock Purchase Plan ("the ESPP"). Under the ESPP, employees of the Company who elect to participate are granted options to purchase common stock at a 15 percent discount from the market value of such stock. The ESPP permits an enrolled employee to make contributions to purchase shares of common stock by having withheld from his or her salary an amount between 1 percent and 15 percent of compensation. The Stock and Option Subcommittee of the Compensation and Management Development Committee of the Board of Directors administer the ESPP. The total number of shares of common stock that may be issued pursuant to options granted under the ESPP is 14,400,000. A total of approximately 6 million shares of common stock have been issued under the ESPP.

In June 1995, the Company adopted a non-compensatory Employee Stock Purchase Plan ("the Netscape ESPP") under Section 423 of the Internal Revenue Code and a total of 3,150,000 shares of common stock may be issued pursuant to options under the Netscape ESPP. The Company's Board of Directors in 1998 amended the Netscape ESPP to increase the maximum percentage of payroll deductions which any participant may contribute from his or her eligible compensation to 15%; amended the Netscape ESPP from a two-year rolling offering period to a six-month fixed offering period effective with the offering period beginning March 1999; amended the limit to the number of shares any employee may purchase in any purchase period to a maximum of 1,800 shares; and changed the offering dates for each purchase period to March 1 and September 1 of each year. Under this plan, qualified employees are entitled to purchase common stock at a 15 percent discount from the market value of such stock. Approximately 2 million shares of common stock have been issued under the Netscape ESPP.

3.114

COOPER CAMERON CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Stock Options and Employee Stock Purchase Plan

Options to purchase Common stock are granted to certain executive officers and key management personnel at 100% of the market value of the Company's stock at the date of grant. As permitted, the Company follows Accounting Principles Board Opinion No. 25 and, as a result, no compensation expense is recognized under its stock option plans or the Employee Stock Purchase Plan.

Note 9 (In Part): Stock Options and Employee Stock Purchase Plan

Employee Stock Purchase Plan

Under the Cooper Cameron Employee Stock Purchase Plan, the Company is authorized to sell up to 2,000,000 shares of Common stock to its full-time domestic, U.K., Ireland, Singapore and Canada employees, nearly all of whom are eligible to participate. Under the terms of the Plan, employees may elect each year to have up to 10% of their annual compensation withheld to purchase the Company's Common stock. The purchase price of the stock is 85% of the lower of the beginning-of-plan year or end-of-plan year market price of the Company's Common stock. Under the 1999/2000 plan, over 1,700 employees elected to purchase approximately 192,000 shares of the Company's Common stock at $31.03 per share, or 85% of the market price of the Company's Common stock on July 31, 2000, if lower. A total of 210,057 shares were purchased at $30.23 per share on July 31, 1999 under the 1998/1999 plan.

3.115

INGRAM MICRO INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars in 000s, except per share data)

Note 12 (In Part): Stock Options and Incentive Plans

Employee Stock Purchase Plans

In 1996 and 1998, the Board of Directors and the Company's shareholders approved Employee Stock Purchase Plans (the "1996 and 1998 ESPP Plans") under which 1,000,000 and 3,000,000 shares, respectively, of the Company's Class A Common Stock could be sold to employees. Under the Plans, employees can elect to have between 1% and 6% of their earnings withheld to be applied to the purchase of these shares. The purchase price under the Plans is generally the lesser of the market price on the beginning or ending date of the offering periods under such Plans. On December 31, 1998, the offering period was completed for all 1996 ESPP offerings. In January 1999, the Company issued 582,362 of the 1,000,000 authorized shares and converted approximately $12,500 in accrued employee contributions into stockholders' equity. The 1996 ESPP terminated on December 31, 1998. Under the 1998 Plan, offerings were made in January and in June 1999. Both offerings ended on December 31, 1999. In January 2000, the Company issued approximately 145,000 of the authorized 3,000,000 shares and converted approximately $1,900 in accrued employee contributions into Stockholders' Equity as a result.

Employee Stock Ownership Plans

3.116

CARPENTER TECHNOLOGY CORPORATION (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

14. Employee Stock Ownership Plan

Carpenter has a leveraged employee stock ownership plan ("ESOP") to assist certain employees with their future retiree medical obligations. Carpenter issued 461.5 shares of convertible preferred stock at $65,000 per share to the ESOP in exchange for a $30.0 million 15-year 9.345% note which is included in the shareholders' equity section of the consolidated balance sheet as deferred compensation. The preferred stock is recorded net of related issuance costs.

Principal and interest obligations on the note are satisfied by the ESOP as Carpenter makes contributions to the ESOP and dividends are paid on the preferred stock. As payments are made on the note, shares of preferred stock are allocated to participating employees' accounts within the ESOP.

Carpenter contributed $1.5 million in fiscal 1999, $1.4 million in fiscal 1998 and $1.3 million in fiscal 1997 to the ESOP. Compensation expense related to the plan was $1.7 million in fiscal 1999, $1.8 million in fiscal 1998 and $1.9 million in fiscal 1997.

As of June 30, 1999, the ESOP held 425.8 shares of the convertible preferred stock, consisting of 179.4 allocated shares and 246.4 unallocated shares. Each preferred share is convertible into 2,000 shares of common stock. There are 851,650 common shares reserved for issuance under the ESOP at June 30, 1999. The shares of preferred stock pay a cumulative annual dividend of $5,362.50 per share, are entitled to vote together with the common stock as a single class and have 2,600 votes per share. The stock is redeemable at Carpenter's option at $67,600 per share, declining to $65,000 per share by 2001.

3.117

THE GILLETTE COMPANY AND SUBSIDIARY COMPANIES (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Employee Stock Ownership Plan

In 1990, the Company sold to the ESOP 165,872 shares of a new issue of 8% cumulative Series C convertible preferred stock for $100 million, or $602.875 per share.

Each share of Series C stock is entitled to vote as if it were converted to common stock and is convertible into 80 common shares at $7.536 per share. At December 31, 1999, 141,254 Series C shares were outstanding, of which 135,500 shares were allocated to employees and the remaining shares were held in the ESOP trust for future allocations. The Series C shares are equivalent to 11,300,290 shares of common stock, about 1.1% of the Company's outstanding voting stock.

The Series C stock is redeemable upon the occurrence of certain change in control or other events, at the option of the Company or the holder, depending on the event, at varying prices not less than the purchase price plus accrued dividends. The Company has the option and the intention to redeem Series C stock solely in common stock.

The ESOP purchased the Series C shares with borrowed funds guaranteed by the Company. Gillette contributions to the ESOP, and the dividends paid on the Series C shares, are used to pay loan principal and interest semiannually over a 10-year period.

As the ESOP loan is repaid, a corresponding amount of Series C stock held in the trust is released to participant accounts. Allocations are made quarterly to the accounts of eligible employees, generally on the basis of an equal amount per participant. In general, regular U.S. employees participate in the ESOP after completing one year of service with the Company.

The unpaid balance of this loan is reported as a liability of the Company. An unearned ESOP compensation amount is reported as an offset to the Series C shares in the equity section.

Plan costs and activity follow.

(Millions)	1999	1998	1997
Compensation expense	$—	$ 2	$ 3
Cash contributions and dividends paid	9	10	11
Principal payments	8	9	9
Interest payments	1	1	2

3.118

HERSHEY FOODS CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

11. Employee Stock Ownership Trust

The Corporation's employee stock ownership trust (ESOP) serves as the primary vehicle for contributions to its existing ESOP for participating domestic salaried and hourly employees. The ESOP was funded by a 15-year 7.75% loan of $47.9 million from the Corporation. During 1999 and 1998, the ESOP received a combination of dividends on unallocated shares and contributions from the Corporation equal to the amount required to meet its principal and interest payments under the loan. Simultaneously, the ESOP allocated to participants 159,176 shares of Common Stock each year. As of December 31, 1999, the ESOP held 980,992 allocated shares and 1,114,224 unallocated shares. All ESOP shares are considered outstanding for income per share computations.

The Corporation recognized net compensation expense equal to the shares allocated multiplied by the original cost of $20 1/16 per share less dividends received by the ESOP on unallocated shares. Compensation expense related to the ESOP for 1999, 1998 and 1997 was $1.6 million, $1.0 million, and $1.4 million, respectively. Dividends paid on unallocated ESOP shares were $1.2 million in both 1999 and 1998 and $1.3 million in 1997. The unearned ESOP compensation balance in stockholders' equity represented deferred compensation expense to be recognized by the Corporation in future years as additional shares are allocated to participants.

Profit Sharing Plans

3.119

LAM RESEARCH CORPORATION (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note M: Profit Sharing Plan and Benefit Plan

During fiscal 1998, the Company revised the profit sharing plan for its employees in North America. Distributions to employees by the Company are made bi-annually based upon a percentage of base salary, provided that a threshold level of the Company's financial and performance goals are met. Upon achievement of the threshold, the profit sharing is awarded based upon performance against certain corporate financial and operating goals. During fiscal 1999, the Company incurred an expense of $2,121,000 based upon the Company achieving certain business process improvements. During 1998, the Company did not incur any profit sharing plan expense. Profit sharing plan expense for fiscal 1997 was $176,000.

The Company maintains a 401(k) retirement savings plan for its full-time employees in North America. Each participant in the plan may elect to contribute 2% to 15% of his or her annual salary to the plan, subject to statutory limitations. The Company matches employee contributions to the plan at the rate of 50% of the first 6% of salary contributed. Prior to the Merger, OnTrak maintained an employee savings and retirement plan qualified under Section 401(k) of the Internal Revenue Code. The OnTrak plan allowed participants to contribute up to 14% of the total compensation that would otherwise be paid to them by OnTrak, not to exceed the maximum allowed by the applicable Internal Revenue Service guidelines. OnTrak matched 100% of the salary deferral contributions made by each participating employee, up to a maximum of 6% of total employee compensation. OnTrak's contributions were 25%, 50% and 100% vested after an employee's second, third and fourth years of service, respectively. The Company's match expense for fiscal 1999, 1998 and 1997 was $3,610,000, $4,964,000 and $5,205,000, respectively.

3.120

VALERO ENERGY CORPORATION AND SUBSIDIARIES (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

13 (In Part): Employee Benefit Plans

Profit-Sharing/Savings Plans

The Company is the sponsor of the Valero Energy Corporation Thrift Plan which is a qualified employee profit-sharing plan. The purpose of the Thrift Plan is to provide a program whereby contributions of participating employees and their employers are systematically invested to provide the employees an interest in the Company and to further their financial independence. Participation in the Thrift Plan is voluntary and is open to employees of the Company who become eligible to participate upon the completion of one month of continuous service. Employees of the Company who were formerly employed by Mobil and Basis became eligible to participate in the Thrift Plan on September 17, 1998 and January 1, 1998, respectively, under the same service requirements as required for other Company employees, with service including prior employment with Mobil or Basis. Effective January 1999, former Mobil employees who became employees of the Company could elect to transfer their balances from the Mobil employee savings plan into the Thrift Plan or maintain these amounts in the Mobil plan. For former Basis employees who became employees of the Company, Basis' previously existing 401(k) profit-sharing and retirement savings plan was maintained through December 31, 1997 and was merged into the Company's Thrift Plan effective January 1, 1998. At the time of the Restructuring, the Company became solely responsible for all Thrift Plan liabilities arising after the Restructuring with respect to current Company employees and former employees of both Old Valero and the Company. Each Old Valero employee participating in the Thrift Plan before the Restructuring who became a PG&E employee after the Restructuring had their account balance transferred to the PG&E savings plan.

Participating employees may contribute from 2% up to 22% of their total annual compensation, subject to certain limitations, to the Thrift Plan. Participants may elect to make these contributions on either a before-tax or after-tax basis, or both, with federal income taxes on before-tax contributions being deferred until a distribution is made to the participant. Participants' contributions of up to 8% of their base annual compensation are matched 75% by the Company, with an additional match of up to 25% subject to certain conditions. Participants' contributions in excess of 8% of their base annual compensation are not matched by the Company. Up until the termination in 1997 of the Valero Employees' Stock Ownership Plan, or VESOP, a leveraged employee stock ownership plan established by Old Valero in 1989, the Company's matching contributions were made to the VESOP in the amount of the VESOP's debt service, with any excess made to the Thrift Plan. After the VESOP termination, all Company matching contributions were made to the Thrift Plan. Company contributions to the Thrift Plan were $6,670,841, $5,298,870 and $2,247,491 (net of forfeitures) for the years 1999, 1998 and 1997, respectively. During 1997, the Company contributed $586,000 to the VESOP. This amount consisted of $58,000 of interest on the VESOP's debt and $541,000 of compensation expense. Dividends on VESOP shares of common stock were recorded as a reduction of retained earnings. Dividends on allocated shares of common stock were paid to participants. Dividends paid on unallocated shares were used to reduce the Company's contributions to the VESOP during 1997 by $13,000. VESOP shares of common stock were considered outstanding for earnings per share computations.

Incentive Compensation Plans

3.121

CHEVRON CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Millions of dollars)

Note 18 (In Part): Employee Benefit Plans

Management Incentive Plans

The Company has two incentive plans, the Management Incentive Plan (MIP) and the Long-Term Incentive Plan (LTIP) for officers and other regular salaried employees of the Company and its subsidiaries who hold positions of significant responsibility. The MIP is an annual cash incentive plan that links awards to performance results of the prior year. The cash awards may be deferred by conversion to stock units or, beginning with awards deferred in 1996, stock units or other investment fund alternatives. Awards under the LTIP may take the form of, but are not limited to, stock options, restricted stock, stock units and nonstock grants. Charges to expense for the combined management incentive plans, excluding expense related to LTIP stock options, which is discussed in Note 19, "Stock Options," were $41, $28 and $55 in 1999, 1998 and 1997, respectively.

Chevron Success Sharing

The Company has a program that provides eligible employees with an annual cash bonus if the Company achieves certain financial and safety goals. Until 2000, the total maximum payout under the program was 8 percent of the employee's annual salary. Charges for the program were $47, $51 and $116 in 1999, 1998 and 1997, respectively. In 2000, the maximum payout under the program increases to 10 percent.

3.122

SEAGATE TECHNOLOGY, INC. (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Employee Profit Sharing and Executive Bonus Plans

The Company allocates a certain percentage of adjusted quarterly pretax profits to its Employee Profit Sharing Plan which is currently distributed to employees, excluding officers, employed for the full quarter. The Company also allocates a certain percentage of adjusted quarterly pretax profits to its Executive Bonus Plan. Distributions to corporate officers under this plan are subject to the discretion of the Board of Directors. Charges to operations for distributions to employees and/or corporate officers under these Plans during 1999, 1998 and 1997 were $27 million, $3 million and $115 million, respectively.

3.123

VULCAN MATERIALS COMPANY AND SUBSIDIARY COMPANIES (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8 (In Part): Incentive Plans

Cash-Based Compensation Plan

The Company has a management incentive plan under which cash awards may be made annually to officers and key employees. Expense provisions referable to the plan amounted to $6,832,000 in 1999, $10,250,000 in 1998 and $7,198,000 in 1997.

Deferred Compensation Plans

3.124

APPLIED INDUSTRIAL TECHNOLOGIES, INC. AND SUBSIDIARIES (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars in thousands)

9 (In Part): Benefit Plans

Deferred Compensation Plans

The Company has deferred compensation plans that enable certain associates of the Company to defer receipt of a portion of their compensation and non-employee directors to defer receipt of director fees. The Company funds these deferred compensation liabilities by making contributions to rabbi trusts. Contributions consist of Company Common Stock and investments in money market and mutual funds. During the first quarter of fiscal 1999, the Company adopted the Emerging Issues Task Force (EITF) Issue No. 97-14, "Accounting for Deferred Compensation Arrangements Where Amounts Earned are Held in a Rabbi Trust and Invested." This statement requires the deferred compensation obligation for certain plans to be classified as an equity instrument, with no recognition of changes in the fair value of the amount owed to the employee. The adoption of this accounting standard resulted in an increase in shareholders' equity and a decrease in other liabilities of approximately $5,000. Amounts for prior periods have been reclassified to conform to the new presentation.

3.125

IOMEGA CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

13. Nonqualified Deferred Compensation Plan

Beginning in 1998, the Company offered a nonqualified deferred compensation plan to a select group of management and highly compensated employees that provides the opportunity to defer a specified percentage of their cash compensation. Participants may elect to defer up to 50% of annual base salary and up to 100% of bonus. The Company's obligations under this plan are unfunded, for tax purposes and for purposes of Title I of ERISA and unsecured general obligations of the Company to pay in the future the value of the deferred compensation adjusted to reflect the performance, whether positive or negative, of selected investment measurement options, chosen by each participant, during the deferral period.

3.126

POLO RALPH LAUREN CORPORATION (MAR)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (In thousands, except where otherwise indicated)

10 (In Part): Employee Benefits

Deferred Compensation

The Company has deferred compensation arrangements for certain key executives which generally provide for payments upon retirement, death or termination of employment. The amounts accrued under these plans were $15.9 million and $14.2 million at April 3, 1999 and March 28, 1998, respectively, and are reflected in other noncurrent liabilities in the accompanying balance sheets. Total compensation expense recorded was $2.7 million, $4.9 million and $3.2 million in fiscal 1999, 1998 and 1997, respectively. The Company funds a portion of these obligations through the establishment of trust accounts on behalf of the executives participating in the plans. The trust accounts are reflected in other assets in the accompanying balance sheets.

Loan Program for Key Executives

3.127

HERMAN MILLER, INC., AND SUBSIDIARIES (MAY)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Key Executive and Director Stock Programs (In Part)

Key Executive Stock Purchase Assistance Plan

During fiscal 1995, the Company adopted a key executive stock purchase assistance plan whereby the Company may extend credit to officers and key executives to purchase the Company's stock through the exercise of options or on the open market. These loans are secured by the shares acquired and are repayable under full recourse promissory notes. The sale or transfer of shares is restricted for five years after the loan is fully paid. The plan provides for the key executives to earn repayment of a portion of the notes, including interest, based on meeting annual performance objectives as set forth by the Executive Compensation Committee of the Board of Directors. The notes bear interest at 7.0 percent per annum. Interest is payable annually and principal is due on various dates through September 1, 2007. As of May 29, 1999, the notes outstanding relating to the exercise of options were $.3 million and are included as a separate component of shareholders' equity under the caption Key Executive Stock Programs. Notes outstanding related to open-market purchases were $2.6 million and are recorded in other assets. Compensation expense related to earned repayment was $1.7 million in 1999, $2.5 million in 1998, and $3.9 million in 1997.

Veba

3.128

GENEVA STEEL COMPANY (SEP)

NOTES TO FINANCIAL STATEMENTS

9 (In Part): Employee Benefit Plans

Voluntary Employee Beneficiary Association Trust

Effective March 1, 1995, the Company established a voluntary employee beneficiary association trust ("VEBA Trust") to fund post-retirement medical benefits for future retirees covered by the collective bargaining agreement. Company cash contributions to the VEBA Trust are $.20 from May 1, 1999 through May 1, 2000, $.15 from May 1, 1998 through May 1, 1999 and $.10 prior to May 1, 1998 for each hour of work performed by employees covered by the collective bargaining agreement. In addition, union employees provided a contribution to the VEBA Trust based on a reduction from their performance dividend plan payment until April 30, 1998. Beginning January 1, 1999, the Plan began paying a portion of the COBRA payments for eligible retired participants. Eligibility requirements and related matters currently are being determined based on the current plan assets and level of Company contribution.

Phantom Stock Plan

3.129

TESORO PETROLEUM CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note L (In Part): Stock-Based Compensation

Phantom Stock Agreement and Phantom Stock Plan

In 1997, the Compensation Committee of the Board of Directors granted 175,000 phantom stock options to an executive officer of the Company at 100% of the fair market value of the Company's Common Stock on the grant date, or $16.9844 per share. These phantom stock options vest in 15% increments in each of the first three years and the remaining 55% increment vests in the fourth year. At December 31, 1999, 52,500 of these phantom stock options were exercisable. Upon exercise, the executive officer would be entitled to receive in cash the difference between the fair market value of the Common Stock on the date of the phantom stock option grant and the fair market value of Common Stock on the date of exercise. At the discretion of the Compensation Committee, these phantom stock options may be converted to traditional stock options under the 1993 Plan.

To more closely align director compensation with shareholders' interests, in March 1997, the lump-sum accrued benefit of each of the current non-employee directors was transferred from the Director Retirement Plan (see Note K) into an account ("Account") in the Company's Board of Directors Deferred Phantom Stock Plan ("Phantom Stock Plan"). Under the Phantom Stock Plan, a yearly credit of $7,250 (prorated to $6,042 for 1997) is made to the Account of each director in units, based upon the closing market price of the Company's Common Stock on the date of credit. In addition, a director may elect to have the value of his cash retainer fee deposited quarterly into the Account in units. The value of each Account balance, which is a function of the amount, if any, by which the market value of the Company's Common stock changes, is payable in cash at termination, if vested, with three years of service, or at retirement, death or disability. In 1999 and 1997, the Company recorded expense of approximately $44,000 and $127,000, respectively, related to phantom stock. In 1998, the Company credited expense for approximately $110,000 related to phantom stock due to the net depreciation in the market price of the Company's Common Stock.

DEPRECIATION EXPENSE

3.130 Paragraph 5 of *APB Opinion No. 12* stipulates that both the amount of depreciation expense and method or methods of depreciation should be disclosed in the financial statements or in notes thereto. Paragraph 5, Chapter 9C of *Accounting Research Bulletin No. 43* defines depreciation accounting (the process of allocating the cost of productive facilities over the expected useful lives of the facilities) as a "system of accounting which aims to distribute the cost or other basic value of tangible capital assets, less salvage (if any), over the estimated useful life of the unit (which may be a group of assets) in a systematic and rational manner. It is a process of allocation, not of valuation."

3.131 Table 3-13 summarizes the methods of depreciation used to allocate the cost of productive facilities. Examples of depreciation expense disclosures follow.

3.132

TABLE 3-13: DEPRECIATION METHODS

	Number of Companies			
	1999	1998	1997	1996
Straight-line	577	577	578	575
Declining-balance	27	25	26	28
Sum-of-the-years'-digits	7	9	10	12
Accelerated method—not specified	53	43	50	48
Units-of-production	31	36	39	42
Other	6	9	10	12

Straight-Line Method

3.133

AIR PRODUCTS AND CHEMICALS, INC. AND SUBSIDIARIES (SEP)

Consolidated Cash Flows

(Millions of dollars)	1999	1998	1997
Operating activities			
Net income	$450.5	$546.8	$429.3
Adjustments to reconcile income to cash provided by operating activities:			
Depreciation—note 1	527.2	489.4	459.1
Deferred income taxes	58.8	62.3	94.1
American Ref-Fuel divestiture deferred income taxes	—	(80.3)	—
Gain on formation of polymer venture	(34.9)	—	—
Gain on currency options related to BOC transaction	(12.5)	—	—
Other	65.5	42.0	8.9

NOTES TO THE FINANCIAL STATEMENTS

1 (In Part): Major Accounting Policies

Depreciation

In the financial statements, the straight-line method of depreciation is used which deducts equal amounts of the cost of each asset from earnings every year over its expected useful life. The following table shows the estimated useful lives of different types of assets:

Classification	Expected Useful Lives
Buildings and components	5 to 45 years (principally 30 years)
Gas generating and chemical facilities, machinery and equipment	3 to 25 years (principally 14 to 20 years)

11. Plant and Equipment

The major classes of plant and equipment, at cost, are as follows:

30 September (Millions of dollars)	1999	1998
Land	$ 139.3	$ 127.3
Buildings	651.2	599.9
Gas generating and chemical facilities, machinery and equipment	8,713.7	8,208.7
Construction in progress	683.7	553.6
	$10,187.9	$9,489.5

3.134

BOWNE & CO., INC. (DEC)

(In thousands)	1999	1998	1997
Net sales	$1,010,790	$847,566	$716,647
Expenses:			
Cost of sales	608,668	487,954	392,120
Selling and administrative	291,137	251,632	203,362
Depreciation	41,104	34,375	27,991
Amortization	11,373	7,551	1,678
Purchased in-process research and development and other charges	—	9,025	6,991
	952,282	790,537	632,142
Operating income	58,508	57,029	84,505

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (In thousands, except where noted)

Note 1 (In Part): Summary of Accounting Policies

Property, Plant and Equipment

Property, plant and equipment are carried at cost. Maintenance and repairs are expensed as incurred. Depreciation for financial statement purposes is provided on the straight-line method. The following table summarizes the components of property, plant and equipment:

	1999	1998
Land and buildings	$ 77,256	$ 75,847
Machinery and plant equipment	85,751	84,863
Computer equipment	115,204	90,195
Furniture, fixtures and vehicles	40,236	34,655
Leasehold improvements	47,603	38,532
	366,050	324,092
Less accumulated depreciation	(192,757)	(157,725)
Net	$173,293	$166,367

Estimated lives used in the calculation of depreciation for financial statement purposes are:

Buildings	10-40 years
Machinery and plant equipment	3-12½ years
Computer equipment	1-8 years
Furniture and fixtures	3-12½ years
Vehicles	3-5 years
Leasehold improvements	Shorter of useful life or term of lease

Accelerated Methods

3.135

E. I. DU PONT DE NEMOURS AND COMPANY AND CONSOLIDATED SUBSIDIARIES (DEC)

(Dollars in millions)	1999	1998	1997
Sales	$26,918	$24,767	$24,089
Other Income	974	981	1,005
Total	27,892	25,748	25,094
Cost of goods sold and other operating charges	16,991	15,556	15,544
Selling, general and administrative expenses	2,595	2,115	2,061
Depreciation	1,444	1,452	1,361
Amortization of goodwill and other intangible assets	246	108	20
Research and development expense	1,617	1,308	1,072
Interest expense	535	520	389
Purchased in-process research and development	2,250	1,443	1,478
Employee separation costs and write-down of assets	524	633	340
Total	26,202	23,135	22,265
Income from continuing operations before income taxes and minority interests	$ 1,690	$ 2,613	$ 2,829

NOTES TO FINANCIAL STATEMENTS
(Dollars in millions)

1 (In Part): Summary of Significant Accounting Policies

Property, Plant and Equipment

Property, plant and equipment (PP&E) is carried at cost and, when placed in service in 1995 or thereafter, is depreciated using the straight-line method. PP&E placed in service prior to 1995 is depreciated under the sum-of-the-years' digits method or other substantially similar methods. Substantially all equipment and buildings are depreciated over useful lives ranging from 15 to 25 years. Capitalizable costs associated with internal use of computer software are amortized on a straight-line basis over 5 to 7 years. When assets are surrendered, retired, sold or otherwise disposed of, their gross carrying value and related accumulated depreciation are removed from the accounts and included in determining gain or loss on such disposals.

Maintenance and repairs are charged to operations; replacements and betterments are capitalized.

13. Property, Plant and Equipment

December 31	1999	1998
Buildings	$ 4,622	$ 3,889
Equipment	28,764	28,485
Land	494	288
Construction	1,536	2,066
	$35,416	$34,728

Property, plant and equipment includes gross assets acquired under capital leases of $146 and $120 at December 31, 1999 and 1998, respectively; related amounts included in accumulated depreciation were $57 and $56 at December 31, 1999 and 1998, respectively.

3.136

LA-Z-BOY INCORPORATED (APR)

Consolidated Statement of Cash Flows

(Amounts in thousands)	1999	1998	1997
Cash flows from operating activities			
Net income	$66,142	$49,920	$45,297
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation and amortization	22,081	21,021	20,382

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (In Part): Accounting Policies

Property, Plant and Equipment

Items capitalized, including significant betterments to existing facilities, are recorded at cost. Depreciation is computed using primarily accelerated methods over the estimated useful lives of the assets.

Note 4: Property, Plant and Equipment

(Amounts in thousands)	Life in years	Depreciation method	4/24/99	4/25/98
Machinery and equipment	10	200% DB	$124,835	$114,502
Buildings and building fixtures	15-30	150% DB	116,601	116,145
Information systems	3-5	150-200% DB	23,228	20,738
Transportation equipment	5	SL	15,685	15,606
Land and land improvements	0-20	150% DB	13,514	12,937
Network and production tracking systems	5-10	SL	4,881	2,407
Other	3-10	Various	23,923	18,048
			322,667	300,383
Less: accumulated depreciation			196,678	178,621
Property, plant and equipment, net			$125,989	$121,762

DB = Declining Balance SL = Straight Line

Units-of-Production Method

3.137

BOISE CASCADE CORPORATION AND SUBSIDIARIES (DEC)

(Expressed in thousands)	1999	1998	1997
Revenues			
Sales	$6,952,662	$6,162,123	$5,493,820
Costs and expenses			
Materials, labor, and other operating expenses	5,377,932	4,849,678	4,436,650
Depreciation, amortization, and cost of company timber harvested	288,994	282,737	256,570
Selling and distribution expenses	745,927	666,759	553,240
General and administrative expenses	125,273	150,455	139,060
Other (income) expense, net	(77,707)	67,443	710
	6,460,419	6,017,072	5,386,230
Equity in net income (loss) of affiliates	6,115	(3,791)	(5,180)
Income from operations	498,358	141,260	102,410

NOTES TO FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Property (In Part)

Property and equipment are recorded at cost. Cost includes expenditures for major improvements and replacements and the net amount of interest cost associated with significant capital additions. Capitalized interest was $238,000 in 1999, $1,341,000 in 1998, and $10,575,000 in 1997. Substantially all of our paper and wood products manufacturing facilities determine depreciation by the units-of-production method, and other operations use the straight-line method. Gains and losses from sales and retirements are included in income as they occur.

Depreciation is computed over the following estimated useful lives:

Buildings and improvements	5 to 40 years
Furniture and fixtures	5 to 10 years
Machinery, equipment, and delivery trucks	3 to 20 years
Leasehold improvements	5 to 10 years

Cost of Company timber harvested and amortization of logging roads are determined on the basis of the annual amount of timber cut in relation to the total amount of recoverable timber. Timber and timberlands are stated at cost, less the accumulated cost of timber previously harvested.

3.138

CUMMINS ENGINE COMPANY, INC. (DEC)

Consolidated Statement of Cash Flows

(Millions)	1999	1998	1997
Cash flows from operating activities:			
Net earnings (loss)	$160	$(21)	$212
Adjustments to reconcile net earnings (loss) to net cash from operating activities:			
Depreciation and amortization	233	199	158
Restructuring and other non-recurring actions	38	110	(24)
Equity in (earnings) losses of joint ventures and alliances	35	38	(1)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (In Part): Accounting Policies

Property, Plant and Equipment

Property, plant and equipment are stated at cost. A modified units-of-production method, which is based upon units produced subject to a minimum level, is used to depreciate substantially all engine production equipment. The straight-line depreciation method is used for all other equipment. The estimated depreciable lives range from 20 to 40 years for buildings and 3 to 20 years for machinery, equipment and fixtures.

Composite Method

3.139

BELLSOUTH CORPORATION (DEC)

(In millions)	1999	1998	1997
Operating revenues:			
Wireline communications:			
Local service	$10,887	$10,033	$ 9,017
Network access	4,761	4,632	4,483
Long distance	608	713	734
Other wireline	1,198	1,023	944
Total wireline communications	17,454	16,401	15,178
Domestic wireless	3,191	2,723	2,581
International operations	2,289	1,995	948
Advertising and publishing	2,010	1,891	1,837
Other	280	113	17
Total operating revenues	25,224	23,123	20,561
Operating expenses:			
Operational and support expenses	13,796	12,862	11,221
Depreciation and amortization	4,671	4,357	3,964
Provision for asset impairment	320	—	—
Total operating expenses	18,787	17,219	15,185
Operating income	$ 6,437	$ 5,904	$ 5,376

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars in millions)

Note A (In Part): Accounting Policies

Property, Plant and Equipment

The investment in property, plant and equipment is stated at original cost. For plant dedicated to providing regulated telecommunications services, depreciation is based on the composite group remaining life method of depreciation and straight-line composite rates determined on the basis of equal life groups of certain categories of telephone plant acquired in a given year. When depreciable telephone plant is disposed of, the original cost less net salvage value is charged to accumulated depreciation. The cost of other property, plant and equipment is depreciated using either straight-line or accelerated methods over the estimated useful lives of the assets. Gains or losses on disposal of other depreciable property, plant and equipment are recognized in the year of disposition as an element of other income, net.

Note D (In Part): Property, Plant and Equipment

Property, plant and equipment is summarized as follows at December 31:

	Estimated Depreciable Lives (In Years)	1999	1998
Outside plant	12-20	$23,325	$22,496
Central office equipment	8-10	21,302	20,056
Operating and other equipment	5-15	6,676	6,262
Building and building improvements	25-45	4,866	4,485
Furniture and fixtures	10-15	2,995	3,089
Station equipment	6	606	563
Land	—	226	207
Plant under construction	—	1,013	816
		61,009	57,974
Less: accumulated depreciation		36,378	34,034
Property, plant and equipment, net		$24,631	$23,940

Depletion

3.140

SOUTHDOWN, INC. AND SUBSIDIARY COMPANIES (DEC)

(In millions)	1999	1998	1997
Revenues	$1,271.8	$1,184.7	$1,095.2
Costs and expenses:			
Operating	774.7	717.6	698.3
Depreciation, depletion and amortization	74.6	71.1	64.1
Selling and marketing	29.4	27.8	24.7
General and administrative	65.8	71.4	65.6
Acquisition charge (credit)	(1.5)	75.2	—
Other income, net	(11.0)	(4.8)	(6.7)
	932.0	958.3	846.0
Earnings from continuing operations before interest, income taxes and minority interest	$ 339.8	$ 226.4	$ 249.2

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 (In Part): Summary of Significant Accounting Policies

Property, Plant and Equipment (In Part)

The Company capitalizes all direct and certain indirect expenditures incurred in conjunction with the acquisition or construction of major facilities. Depreciation and amortization of these capitalized costs commence when the completed facility is placed in service. Depreciation and amortization of property, plant and equipment are computed primarily on a straight-line basis over estimated useful lives of the related assets, ranging from three to 50 years. On average, the Company depreciates buildings and improvements based on a 50 year life; machinery and equipment over lives ranging from 10 to 35 years; office furniture, fixtures and equipment over lives ranging from five to ten years and mobile equipment over lives ranging from four to 25 years. The Company computes depletion of mineral rights on the units-of-production method.

8. Property, Plant and Equipment

December 31, (In millions)	1999	1998
Land (at cost):		
Cement	$ 37.4	$ 36.0
Concrete products	15.7	16.1
Aggregates	8.8	8.9
Corporate and other	—	0.2
	61.9	61.2
Plant and equipment (at cost):		
Cement	1,307.9	1,228.1
Concrete products	86.7	72.3
Aggregates	117.8	107.6
Corporate and other	26.0	29.7
	1,537.8	1,437.7
Less accumulated depreciation, depletion and amortization	(679.4)	(679.0)
	$ 920.3	$ 819.9

INCOME TAXES

PRESENTATION OF INCOME TAXES

3.141 *Statement of Financial Accounting Standards No. 109* is the authoritative pronouncement on accounting for and reporting income tax liabilities and expense. Paragraphs 41–49 of *SFAS No. 109* set forth standards for financial presentation and disclosure of income tax liabilities and expense.

3.142 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.

3.143

TABLE 3-14: INCOME TAX EXPENSE

	1999	1998	1997	1996
Descriptive Terms				
Income taxes	577	576	567	564
Federal income taxes	14	17	23	25
United States (U.S.) income taxes	3	3	1	2
	594	596	591	591
Other or no current year amount	6	4	9	9
Total Companies	**600**	**600**	**600**	**600**

Expense Provision

3.144

THE DUN & BRADSTREET CORPORATION AND SUBSIDIARIES (DEC)

(Dollar amounts in millions)	1999	1998	1997
Operating revenues	$1,971.8	$1,934.5	$1,811.0
Operating expenses	559.5	568.2	487.0
Selling and administrative expenses	791.3	776.0	788.4
Depreciation and amortization	140.9	141.6	131.9
Restructuring expense	41.2	—	—
Reorganization costs	—	28.0	—
Operating income	438.9	420.7	403.7
Interest income	3.0	6.4	1.8
Interest expense	(5.0)	(12.1)	(53.4)
Minority interest expense	(22.4)	(22.5)	(16.9)
Other income (expense)—net	20.4	7.3	(2.8)
Non-operating expense—net	(4.0)	(20.9)	(71.3)
Income from continuing operations before provision for income taxes	434.9	399.8	332.4
Provision for income taxes	178.9	153.4	113.4
Income from continuing operations	256.0	246.4	219.0
Income from discontinued operations, net of income taxes of $22.5 and $52.2 for 1998 and 1997, respectively	—	33.7	92.0
Income before cumulative effect of accounting changes	256.0	280.1	311.0
Cumulative effect of accounting changes, net of income tax benefit of $87.7	—	—	(127.0)
Net income	$ 256.0	$ 280.1	$ 184.0

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Tabular dollar amounts in millions)

Note 9: Income Taxes

Income (loss) from continuing operations before provision for income taxes consisted of:

	1999	1998	1997
U.S.	$456.1	$407.2	$331.5
Non-U.S.	(21.2)	(7.4)	.9
	$434.9	$399.8	$332.4

The provision (benefit) for income taxes consisted of:

	1999	1998	1997
Current tax provision:			
U.S. Federal	$128.1	$176.0	$31.9
State and local	21.2	14.4	52.9
Non-U.S.	5.1	12.2	21.6
Total current tax provision	154.4	202.6	106.4
Deferred tax provision (benefit):			
U.S. Federal	17.4	(58.0)	36.5
State and local	4.1	7.6	(23.1)
Non-U.S.	3.0	1.2	(6.4)
Total deferred tax provision (benefit)	24.5	(49.2)	7.0
Provision for income taxes	$178.9	$153.4	$113.4

The following table summarizes the significant differences between the U.S. Federal statutory tax rate and the Company's effective tax rate for financial statement purposes.

	1999	1998	1997
Statutory tax rate	35.0%	35.0%	35.0%
State and local taxes, net of U.S. Federal tax benefit	3.8	3.6	4.9
Non-U.S. taxes	1.9	3.4	4.6
Recognition of ordinary losses	—	(5.3)	(10.4)
Non-recurring reorganization costs	.4	1.5	—
Other	—	.2	—
Effective tax rate	41.1%	38.4%	34.1%

Income taxes paid were $165.1 million, $136.5 million and $170.3 million in 1999, 1998 and 1997, respectively. Income taxes refunded were $26.7 million, $32.1 million and $37.6 million in 1999, 1998 and 1997, respectively.

Deferred tax assets (liabilities) consisted of the following at December 31:

	1999	1998	1997
Deferred tax assets:			
Operating losses	$59.5	$48.3	$53.7
Postretirement benefits	52.2	63.0	49.0
Postemployment benefits	3.5	3.7	12.8
Restructuring and reorganization costs	14.0	31.0	4.4
Bad debts	15.2	13.1	12.7
Other	.7	3.7	12.3
Total deferred tax assets	145.1	162.8	144.9
Valuation allowance	(59.5)	(48.3)	(53.7)
Net deferred tax asset	85.6	114.5	91.2
Deferred tax liabilities:			
Intangibles	(16.5)	(7.9)	(31.7)
Tax-leasing transactions	(18.3)	(20.4)	(22.1)
Depreciation	(2.2)	(13.1)	(13.5)
Total deferred tax liability	(37.0)	(41.4)	(67.3)
Net deferred tax asset	$48.6	$73.1	$23.9

At December 31, 1999, undistributed earnings of non-U.S. subsidiaries aggregated $133.9 million. Deferred tax liabilities have not been recognized for these undistributed earnings because it is management's intention to reinvest such undistributed earnings outside the U.S. If all undistributed earnings were remitted to the U.S., the amount of incremental U.S. Federal and foreign income taxes payable, net of foreign tax credits, would be $49.8 million.

During the three-year period ended December 31, 1983, the Company invested $304.4 million in tax-leasing transactions, varying in length from 4.5 to 25 years. These leases provided the Company with significant benefits from tax deductions in excess of taxable income for Federal income tax purposes. These amounts are included in deferred income taxes.

3.145

HORMEL FOODS CORPORATION (OCT)

(In thousands)	1999	1998	1997
Sales, less returns and allowances	$3,357,757	$3,261,045	$3,256,551
Cost of products sold	2,379,725	2,400,333	2,497,662
Gross profit	978,032	860,712	758,889
Expenses and gain on plant sale:			
Selling and delivery	356,553	328,050	297,294
Marketing	307,376	276,826	217,637
Administrative and general	73,196	72,331	75,788
Gain on plant sale		(28,379)	
Restructuring charges			(5,176)
Operating income	240,907	211,884	173,346
Other income and expense:			
Interest and investment income	17,317	14,821	9,156
Equity in earnings of affiliates	6,995	4,323	3,402
Interest expense	(13,746)	(13,692)	(15,043)
Earnings before income taxes	251,473	217,336	170,861
Provision for income taxes	88,035	78,045	61,369
Net earnings	$ 163,438	$ 139,291	$ 109,492

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A (In Part): Summary of Significant Accounting Policies

Income Taxes

The Company records income taxes in accordance with the liability method of accounting. Deferred taxes are recognized for the estimated taxes ultimately payable or recoverable based on enacted tax law. Changes in enacted tax rates are reflected in the tax provision as they occur.

F. Income Taxes

The components of the provision for income taxes are as follows:

(In thousands)	1999	1998	1997
Current:			
U.S. Federal	$80,621	$62,823	$51,978
State	9,098	10,049	9,538
Foreign	154	653	220
	89,873	73,525	61,736
Deferred:			
U.S. Federal	(1,657)	4,080	(329)
State	(181)	440	(38)
	(1,838)	4,520	(367)
	$88,035	$78,045	$61,369

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. The Company believes that, based upon its lengthy and consistent history of profitable operations, it is probable that the net deferred tax assets of $69.6 million will be realized on future tax returns, primarily from the generation of future taxable income. Significant components of the deferred income tax liabilities and assets were as follows:

(In thousands)	1999	1998
Deferred tax liabilities:		
Tax over book depreciation	$(31,961)	$(31,364)
Prepaid pension	(26,620)	(21,631)
Other, net	(19,690)	(14,475)
Deferred tax assets:		
Vacation accrual	4,467	4,207
Insurance accruals	6,107	5,072
Deferred compensation	7,834	7,171
Postretirement benefits	97,792	96,227
Pension accrual	14,999	13,776
Other, net	16,649	15,517
Net deferred tax assets	$ 69,577	$ 74,500

Reconciliation of the statutory federal income tax rate to the Company's effective tax rate is as follows:

	1999	1998	1997
U.S. statutory rate	35.0%	35.0%	35.0%
State taxes on income, net of federal tax benefit	2.3	3.1	3.6
All other, net	(2.3)	(2.2)	(2.7)
Effective tax rate	35.0%	35.9%	35.9%

Total income taxes paid during fiscal 1999, 1998 and 1997 were $76.4 million, $76.5 million and $66.5 million, respectively.

3.146

WEATHERFORD INTERNATIONAL, INC. AND SUBSIDIARIES (DEC)

(In thousands)	1999	1998	1997
Revenues:			
Products	$ 562,922	$ 603,765	$ 486,108
Services and rentals	677,278	760,084	871,266
	1,240,200	1,363,849	1,357,374
Costs and expenses:			
Cost of products	399,167	444,099	356,779
Cost of services and rentals	494,726	502,652	580,814
Selling, general and administrative attributable to segments	256,160	219,939	169,385
Corporate general and administrative	25,947	26,020	36,896
Equity in earnings of unconsolidated affiliates	(2,618)	(2,679)	(2,582)
Merger costs and other charges	—	137,647	—
	1,173,382	1,327,678	1,141,292
Operating income	66,818	36,171	216,082
Other income (expense):			
Interest income	3,179	3,093	8,329
Interest expense	(44,904)	(42,489)	(30,638)
Other, net	3,291	(2,860)	4,394
Income (loss) before income taxes and minority interest	28,384	(6,085)	198,167
(Provision) benefit for income taxes	(8,477)	5,297	(68,311)
Income (loss) before minority interest	19,907	(788)	129,856
Minority interest expense, net of taxes	(3,701)	(95)	(111)
Income (loss) from continuing operations	16,206	(883)	129,745
Income (loss) from discontinued operations, net of taxes	(37,081)	65,720	67,028
Extraordinary charge, net of taxes	—	—	(9,010)
Net income (loss)	$ (20,875)	$ 64,837	$ 187,763

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Accounting for Income Taxes

Under SFAS No. 109, Accounting for Income Taxes, 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.

14. Income Taxes

The component of income (loss) before income taxes were as follows:

(In thousands)	1999	1998	1997
Domestic	$17,039	$(76,900)	$131,546
Foreign	11,345	70,815	66,621
	$28,384	$ (6,085)	$198,167

The Company's income tax provision (benefit) from continuing operations consisted of the following:

(In thousands)	1999	1998	1997
Current U.S. federal and state income taxes	$ 1,023	$(15,506)	$17,658
Foreign	23,170	26,198	30,138
Total current	24,193	10,692	47,796
Deferred U.S. federal	(5,747)	(12,017)	19,300
Foreign	(9,969)	(3,972)	1,215
Total deferred	(15,716)	(15,989)	20,515
	$ 8,477	$ (5,297)	$68,311

Total income tax provision (benefit) was recorded as follows:

(In thousands)	1999	1998	1997
Income (loss) from continuing operations	$ 8,477	$ (5,297)	$ 68,311
Income (loss) from discontinued operations	(11,199)	39,848	39,877
Extraordinary charge	—	—	(5,640)
	$ (2,722)	$34,551	$102,548

The difference between the tax provision at the statutory federal income tax rate and the tax provision attributable to income (loss) from continuing operations before income taxes for the three years ended December 31, 1999 is analyzed below:

(In thousands)	1999	1998	1997
Statutory federal income tax rate	$9,934	$(2,130)	$69,358
Effect of state income tax (net) and alternative minimum tax	754	866	66
Effect of domestic non-deductible expenses	4,246	3,714	1,160
Change in valuation allowance	—	—	(8,214)
Effect of foreign income tax, net	(3,910)	(1,760)	7,023
Foreign Sales Corporation benefit	(1,742)	(104)	(605)
Effect of acquisitions and dispositions	—	(4,548)	—
Other	(805)	(1,335)	(477)
	$8,477	$(5,297)	$68,311

Deferred tax assets and liabilities are recognized for the estimated future tax effects of temporary differences between the tax basis of an asset or liability and its reported amount in the financial statements. The measurement of deferred tax assets and liabilities is based on enacted tax laws and rates currently in effect in each of the jurisdictions in which the Company has operations.

Deferred tax assets and liabilities are classified as current or noncurrent according to the classification of the related asset or liability for financial reporting. The components of the net deferred tax asset attributable to continuing operations were as follows:

	December 31,	
(In thousands)	1999	1998
Deferred tax assets:		
Domestic and foreign operating losses	$ 37,374	$ 6,649
Accrued liabilities and reserves	69,714	68,995
Tax credits	14,349	5,568
Unremitted foreign earnings	3,143	—
Tax benefit transfer leases acquired	—	2,776
Differences between financial and tax basis inventory	10,600	—
Valuation allowance	(25,615)	(4,716)
Total deferred tax assets	$109,565	$79,272
Deferred tax liabilities:		
Property, plant and equipment	$ (47,236)	$(23,017)
Unremitted foreign earnings	—	(10,883)
Differences between financial and tax basis of inventory	—	(2,284)
Goodwill	(18,882)	(18,424)
Total deferred tax liability	(66,118)	(54,608)
Net deferred tax asset	$ 43,447	$ 24,664

The change in valuation allowance in 1999 primarily relates to tax assets associated with acquisitions made during the period. Management's assessment is that the character and nature of future taxable income may not allow the Company to realize certain tax benefits of net operating losses and tax credits within the prescribed carryforward period. Accordingly, an appropriate valuation allowance has been made.

At December 31, 1999, the Company has $37.4 million of net operating losses, $7.0 million of which were generated by certain domestic subsidiaries prior to their acquisition by the Company. The use of these acquired domestic net operating losses is subject to limitations imposed by the Internal Revenue Code and is also restricted to the taxable income of the subsidiaries generating the losses. $20.7 million of the loss carryforward relates to Grant Prideco and is subject to the tax allocation agreement discussed below whereby the Company will be reimbursed by Grant Prideco to the extent the losses are not fully utilized by the Company in tax year 2000. Loss carryforwards other than those relating to Grant Prideco, if not utilized, will expire at various dates through 2010.

In connection with the Spin-off, Grant Prideco and the Company will enter into a tax allocation agreement (the "Tax Allocation Agreement"). Under the terms of the Tax Allocation Agreement, Grant Prideco is responsible for all taxes and associated liabilities relating to the historical businesses of Grant Prideco. The Tax Allocation Agreement also provides that any tax liabilities associated with the Spin-off will be assumed and paid by Grant Prideco subject to certain exceptions relating to changes in control of the Company. The Tax Allocation Agreement further provides that in the future if there is a tax liability associated with Grant Prideco that is offset by a tax benefit of the Company, Grant Prideco will apply the tax benefit against that tax liability and will reimburse the Company for the value of that tax benefit when and as Grant Prideco would have been able to otherwise utilize that tax benefit for its own businesses. The Company will have the future benefit of any tax losses incurred by Grant Prideco prior, as a part of a consolidated return with the Company, to the Spin-off, and Grant Prideco will be required to pay the Company an amount of cash equal to any such benefit utilized by Grant Prideco or which expires unused by Grant Prideco to the extent those benefits are not utilized by the Company.

3.147

WEIRTON STEEL CORPORATION (DEC)

(Dollars in thousands)	1999	1998	1997
Net sales	$1,091,697	$1,254,796	$1,397,204
Operating costs:			
Cost of sales	1,037,342	1,117,465	1,258,035
Selling, general and administrative expense	44,806	39,219	36,308
Depreciation	60,866	60,822	60,855
Restructuring charge	—	2,871	17,000
Asset impairment	22,522	—	—
Profit sharing provision	15,473	—	—
Total operating costs	1,181,009	1,220,377	1,372,198
Income (loss) from operations	(89,312)	34,419	25,006
Gain on sale of investment, net	170,117	—	—
Income (loss) from unconsolidated subsidiaries	(1,105)	34	(12)
Interest expense	(44,223)	(44,338)	(48,683)
Other income, net	2,198	4,684	4,259
ESOP contribution	(1,305)	(2,610)	(2,610)
Income (loss) before income taxes	36,370	(7,811)	(22,040)
Income tax provision (benefit)	8,227	(1,391)	(4,298)
Income (loss) before minority interest	28,143	(6,420)	(17,742)
Minority interest in loss of subsidiary	2,804	293	—
Net income (loss)	$ 30,947	$ (6,127)	$ (17,742)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (In thousands of dollars or in millions of dollars where indicated)

Note 10: Income Taxes

Deferred income tax assets and liabilities are recognized reflecting the future tax consequences of net operating loss and tax credit carryforwards and differences between the tax basis and the financial reporting basis of assets and liabilities. The components of the Company's deferred income tax assets and liabilities were as follows:

	1999	1998
Deferred tax assets:		
Net operating loss and tax credit carryforwards	$ 89,240	$103,625
Deductible temporary differences:		
Allowance for doubtful accounts	2,973	2,407
Inventories	17,691	17,262
Pensions	35,605	31,909
Workers' compensation	10,673	10,050
Postretirement benefits other than pensions	138,544	140,923
Other deductible temporary differences	16,822	16,978
Valuation allowance	(39,712)	(46,868)
	271,836	276,286
Deferred tax liabilities:		
Accumulated depreciation	(120,209)	(124,812)
Net deferred tax asset	$151,627	$151,474

As of December 31, 1999, the Company had available, for federal and state income tax purposes, regular net operating loss carryforwards of approximately $141.0 million expiring in 2007 through 2011; an alternative minimum tax credit of approximately $25.8 million; and general business tax credits of approximately $8.4 million expiring in 2000 to 2005.

In 1999, 1998 and 1997, as a result of its deferred tax attributes, the Company did not generate any liability for regular federal income tax purposes. The Company recognized a liability for alternative minimum tax of $8.4 million, $3.3 million and $2.2 million in 1999, 1998 and 1997, respectively.

The Company has recognized that it is more likely than not that certain future tax benefits will be realized as a result of current and future income. Accordingly, the valuation allowance has been reduced in the current year to reflect greater anticipated net deferred tax asset utilization.

At December 31, 1999, the deferred tax asset related to postretirement benefits other than pensions was $138.5 million. Based upon the length of the period during which this deferred tax asset can be utilized and the Company's expectations that under its current business strategy it will be able to generate taxable income over the long term, the Company believes that it is more likely than not that future taxable income will be sufficient to fully offset these future deductions.

The length of time associated with the carryforward period available to utilize net operating losses and certain tax credits not associated with postretirement benefits other than pension liabilities is more definite. A significant portion of these net operating losses are attributable to the realization of differences between the tax basis and financial reporting basis of the Company's fixed assets. In the aggregate, such differences, including depreciation, are expected to reverse within the allowable carryforward periods. In addition, certain tax planning strategies that include, but are not limited to, changes in methods of depreciation for tax purposes, adjustments to employee benefit plan funding strategies and potential sale leaseback arrangements, could be employed to avoid expiration of the attributes. Notwithstanding the Company's belief that it will be able to utilize its deferred tax assets, the Company has recorded a valuation allowance of $39.7 million against its deferred tax assets.

The elements of the Company's deferred income taxes associated with its results for the years ended December 31, 1999, 1998 and 1997, respectively, are as follows:

	1999	1998	1997
Current income tax provision (benefit):			
Federal	$8,381	$ 3,265	$(2,556)
Deferred income tax provision (benefit)	7,002	(5,977)	(6,040)
Valuation allowance	(7,156)	1,321	4,298
Total income tax provision (benefit)	$8,227	$(1,391)	$(4,298)

The total income tax provision (benefit) recognized by the Company for the years ended December 31, 1999, 1998 and 1997, reconciled to that computed under the federal statutory corporate rate as follows:

	1999	1998	1997
Tax provision (benefit) at federal statutory rate	$13,711	$(2,631)	$(7,714)
State income taxes, net of federal	1,567	(301)	(882)
Other	105	220	—
Change in valuation allowance	(7,156)	1,321	4,298
Income tax provision (benefit)	$ 8,227	$(1,391)	$(4,298)

Credit Provision

3.148

AGCO CORPORATION (DEC)

(In millions)	1999	1998	1997
Net sales	$2,413.3	$2,941.4	$3,224.4
Cost of goods sold	2,056.9	2,404.1	2,557.6
Gross profit	356.4	537.3	666.8
Selling, general and administrative expenses	229.6	270.7	275.4
Engineering expenses	44.6	56.1	54.1
Nonrecurring expenses	24.5	40.0	18.2
Income from operations	57.7	170.5	319.1
Interest expense, net	57.6	67.7	53.5
Other expense, net	32.3	28.5	19.9
Income (loss) before income taxes, equity in net earnings of affiliates and extraordinary loss	(32.2)	74.3	245.7
Income tax provision (benefit)	(10.2)	27.5	87.5
Income (loss) before equity in net earnings of affiliates and extraordinary loss	(22.0)	46.8	158.2
Equity in net earnings of affiliates	10.5	13.8	12.6
Income (loss) before extraordinary loss	(11.5)	60.6	170.8
Extraordinary loss, net of taxes	—	—	(2.1)
Net income (loss)	$ (11.5)	$ 60.6	$ 168.7

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5. Income Taxes

The Company accounts for income taxes under the provisions of SFAS No. 109, "Accounting for Income Taxes." SFAS No. 109 requires recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred tax assets and liabilities are determined based on the differences between the financial reporting and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse.

The sources of income before income taxes, equity in net earnings of affiliates and extraordinary loss were as follows for the years ended December 31, 1999, 1998 and 1997 (in millions):

	1999	1998	1997
United States	$(96.9)	$ (9.4)	$ 51.7
Foreign	64.7	83.7	194.0
Income (loss) before income taxes, equity in net earnings of affiliates and extraordinary loss	$(32.2)	$74.3	$245.7

The provision (benefit) for income taxes by location of the taxing jurisdiction for the years ended December 31, 1999, 1998 and 1997 consisted of the following (in millions):

	1999	1998	1997
Current:			
United States:			
Federal	$ (3.3)	$ 0.6	$ (2.6)
State	—	0.2	(0.8)
Foreign	40.3	49.1	37.5
Total current	37.0	49.9	34.1
Deferred:			
United States:			
Federal	(31.2)	(6.1)	19.0
State	(4.1)	(0.8)	2.6
Foreign	(11.9)	(15.5)	31.8
Total deferred	(47.2)	(22.4)	53.4
Provision (benefit) for income taxes	$(10.2)	$27.5	$87.5

Certain foreign operations of the Company are subject to United States as well as foreign income tax regulations. Therefore, the preceding sources of income (loss) before income taxes by location and the provision (benefit) for income taxes by taxing jurisdiction are not directly related.

A reconciliation of income taxes computed at the United States federal statutory income tax rate (35%) to the provision (benefit) for income taxes reflected in the Consolidated Statements of Income for the years ended December 31, 1999, 1998 and 1997 is as follows (in millions):

	1999	1998	1997
Provision (benefit) for income taxes at United States federal statutory rate of 35%	$(11.3)	$26.0	$86.0
State and local income taxes, net of federal income tax benefit	(3.9)	(0.4)	1.8
Taxes on foreign income which differ from the United States statutory rate	(0.7)	(0.3)	(0.5)
Foreign losses with no tax benefit	6.2	4.3	1.8
Benefit of foreign sales corporation	(0.5)	(1.3)	(1.0)
Other	—	(0.8)	(0.6)
	$(10.2)	$27.5	$87.5

The significant components of the net deferred tax assets at December 31, 1999 and 1998 were as follows (in millions):

	1999	1998
Deferred tax assets:		
Net operating loss carryforwards	$116.9	$63.6
Sales incentive discounts	18.8	15.5
Inventory valuation reserves	10.1	13.1
Postretirement benefits	8.2	7.2
Other	76.3	77.3
Valuation allowance	(78.8)	(75.0)
Total deferred tax assets	151.5	101.7
Deferred tax liabilities:		
Tax over book depreciation	46.2	35.9
Tax over book amortization of goodwill	18.1	21.9
Other	5.0	11.8
Total deferred tax liabilities	69.3	69.6
Net deferred tax assets	82.2	32.1
Less: current portion of deferred tax asset	(22.3)	(22.9)
Noncurrent net deferred tax assets	$ 59.9	$ 9.2

At December 31, 1999, the Company has recorded a net deferred tax asset of $82.2 million, which is included in "Other current assets" and "Other assets" in the Consolidated Balance Sheet. Realization of the asset is dependent on generating sufficient taxable income in future periods. Management believes that it is more likely than not that the deferred tax asset will be realized. As reflected in the preceding table, the Company established a valuation allowance of $78.8 million and $75.0 million as of December 31, 1999 and 1998, respectively. The majority of the valuation allowance relates to net operating loss carryforwards in certain foreign entities where there is an uncertainty regarding their realizability. The Company has net operating loss carryforwards of $307.5 million as of December 31, 1999, with expiration dates as follows: 2000—$29.7 million, 2001—$25.9 million, 2002—$14.9 million, 2003—$16.5 million, 2004—$38.4 million and thereafter and unlimited—$182.1 million. The Company paid income taxes of $6.1 million, $87.8 million and $42.0 million for the years ended December 31, 1999, 1998 and 1997, respectively.

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HAMPTON INDUSTRIES, INC. (DEC)

	1999	1998	1997
Net sales	$192,560,527	$190,330,346	$163,040,212
Cost of products sold	145,623,169	145,654,492	125,966,826
Gross margin	46,937,358	44,675,854	37,073,386
Selling, general and administrative	49,711,314	38,387,710	33,962,059
Equity in earnings of unconsolidated affiliates	(88,721)	(103,355)	(164,633)
Restructuring charge	935,627	—	—
Operating (loss) income	(3,620,862)	6,391,499	3,275,960
Other (income) expense:			
Rental income	(923,467)	(929,210)	(935,216)
Loss on disposal of fixed assets	90,980	1,751	64,279
Other loss (income)—net	167,286	(56,748)	(182,853)
Interest expense	4,245,548	3,559,961	2,681,664
	3,580,347	2,575,754	1,627,874
(Loss) earnings before (benefit) provision for income tax	(7,201,209)	3,815,745	1,648,086
(Benefit) provision for income tax	(2,445,000)	1,400,000	565,000
Net (loss) earnings	$(4,756,209)	$2,415,745	$1,083,086

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A (In Part): Summary of Significant Accounting Policies

Income Taxes

Deferred income taxes are provided to reflect the tax effect of temporary differences between financial statement income and taxable income in accordance with the provisions of Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes".

G. Income Taxes

Components of income tax (benefit) provision reflected in the consolidated statements of operations are as follows:

	1999	1998	1997
Current:			
Federal	$(1,181,132)	$ 880,000	$412,893
State and local	104,421	63,000	62,900
	(1,076,711)	951,000	475,793
Deferred:			
Federal	(1,286,955)	357,000	84,207
State and local	(81,334)	92,000	5,000
	(1,368,289)	449,000	89,207
	$(2,445,000)	$1,400,000	$565,000

The following is a reconciliation of the statutory federal income tax rate applied to pre-tax accounting (loss) earnings compared to the (benefit) provision for income tax in the consolidated statements of operations:

	1999	1998	1997
Income tax (benefit) expense at the statutory rate	$(2,448,000)	$1,297,000	$560,400
(Decrease) increase resulting from:			
State and local income taxes, net of federal income tax	(44,000)	102,000	29,800
Nontaxable foreign income	(30,000)	(35,000)	(56,000)
Other, net	77,000	36,000	30,800
	$(2,445,000)	$1,400,000	$565,000

The components of deferred taxes included in the balance sheet as of January 1, 2000 and December 26, 1998 are as follows:

	1999	1998
Deferred income tax assets:		
Federal operating loss carryforwards	$ 837,214	$ —
Other federal carryover	311,257	—
State operating loss carryforwards	607,403	341,278
Reserve for doubtful accounts	168,905	90,203
Inventory and other	234,590	257,394
Deferred compensation	1,106,819	1,375,014
Restructuring charge	238,369	—
Trademarks and other	62,715	143,536
	3,567,272	2,207,425
Valuation allowance	(518,554)	(327,813)
	$3,048,718	$ 1,879,612
Deferred income tax liabilities:		
Depreciation	$2,325,045	$ 2,534,639
Conversion costs capitalized	396,238	385,827
	2,721,283	2,920,466
Net deferred tax assets (liabilities)	$ 327,435	$(1,040,854)

Net operating loss carryforwards for federal income tax purposes of $2,800,000 expire in 2020. Net operating loss carryforwards for state income tax purposes expire as follows:

Year	Amount
2000	$2,471,810
2001	1,529,629
2002	27,419
2003	—
Thereafter	4,215,012
	$8,243,870

3.150

NATIONAL SEMICONDUCTOR CORPORATION (MAY)

(In millions)	1999	1998	1997
Net sales	$1,956.8	$2,536.7	$2,684.4
Operating cost and expenses:			
Cost of sales	1,553.5	1,651.7	1,672.5
Research and development	471.3	482.0	404.5
Selling, general and administrative	317.4	353.2	448.9
Special items:			
Merger costs	—	30.0	—
Restructuring operations	700.9	63.8	134.2
In-process R&D	—	102.9	72.6
Gain on sale of Fairchild	—	—	(40.6)
Total operating costs and expenses	3,043.1	2,683.6	2,692.1
Operating loss	(1,086.3)	(146.9)	(7.7)
Interest income (expense), net	(2.2)	22.3	6.1
Other income, net	3.1	24.9	18.7
Income (loss) before income taxes	(1,085.4)	(99.7)	17.1
Income tax expense (benefit)	(75.5)	(1.1)	15.5
Net income (loss)	$(1,009.9)	$ (98.6)	$ 1.6

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Income Taxes

Deferred tax liabilities and assets at the end of each period are determined based on the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, using the tax rate expected to be in effect when the taxes are actually paid or recovered. The measurement of deferred tax assets is reduced, if necessary, by a valuation allowance.

Note 7: Income Taxes

Worldwide pretax income (loss) from operations and income taxes consist of the following:

(In millions)	1999	1998	1997
Income (loss) before income taxes:			
U.S.	$(1,136.2)	$(168.7)	$(51.6)
Non-U.S.	50.8	69.0	68.7
	$(1,085.4)	$ (99.7)	$ 17.1
Income tax expense (benefit):			
Current:			
U.S. federal	$ (142.5)	$(45.6)	$ 65.0
U.S. state and local	—	0.4	—
Non-U.S.	14.2	21.7	15.7
	(128.3)	(23.5)	80.7
Deferred:			
U.S. federal and state	57.2	9.4	(80.5)
Non-U.S.	(4.4)	(4.5)	(3.3)
	52.8	4.9	(83.8)
Charge in lieu of taxes attributable to employee stock plans	—	17.5	18.6
Income tax expense (benefit)	$ (75.5)	$ (1.1)	$ 15.5

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at May 30, 1999 and May 31, 1998 are presented below:

(In millions)	1999	1998
Deferred tax assets		
Reserves and accruals	$432.1	$199.3
Loss carryovers and other allowances—foreign	48.4	47.3
Federal and state credit carryovers	183.3	122.2
Other	95.6	15.3
Total gross deferred assets	759.4	384.1
Valuation allowance	(536.7)	(184.8)
Net deferred assets	222.7	199.3
Deferred tax liabilities		
Capital allowance—foreign	—	(4.4)
Depreciation	(69.3)	(24.2)
Other liabilities	(35.5)	—
Total gross deferred liabilities	(104.8)	(28.6)
Net deferred tax assets	$117.9	$170.7

The Company has recorded a valuation allowance to reflect the estimated amount of deferred tax assets that may not be realized due to the expiration of net operating losses and tax credit carryovers. The increase in the valuation allowance primarily relates to federal and state net operating losses and credit carryovers, which may not be realized, offset by the utilization of foreign net operating loss carryovers not previously benefited.

The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers projected future taxable income and tax planning strategies in making this assessment. Based on the historical taxable income and projections for future taxable income over the periods that the deferred tax assets are deductible, management believes it is more likely than not that the Company will realize the benefits of these deductible differences, net of valuation allowances as of May 30, 1999.

The reconciliation between the income tax rate computed by applying the U.S. federal statutory rate and the reported worldwide tax rate follows:

	1999	1998	1997
U.S. federal statutory tax rate	(35.0)%	(35.0)%	35.0 %
Non-U.S. losses and tax differential related to non-U.S. income	(0.6)	(7.9)	(27.7)
U.S. state and local taxes net of federal benefits	—	0.4	0.4
Research and development credits	—	—	(62.0)
Losses not benefited	32.4	—	—
Change in estimate for tax contingencies	(6.8)	—	—
Write-off of in-process R&D	—	38.4	134.2
Other	3.0	3.0	11.0
Effective tax rate	(7.0)%	(1.1)%	90.9 %

U.S. income taxes were provided for deferred taxes on undistributed earnings of non-U.S. subsidiaries to the extent that dividend payments from such companies are expected to result in additional liability. There has been no provision for U.S. income taxes for the remaining undistributed earnings of approximately $563.8 million at May 30, 1999, because the Company intends to reinvest these earnings indefinitely in operations outside the United States. If such earnings were distributed, additional U.S. taxes of approximately $112.7 million would accrue after utilization of U.S. tax credits.

At May 30, 1999, the Company had U.S. and state credit carryovers of approximately $115.1 million and $68.2 million, respectively, for tax return purposes, which primarily expire from 2003 through 2019. In addition, the Company had combined U.S. and state operating loss carryovers of approximately $1,091.1 million, which primarily expire from 2003 through 2019. The Company also had operating loss carryovers of $183.2 million from certain non-U.S. jurisdictions.

The Company has filed a petition with the United States Tax Court contesting a deficiency notice issued by the U.S. Internal Revenue Service ("IRS") seeking additional taxes of approximately $1.5 million (exclusive of interest) for fiscal 1989. The IRS has completed its examination of the Company's tax returns for fiscal 1990 through 1993 and has issued a notice of proposed adjustment refunding taxes of approximately $0.7 million (exclusive of interest). The IRS is examining the Company's returns for fiscal 1994 through 1996.

In fiscal 1997 and 1999, the Company received notices of assessment from the Malaysian Inland Revenue Board totaling approximately 199.9 million Malaysian ringgits ($52.6 million). The issues giving rise to the assessments related primarily to intercompany transfer pricing for the Company's manufacturing operations in Malaysia for fiscal year 1985 through 1993. In June 1999, the Company completed its settlement of all outstanding assessments with the Malaysian Inland Revenue Board for 6.6 million ringgits ($1.7 million).

No Provision

3.151

AMAZON.COM, INC. (DEC)

(In thousands)	1999	1998	1997
Net sales	$1,639,839	$ 609,819	$147,787
Cost of sales	1,349,194	476,155	118,969
Gross profit	290,645	133,664	28,818
Operating expenses:			
Marketing and sales	413,150	132,654	40,077
Technology and content	159,722	46,424	13,384
General and administrative	70,144	15,618	6,741
Stock-based compensation	30,618	1,889	1,211
Amortization of goodwill and other intangibles	214,694	42,599	—
Merger, acquisition and investment-related costs	8,072	3,535	—
Total operating expenses	896,400	242,719	61,413
Loss from operations	(605,755)	(109,055)	(32,595)
Interest income	45,451	14,053	1,901
Interest expense	(84,566)	(26,639)	(326)
Other income, net	1,671	—	—
Net interest income (expense) and other	(37,444)	(12,586)	1,575
Loss before equity in losses of equity-method investees	(643,199)	(121,641)	(31,020)
Equity in losses of equity-method investees	(76,769)	(2,905)	—
Net loss	$(719,968)	$(124,546)	$ (31,020)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (In Part): Accounting Policies

Income Taxes

The Company recognizes deferred tax assets and liabilities based on differences between the financial reporting and tax bases of assets and liabilities using the enacted tax rates and laws that are expected to be in effect when the differences are expected to be recovered. The Company provides a valuation allowance for deferred tax assets for which it does not consider realization of such assets to be more likely than not.

Note 12: Income Taxes

The Company did not provide any current or deferred US federal, state or foreign income tax provision or benefit for any of the periods presented because it has experienced operating losses since inception. The Company has provided a full valuation allowance on the deferred tax asset, consisting primarily of net operating loss, because of uncertainty regarding its realizability.

At December 31, 1999, the Company had net operating loss of approximately $1.18 billion related to US federal, foreign and state jurisdictions. Utilization of net operating loss, which begins to expire at various times starting in 2010, may be subject to certain limitations under Section 382 of the Internal Revenue Code of 1986, as amended, and other limitations under state and foreign tax laws. To the extent that net operating losses, when realized, relate to stock option deductions of approximately $768 million, the resulting benefits will be credited to stockholders' equity.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax assets are approximately as follows:

(In thousands)	1999	1998
Net operating loss	$423,200	$73,100
Depreciation and amortization	(900)	7,400
Accrued expenses and valuation allowances	19,500	—
Other	9,000	5,400
Total deferred tax assets	450,800	85,900
Valuation allowance for deferred tax assets	(450,800)	(85,900)
Net deferred tax assets	$ —	$ —

3.152

LAM RESEARCH CORPORATION (JUN)

(In thousands)	1999	1998	1997
Total revenue	$647,955	$1,052,586	$1,073,197
Costs and expenses:			
Cost of goods sold—on net sales	414,591	646,511	723,404
Cost of goods sold—restructuring charges	—	31,933	—
Gross margin	233,364	374,142	349,793
Research and development	142,495	206,456	192,254
Selling, general and administrative	145,698	201,900	209,294
Restructuring charges	53,372	116,925	9,021
Purchased technology for research and development	5,000	12,100	—
Merger costs	—	17,685	—
	346,565	555,066	410,569
Operating loss	(113,201)	(180,924)	(60,776)
Other income (expense):			
Interest income	22,810	22,670	5,775
Interest expense	(20,168)	(18,602)	(5,222)
Other, net	(2,354)	(2,269)	(636)
	288	1,799	(83)
Loss before income taxes	(112,913)	(179,125)	(60,859)
Income tax benefit	—	(34,526)	(30,183)
Net loss	$(112,913)	$ (144,599)	$ (30,676)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note O: Income Taxes

Income tax benefit consists of the following:

(In thousands)	1999	1998	1997
Federal:			
Current	$ —	$(18,153)	$(20,064)
Deferred	—	(21,187)	(15,521)
	—	(39,340)	(35,585)
State:			
Current	286	362	2,474
Deferred	(3,508)	(6,049)	(9,511)
	(3,222)	(5,687)	(7,037)
Foreign:			
Current	3,222	8,951	12,439
Deferred	—	1,550	—
	3,222	10,501	12,439
	$ —	$(34,526)	$(30,183)

Actual current tax liabilities are lower than reflected above for fiscal year 1997 by $1,732,000 for the stock option deduction benefits recorded as a credit to stockholders' equity.

Under FAS 109, deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's net deferred tax assets as of June 30, are as follows:

(In thousands)	1999	1998
Deferred tax assets:		
Tax benefit carryforwards	$103,159	$ 39,268
Accounting reserves and accruals deductible in different periods	45,136	63,937
Inventory valuation differences	31,787	37,240
Capitalized R&D expenses	13,774	—
Net undistributed profits of foreign subsidiaries	8,167	9,239
Gross deferred tax assets	202,023	149,684
Deferred tax liabilities:		
Temporary differences for capital assets	(4,744)	(8,594)
Other	(5,209)	(2,157)
Gross deferred tax liabilities	(9,953)	(10,751)
Valuation allowance for deferred tax assets	(84,680)	(35,051)
Net deferred tax assets	$107,390	$103,882

Approximately $1,500,000 and $5,900,000 of the valuation allowance for deferred taxes, for fiscal 1999 and 1998, respectively, is attributable to stock option deductions, the benefit of which will be credited to equity when realized.

Realization of the Company's net deferred tax assets is dependent on future taxable income. The Company believes that it is more likely than not such assets will be realized; however, ultimate realization could be negatively impacted by market conditions and other variables not known or anticipated at this time.

At June 30, 1999, the Company has federal tax loss carryforward of approximately $153,000,000 which expire in 2019. The Company also has federal and state tax credit carryforwards of approximately $48,300,000, of which approximately $27,200,000 will expire in varying amounts between 2000 and 2019. The remaining balance of $21,100,000 of tax carryforwards may be carried forward indefinitely. A valuation allowance has been provided for a portion of the deferred tax assets related to the carryforwards.

A reconciliation of income tax benefit provided at the federal statutory rate (35% in 1999, 1998 and 1997) to income tax benefit follows:

(In thousands)	1999	1998	1997
Income tax benefit computed at federal statutory rate	$(39,520)	$(62,694)	$(21,345)
Losses not benefited	48,124	35,051	—
Tax credits	(5,727)	(5,459)	(5,316)
State income taxes, net of federal tax provision	(2,094)	(3,697)	(4,422)
Other	(783)	2,273	900
	$ —	$(34,526)	$(30,183)

Income before income taxes from foreign operations for fiscal years 1999, 1998 and 1997 was $13,829,000, $11,462,000 and $31,621,000, respectively. In addition, the Company received royalty and other income from foreign sources of $410,000, $2,059,000 and $12,662,000, in fiscal years 1999, 1998 and 1997, respectively, which is subject to foreign tax withholding.

OPERATING LOSS AND TAX CREDIT CARRYFORWARDS

3.153 Paragraph 48 of *Statement of Financial Accounting Standards No. 109* states that amounts and expiration dates of operating loss and tax credit carryforwards for tax purposes should be disclosed. Examples of operating loss and tax credit carryforward disclosures follow.

3.154

ARMSTRONG WORLD INDUSTRIES, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 14 (In Part): Income Taxes

The tax effects of principal temporary differences between the carrying amounts of assets and liabilities and their tax bases are summarized in the table below. Management believes it is more likely than not that the results of future operations will generate sufficient taxable income to realize deferred tax assets except for certain net operating losses and capital loss carryforwards. Of the $57.7 million in capital loss carryforwards at December 31, 1999, $49.5 million will expire in 2001 and $8.2 million will expire in 2003. Of the $39.8 million in foreign net operating loses, $3.0 million will expire in 2003 and the remaining $36.8 million will be carried forward indefinitely. Valuation allowances decreased $4.0 million in 1999 primarily related to utilization of capital loss carryforwards in connection with the sale of the gaskets business.

Deferred income taxes (millions)	1999	1998
Postretirement and postemployment benefits	$ (86.4)	$ (87.7)
Reorganization payments	(3.3)	(24.2)
Asbestos-related liabilities	(238.5)	(150.3)
Net operating losses	(16.0)	(25.1)
Capital loss carryforwards	(20.2)	(21.3)
Other	(64.4)	(81.0)
Total deferred tax assets	$(428.8)	$(389.6)
Valuation allowance	25.5	29.5
Net deferred tax assets	$(403.3)	$(360.1)
Accumulated depreciation	$ 203.6	$ 224.8
Pension costs	69.3	51.3
Insurance for asbestos-related liabilities	103.6	92.7
Other	48.7	55.7
Total deferred income tax liabilities	$ 424.7	$ 424.5
Net deferred income tax liabilities	$ 21.4	$64.4
Deferred tax asset—current	(40.6)	(43.2)
Deferred income tax liability—long term	$ 62.0	$ 107.6

3.155

KELLY SERVICES, INC. AND SUBSIDIARIES (DEC)

NOTES TO FINANCIAL STATEMENTS
(In thousands of dollars except share and per share items)

10 (In Part): Income Taxes

Deferred tax assets (liabilities) are comprised of the following:

	1999	1998	1997
Depreciation and amortization	$(6,420)	$(5,307)	$(5,604)
Employee compensation and benefit plans	23,276	22,845	19,143
Workers' compensation	22,352	22,428	19,811
Loss carryforwards	4,793	3,453	2,946
Other, net	9,949	7,987	8,322
Valuation allowance	(3,118)	(3,063)	(2,663)
Total deferred tax assets	50,832	48,343	41,955
Total deferred tax liabilities	(1,044)	(1,279)	(1,363)
Total	$49,788	$47,064	$40,592

The differences between income taxes for financial reporting purposes and the U.S. statutory rate are as follows:

	1999	1998	1997
Income tax based on statutory rate	35.0%	35.0%	35.0%
State income taxes, net of federal benefit	5.2	5.4	5.1
Other, net	0.6	0.6	0.9
Total	40.8%	41.0%	41.0%

The Company has loss carryforwards at January 2, 2000, totaling $4,793 which expire as follows:

Year	Amount
2000	$8
2001	423
2002	196
2003-2009	1,082
No expiration	3,084
Total	$4,793

A valuation allowance of $3,118 has been recorded against the loss carryforwards. The valuation allowance is provided on the tax benefits unless it is considered more likely than not that the benefit will be realized.

3.156

PPG INDUSTRIES, INC. (DEC)

NOTES

8 (In Part): Income Taxes

Net deferred income tax assets and liabilities as of Dec. 31, 1999 and 1998, are as follows:

(Millions)	1999	1998
Deferred income tax assets related to		
Employee benefits	$333	$337
Environmental	32	36
Operating loss and other carryforwards	80	46
Inventories	35	32
Property	27	17
Restructuring	26	24
Intangibles	12	4
Other	42	24
Valuation allowance	(46)	(24)
Total	541	496
Deferred income tax liabilities related to		
Property	406	461
Employee benefits	296	263
Intangibles	147	32
Other	38	29
Total	887	785
Deferred income tax liabilities—net	$346	$289

The non-deductibility of certain purchased in-process research and development charges recorded by PPG in 1999 has resulted in an increase in the effective tax rate.

Dispositions of certain non-U.S. subsidiaries in 1997 generated U.S. capital losses of approximately $180 million. A portion of these losses was realized by offsetting it against capital gains from previous years and a 1997 capital gain from the sale of certain U.S. businesses. The remaining $88 million capital loss carryforward was offset with a valuation allowance at Dec. 31, 1997, because PPG's ability to realize the amount carried forward was uncertain. In July 1998, PPG recognized a gain from the sale of its European flat and automotive glass businesses, of which a considerable portion was capital, the tax on which was offset by the capital loss carryforward. As a result of the realization of the tax benefit from the capital loss carryforward, the valuation allowance that was recorded in the prior year was reversed in 1998. This benefit from the realization of the capital loss in both 1997 and 1998 reduced the effective tax rate in each year.

At Dec. 31, 1999, subsidiaries of the Company had available net operating loss (NOL) carryforwards of approximately $210 million for income tax purposes, of which $167 million has an indefinite expiration. The remaining $43 million expires between the years 2002 and 2010.

The majority of the NOL carryforwards relate to operations of subsidiaries in countries permitting indefinite carryforward of losses. Generally, a valuation allowance has been established for these carryforwards because the ability to utilize them is uncertain.

3.157

SEQUA CORPORATION AND SUBSIDIARIES (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 10 (In Part): Income Taxes

Temporary differences and carryforwards which gave rise to deferred tax assets and liabilities are as follows:

(Amounts in thousands)	1999 Deferred Tax Assets	1999 Deferred Tax Liabilities
Accounts receivable allowances	$ 4,648	$ —
Inventory valuation differences	19,919	2,882
Recognition of income on long-term contracts	2,368	5,065
Depreciation	7,945	40,784
Lease and finance transactions	—	112,610
Accruals not currently deductible for tax purposes	50,006	—
Tax net operating loss carryforward	50,471	—
Alternative minimum tax (AMT) credit carryforward	21,353	—
Other tax credit carryforwards	9,222	—
All other	26,366	11,267
Subtotal	192,298	172,608
Valuation allowance	(10,475)	—
Total deferred taxes	$181,823	$172,608

(Amounts in thousands) At December 31	1998 Deferred Tax Assets	1998 Deferred Tax Liabilities
Accounts receivable allowances	$ 3,472	$ —
Inventory valuation differences	23,916	4,002
Recognition of income on long-term contracts	4,497	4,522
Depreciation	9,934	43,294
Lease and finance transactions	—	120,634
Accruals not currently deductible for tax purposes	68,378	—
Tax net operating loss carryforward	47,318	—
Alternative minimum tax (AMT) credit carryforward	24,733	—
Other tax credit carryforwards	8,209	—
All other	22,421	12,588
Subtotal	212,878	185,040
Valuation allowance	(9,999)	—
Total deferred taxes	$202,879	$185,040

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At December 31, 1999, current taxes payable of $49,078,000 are netted against $52,677,000 of net current deferred tax assets (included in other current assets in the accompanying Consolidated Balance Sheet) and net noncurrent deferred tax liabilities of $43,462,000 are presented as a single amount in the Consolidated Balance Sheet. At December 31, 1998, net current deferred tax assets of $58,261,000 are netted against $74,760,000 of current taxes payable, and net noncurrent deferred tax liabilities of $40,422,000 are presented as a single amount in the Consolidated Balance Sheet.

A valuation allowance has been established to reduce the deferred tax asset recorded for certain tax credits that may expire unutilized in 2000 through 2018 and to reduce the tax benefit recorded for a portion of the cumulative losses of Sequa's French subsidiaries. The AMT credit carryforward does not expire and can be carried forward indefinitely. Sequa has a domestic tax net operating loss carryforward of $144,203,000 at December 31, 1999 that expires in 2008 through 2019.

Although Sequa experienced book and tax domestic losses prior to 1997, Sequa has been profitable domestically on a book basis since 1997 and on a tax basis for 1997 and 1998, with an estimated tax loss for 1999. Management believes that its domestic net operating loss carryforwards will be utilized before their expiration through future reversals of existing taxable temporary differences and future earnings. The domestic losses prior to 1997 were largely attributable to loss provisions recorded during 1991 and 1992 for Sequa Capital, a discontinued leasing unit, and operating losses incurred by Gas Turbine from 1993 through 1995. Sequa has divested itself of a significant portion of Sequa Capital's assets and has decreased interest expense by significantly reducing debt levels that existed during the Sequa Capital loss years. In addition, Gas Turbine has been profitable since 1996, due principally to decreased litigation costs and rising demand from the commercial airline market for jet engine component repair.

Sequa's ability to generate the expected amounts of domestic taxable income from future operations is dependent upon general economic conditions; the state of the airline industry and other major markets; the resolution of the uncertainties in ARC's airbag inflator business; competitive pressures on sales and margins; and other factors beyond management's control. There can be no assurance that Sequa will meet its expectations for future domestic taxable income in the carryforward period. However, management has considered the above factors in reaching the conclusion that it is more likely than not that future domestic taxable income will be sufficient to fully realize the net domestic deferred tax assets at December 31, 1999. The amount of the deferred tax assets considered realizable, however, could be reduced in the near term if estimates of future domestic taxable income during the carryforward period are reduced.

3.158

UNOVA, INC. (DEC)

NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

Note G (In Part): Taxes on Income

Deferred taxes result from the effect of transactions which are recognized in different periods for financial and tax reporting purposes. The primary components of the Company's deferred tax assets and liabilities are as follows:

	1999		1998	
(Thousands of dollars)	Asset	Liability	Asset	Liability
Accrued liabilities	$ 40,355		$ 56,863	
Receivables and inventories	22,232		18,872	
Retiree medical benefits	12,680		10,176	
Intangibles	13,473		12,963	
Tax credit carryforwards	23,419		6,395	
Deferred income	9,244		2,718	
Net operating loss carryforwards	54,830		41,511	
Pensions		$28,048		$23,588
Accelerated depreciation		16,729		18,566
Other items	1,327		1,220	
Total before valuation allowance	177,560	44,777	150,718	42,154
Valuation allowance	(19,390)		(8,945)	
	$158,170	$44,777	$141,773	$42,154

The Company has available at December 31, 1999, a net operating tax loss carryforward in the United States of approximately $67.8 million. Approximately $7.7 million and $13.9 million of the net operating tax loss carryforwards will expire in 2010 and 2011, respectively. Approximately $4.5 million, $25.1 million and $16.6 million of the remaining net operating tax loss carryforwards will expire in 2017, 2018 and 2019, respectively.

The Company has foreign tax credit carryforwards of $2.5 million at December 31, 1999 to offset future tax liability in the United States through 2004. The Company also has general business credit and other tax credit carryforwards of approximately $20.9 million to offset future tax liability in the United States through 2019.

At December 31, 1999, the Company has foreign net operating tax loss carryforwards of $76.5 million. Valuation allowances of $19.4 million and $8.9 million, as of December 31, 1999 and 1998, respectively, have been provided for deferred income tax benefits related to the foreign loss carryforwards that may not be realized. The valuation allowance for each year includes $4.4 million related to the acquired German net operating loss carryforwards; any tax benefits subsequently recognized for the acquired German net operating loss carryforwards will be allocated to goodwill.

TAXES ON UNDISTRIBUTED EARNINGS

3.159 *Statement of Financial Accounting Standards No. 109* requires, except in certain specified situations, that undistributed earnings of a subsidiary included in consolidated income be accounted for as a temporary difference. If a deferred tax liability is not recognized, paragraph 44 of *SFAS No. 109* specifies what information should be disclosed. Examples of disclosures concerning undistributed earnings follow.

Taxes Accrued on Undistributed Earnings

3.160

COMMERCIAL METALS COMPANY AND SUBSIDIARIES (AUG)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 5: Income Taxes

The provisions for income taxes include the following:

(In thousands)	1999	1998	1997
Current:			
United States	$22,443	$21,651	$19,986
Foreign	672	782	680
State and local	2,689	2,558	2,065
	25,804	24,991	22,731
Deferred	2,106	364	(381)
	$27,910	$25,355	$22,350

Taxes of $32,515,000, $21,444,000 and $25,506,000 were paid in 1999, 1998 and 1997, respectively.

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 tax liabilities (assets) associated with these differences are:

(In thousands)	1999	1998
Tax on difference between tax and book depreciation	$23,388	$19,165
U.S. taxes provided on foreign income and foreign taxes	11,497	11,595
Net operating losses	(2,671)	(2,660)
Alternative minimum tax credit	(1,713)	(1,713)
Other accruals	(2,878)	(2,030)
Other	(4,360)	(2,981)
Total	$23,263	$21,376

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 $4.5 million of federal net operating losses that are due to expire in 2009 and $51 million of state net operating losses that expire during the tax years ending from 2006 to 2019. 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 Company's effective tax rates were 37.2% for both 1999 and 1998, and 36.7% in 1997. Reconciliations of the United States statutory rates to the effective rates are as follows:

	1999	1998	1997
Statutory rate	35.0%	35.0%	35.0%
State and local taxes	2.3	2.6	2.2
Other	(.1)	(.4)	(.5)
Effective tax rate	37.2%	37.2%	36.7%

3.161

KLA-TENCOR CORPORATION (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 5 (In Part): Income Taxes

The significant components of deferred income tax assets (liabilities) are as follows:

(In thousands)	1998	1999
Deferred tax assets:		
Federal and state loss and credit carryforwards	$ 1,633	$ 5,231
Employee benefits accrual	26,606	27,889
Non-deductible reserves and other	98,218	119,035
	126,457	152,155
Deferred tax liabilities:		
Depreciation	(4,625)	(6,202)
Unremitted earnings of foreign subsidiaries not permanently reinvested	(11,501)	(12,138)
Unrealized (gain) loss on investments	(15,330)	(7,104)
Other	(6,951)	(2,840)
	(38,407)	(28,284)
Deferred tax assets valuation allowance	(1,633)	(1,298)
Total net deferred tax assets	$ 86,417	$122,573

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Undistributed earnings of certain of the Company's foreign subsidiaries, for which no United States federal income taxes have been provided, aggregated $14 million at June 30, 1999. The amount of the unrecognized deferred tax expense related to the investments in foreign subsidiaries is estimated at $4 million at June 30, 1999.

Taxes Not Accrued on Undistributed Earnings

3.162

THE DOW CHEMICAL COMPANY (DEC)

NOTES TO FINANCIAL STATEMENTS
(Dollars in millions, except as noted)

D (In Part): Income Taxes

Undistributed earnings of foreign subsidiaries and related companies which are deemed to be permanently invested amounted to $3,386 at December 31, 1999, $3,266 at December 31, 1998 and $3,458 at December 31, 1997. It is not practicable to calculate the unrecognized deferred tax liability on those earnings.

3.163

THE INTERPUBLIC GROUP OF COMPANIES, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 5 (In Part): Provision for Income Taxes

The total amount of undistributed earnings of foreign subsidiaries for income tax purposes was approximately $572 million at December 31, 1999. It is the Company's intention to reinvest undistributed earnings of its foreign subsidiaries and thereby indefinitely postpone their remittance. Accordingly, no provision has been made for foreign withholding taxes or United States income taxes which may become payable if undistributed earnings of foreign subsidiaries were paid as dividends to the Company. The additional taxes on that portion of undistributed earnings which is available for dividends are not practicably determinable.

3.164

THE MCGRAW-HILL COMPANIES, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6 (In Part): Taxes on Income

The Company has not recorded deferred income taxes applicable to undistributed earnings of foreign subsidiaries that are indefinitely reinvested in foreign operations. Undistributed earnings amounted to approximately $71 million at December 31, 1999, excluding amounts that, if remitted, generally would not result in any additional U.S. income taxes because of available foreign tax credits. If the earnings of such foreign subsidiaries were not indefinitely reinvested, a deferred tax liability of approximately $18 million would have been required.

3.165

THE MEAD CORPORATION AND CONSOLIDATED SUBSIDIARIES (DEC)

NOTES TO FINANCIAL STATEMENTS

M (In Part): Income Taxes

Earnings from operations of foreign subsidiaries were $33.0 million, $35.0 million and $43.9 million in 1999, 1998 and 1997, respectively. At December 31, 1999, no domestic income taxes have been provided on the Company's share of the undistributed net earnings of overseas operations due to management's intent to reinvest such amounts indefinitely. Those earnings totaled $113.4 million, including foreign currency translation adjustments. The aggregate amount of unrecognized deferred tax liability is approximately $6 million at December 31, 1999.

3.166

MERCK & CO., INC. AND SUBSIDIARIES (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS ($ in millions)

15 (In Part): Taxes on Income

At December 31, 1999, foreign earnings of $7.5 billion and domestic earnings of $880.9 million have been retained indefinitely by subsidiary companies for reinvestment. No provision is made for income taxes that would be payable upon the distribution of such earnings, and it is not practicable to determine the amount of the related unrecognized deferred income tax liability. These earnings include income from manufacturing operations in Ireland, which were tax-exempt through 1990 and are taxed at 10% thereafter. In addition, the Company has domestic subsidiaries operating in Puerto Rico under a tax incentive grant that expires on 2008.

LONG-TERM CONTRACTS

3.167 Accounting and disclosure requirements for long-term contracts are discussed in *Accounting Research Bulletin No. 45,* Chapter 11 of *ARB No. 43* and AICPA *Statement of Position 81-1.*

3.168 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. 12 companies used both of the aforementioned methods. Examples of disclosures for long-term contracts follow.

3.169

TABLE 3-15: METHOD OF ACCOUNTING FOR LONG-TERM CONTRACTS

	Number of Companies			
	1999	1998	1997	1996
Percentage-of-completion	72	67	69	70
Units-of-delivery	18	21	26	33
Completed contract	6	1	2	3
Not determinable	1	2	4	4

3.170

THE BOEING COMPANY AND SUBSIDIARIES (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars in millions)

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

Sales and Other Operating Revenues

Sales under fixed-price-type contracts are generally recognized as deliveries are made or at the completion of contractual billing milestones. For certain fixed-price contracts that require substantial performance over an extended period before deliveries begin, sales are recorded based upon attainment of scheduled performance milestones. Sales under cost-reimbursement-type contracts are recorded as costs are incurred. Certain U.S. Government contracts contain profit incentives based upon performance relative to predetermined targets. Incentives based on cost performance are recorded currently, and other incentives and fee awards are recorded when the amounts can be reasonably estimated. Commercial aircraft sales are recorded as deliveries are made unless transfer of risk and rewards of ownership is not sufficient. Income associated with customer financing activities is included in sales and other operating revenues.

Contract and Program Accounting

In the Military Aircraft and Missiles segment and Space and Communications segment, operations principally consist of performing work under contract, predominantly for the U.S. Government and foreign governments. Cost of sales for fixed-price-type contracts is determined based on the estimated average total contract cost and revenue. Cost of sales under cost-reimbursement-type contracts are recorded as costs are incurred.

Commercial aircraft programs are planned, committed and facilitized based on long-term delivery forecasts, normally for quantities in excess of contractually firm orders. Cost of sales for the 717, 737, 747, 757, 767 and 777 commercial aircraft programs is determined under the program method of accounting based on estimated average total cost and revenue for the current program quantity. The initial program quantity for the 717 program has been established at 200 units. The program method of accounting effectively amortizes or averages tooling and special equipment costs, as well as unit production costs, over the program quantity. Because of the higher unit production costs experienced at the beginning of a new program and the substantial investment required for initial tooling and special equipment, new commercial jet aircraft programs normally have lower operating profit margins than established programs. The estimated program average costs and revenues are reviewed and reassessed quarterly, and changes in estimates are recognized over current and future deliveries constituting the program quantity. Cost of sales for the MD-80, MD-90 and MD-11 aircraft programs is determined on a specific-unit cost method.

To the extent that inventoriable costs are expected to exceed the total estimated sales price, charges are made to current earnings to reduce inventoried costs to estimated realizable value.

3.171

CORDANT TECHNOLOGIES INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (In Part): Significant Accounting Policies

Revenue Recognition Under Long-Term Contracts

Propulsion Systems sales encompass products and services performed principally under contracts and subcontracts with various United States Government (government) agencies and aerospace prime contractors. Sales under cost-type contracts are recognized as costs are incurred and include a portion of total estimated earnings to be realized in the ratio that costs incurred relate to estimated total costs. Sales under fixed-price-type contracts are recognized when deliveries are made or upon completion of specified tasks. Cost or performance incentives are incorporated into certain contracts and are recognized when awards are earned, or when realization is reasonably assured and amounts can be estimated. The Company participates in teaming arrangements and records its share of sales and profits related to such ventures on the percentage of completion method. Adjustments in estimates, which can affect both revenues and earnings, are made in the period in which the information necessary to make the adjustment becomes available. Provisions for estimated losses on contracts are recorded when identified.

3.172

DELUXE CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (In Part): Significant Accounting Policies

Revenue Recognition

The Company records revenues and related profits for the majority of its operations as products are shipped or as services are performed. Revenues are recorded net of any applicable discounts. Transaction processing and service revenues and decision support revenues are generally recognized as the services are performed. Revenues from software license fees for standard software products are recognized when delivery has occurred, the license fee is fixed and determinable, collectibility is probable and evidence of the arrangement exists. Software maintenance and support revenues are recognized ratably over the term of the contract and/or as services are provided. Professional services revenues for software development, custom applications and business process management are generally recognized as the services are performed or proportionately based on the percentage of completion.

Long-Term Service Contracts

Long-term service contracts are definitive agreements to provide services over a period of time in excess of one year and with respect to which the Company has no contractual right to adjust the prices or terms at or on which its services are supplied during the term of the contract. Revenues are recognized for all long-term service contracts when the service is performed. Total revenues for some long-term service contracts may vary based on the demand for services. Expenses are recognized when incurred, with the exception of installation costs. Any installation costs are capitalized and recognized ratably over the life of the contract, which approximates the anticipated revenue recognition. Any equipment and software purchased to support a long-term service contract is capitalized and depreciated or amortized over the life of the related contract or the life of the asset, whichever is shorter.

In determining the profitability of a long-term service contract, only direct and allocable indirect costs associated with the contract are included in the calculation. The appropriateness of allocations of indirect costs depends on the circumstances and involves the judgment of management, but such costs may include the costs of indirect labor, contract supervision, tools and equipment, supplies, quality control and inspection, insurance, repairs and maintenance, depreciation and amortization and, in some circumstances, support costs. The method of allocating any indirect costs included in the analysis is also dependent upon the circumstances and the judgment of management, but the allocation method must be systematic and rational. General and administrative costs and selling costs are not included in the analysis. Provisions for estimated losses on long-term service contracts, if any, are made in the period in which the loss first becomes probable and reasonably estimable. Projected losses are based on management's best estimates of a contract's revenue and costs. Actual losses on individual long-term service contracts are compared to the loss projections periodically, with any changes in the estimated total contract loss recognized as they become probable and reasonably estimable.

Certain direct costs associated with the electronic benefits transfer (EBT) contracts discussed in Note 5 are common to a number of contracts and are attributed to each contract based on its use of the services associated with these common direct costs. Revenues, case counts or other applicable statistics are used to attribute these costs to individual contracts.

In the event an asset impairment loss is recognized on long-lived assets used to support a long-term service contract, the original estimation of the contract's costs is revised to reduce the depreciation and amortization associated with the impaired assets accordingly.

Note 5: Contract Losses

During 1998, the Company recorded charges of $14.7 million to provide for expected future losses on existing long-term contracts of the Government Services segment. These charges are reflected in cost of sales in the 1998 consolidated statement of income. Due to a continuing strong economy, record low unemployment and welfare reform, the actual transaction volumes and expected future revenues of this business are well below original expectations. Additionally, actual and expected future telecommunications, installation, help desk and other costs are significantly higher than originally anticipated. These factors resulted in expected future losses on the existing EBT contracts of this business.

During 1999, charges of $8.2 million were recorded to provide for additional expected future losses on the contracts of the Government Services segment. These charges are reflected in cost of sales in the 1999 consolidated statement of income. A majority of the charges resulted from the conclusion of settlement negotiations with a prime contractor regarding the timing and costs of transitioning switching services from the Company to a new processor. Also, lower than projected actual transaction volumes (primarily related to states fully rolled-out in 1999) contributed to the changes in the estimates underlying the 1998 charge. These increases to the reserve for accrued contract losses were partially offset by the applications of $2.3 million of contract losses against the reserve during 1999.

3.173

FOSTER WHEELER CORPORATION (DEC)

NOTES TO FINANCIAL STATEMENTS
(In thousands of dollars)

1 (In Part): Summary of Significant Accounting Policies

Revenue Recognition on Long-Term Contracts

The Engineering and Construction Group records profits on long-term contracts on a percentage-of-completion basis determined on the ratio of earned revenues to total contract price, after considering accumulated costs and estimated costs to complete each contract. Contracts in process are valued at cost plus accrued profits less earned revenues and progress payments on uncompleted contracts. Contracts of the Engineering and Construction Group are generally considered substantially complete when engineering is completed and/or field construction is completed. The Corporation includes pass-through revenue and costs on cost-plus contracts, which are customer-reimbursable materials, equipment and subcontractor costs when the Corporation determines that it is responsible for the engineering specification, procurement and management of such cost components on behalf of the customer.

The Energy Equipment Group primarily records profits on long-term contracts on a percentage-of-completion basis determined on a variation of the efforts-expended and the cost-to-cost methods, which include multiyear contracts that require significant engineering efforts and multiple delivery units. These methods are periodically subject to physical verification of the actual progress towards completion. Contracts of the Energy Equipment Group are generally considered substantially complete when manufacturing and/or field erection is completed.

The Corporation has numerous contracts that are in various stages of completion. Such contracts require estimates to determine the appropriate cost and revenue recognition. The Corporation has a substantial history of making reasonably dependable estimates of the extent of progress towards completion, contract revenues and contract costs. However, current estimates may be revised as additional information becomes available. If estimates of costs to complete long-term contracts indicate a loss, provision is made currently for the total loss anticipated. The elapsed time from award of a contract to completion of performance may be up to four years.

Certain special-purpose subsidiaries in the Power Systems Group are reimbursed for their costs, including repayment of project debt, for building and owning certain facilities over the lives of the service contracts. The Corporation records revenues relating to debt repayment obligations on these contracts on a straight-line basis over the lives of the service contracts, and records depreciation of the facilities on a straight-line basis over the estimated useful lives of the facilities, after consideration of the estimated residual value.

3.174

NORTHROP GRUMMAN CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (In Part)

Sales

Sales under cost-reimbursement, service, research and development, and construction-type contracts are recorded as costs are incurred and include estimated earned fees or profits calculated on the basis of the relationship between costs incurred and total estimated costs (cost-to-cost type of percentage-of-completion method of accounting). Construction-type contracts embrace those fixed-price type contracts that provide for the delivery at a low volume per year or a small number of units after a lengthy period of time over which a significant amount of costs have been incurred. Sales under other types of contracts are recorded as deliveries are made and are computed on the basis of the estimated final average unit cost plus profit (units-of-delivery type of percentage-of-completion method of accounting).

Certain contracts contain provisions for price redetermination or for cost and/or performance incentives. Such redetermined amounts or incentives are included in sales when the amounts can reasonably be determined. In the case of the B-2 bomber production contract, future changes in operating margin will be recognized on a units-of-delivery basis and recorded as each equivalent production unit is delivered. Amounts representing contract change orders, claims or limitations in funding are included in sales only when they can be reliably estimated and realization is probable. In the period in which it is determined that a loss will result from the performance of a contract, the entire amount of the estimated ultimate loss is charged against income. Loss provisions are first offset against costs that are included in assets, with any remaining amount reflected in Other Current Liabilities. Other changes in estimates of sales, costs and profits are recognized using the cumulative catch-up method of accounting. This method recognizes in the current period the cumulative effect of the changes on current and prior periods. Hence, the effect of the changes on future periods of contract performance is recognized as if the revised estimates had been the original estimates.

3.175

RAYTHEON COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note A (In Part): Accounting Policies

Revenue Recognition

Sales under long-term contracts are recorded under the percentage of completion method. Costs and estimated gross margins are recorded as sales as work is performed based on the percentage that incurred costs bear to estimated total costs utilizing the most recent estimates of costs and funding. Some contracts contain incentive provisions based upon performance in relation to established targets which are recognized in the contract estimates when deemed realizable. Since many contracts extend over a long period of time, revisions in cost and funding estimates during the progress of work have the effect of adjusting earnings applicable to performance in prior periods in the current period. When the current contract estimate indicates a loss, provision is made for the total anticipated loss in the current period.

Sales from the Texas Instruments' defense business fixed price contracts in process at the time of acquisition were recorded as products were shipped or services were rendered.

Revenue from aircraft sales are recognized at the time of physical delivery of the aircraft. Revenue from certain qualifying non-cancelable aircraft lease contracts are accounted for as sales-type leases. The present value of all payments, net of executory costs, are recorded as revenue, and the related costs of the aircraft are charged to cost of sales. Associated interest, using the interest method, is recorded over the term of the lease agreements. All other leases for aircraft are accounted for under the operating method wherein revenue is recorded as earned over the rental aircraft lives. Service revenue is recognized ratably over contractual periods or as services are performed.

DISCONTINUED OPERATIONS

3.176 Paragraph 8 of *APB Opinion No. 30* states:

> *Discontinued Operations of a Segment of a Business.* For purposes of this Opinion, the term *discontinued operations* refers to the operations of a segment of a business as defined in paragraph 13 that has been sold, abandoned, spun off, or otherwise disposed of or, although still operating, is the subject of a formal plan for disposal (see paragraph 14). The Board concludes that the results of continuing operations should be reported separately from discontinued operations and that any gain or loss from disposal of a segment of a business (determined in accordance with paragraphs 15 and 16) should be reported in conjunction with the related results of discontinued operations and not as an extraordinary item. Accordingly, operations of a segment that has been or will be discontinued should be reported separately as a component of income before extraordinary items and the cumulative effect of accounting changes (if applicable) in the following manner:

Income from continuing operations before income taxes	$XXXX	
Provision for income taxes	XXX	
Income from continuing operations		$XXXX
Discontinued operations (Note__):		
Income (loss) from operations of discontinued Division X (less applicable income taxes of $__)	$XXXX	
Loss on disposal of Division X, including provision of $__ for operating losses during phase-out period (less applicable income taxes of $__)	XXXX	XXXX
Net income		$XXXX

Amounts of income taxes applicable to the results of discontinued operations and the gain or loss from disposal of the segment should be disclosed on the face of the income statement or in related notes. Revenues applicable to the discontinued operations should be separately disclosed in the related notes.

3.177 Illustrations of transactions which should and should not be accounted for as business segment disposals are presented in Section I13 of *FASB Accounting Standards—Current Text.*

3.178 In 1999, 59 survey companies discontinued or planned to discontinue the operations of a business segment. Examples of discontinued operations accounted for as a disposal of a business segment follow.

Business Segment Disposals

3.179

GEORGIA GULF CORPORATION (DEC)

(In thousands)	1999	1998	1997
Income from continuing operations before income taxes	$67,969	$90,172	$99,836
Provision for income taxes	24,808	33,587	37,813
Income from continuing operations	43,161	56,585	62,023
Discontinued operation			
(Loss)/earnings from discontinued operation, net	(2,525)	(306)	19,178
Loss on disposal of discontinued operation, net	(7,631)	—	—
Net income	$33,005	$56,279	$81,201

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. Discontinued Operation

On September 2, 1999, we announced our decision to exit the methanol business at the end of 1999. In connection with the discontinuance of the methanol business, we incurred a one-time charge of $7,631,000, net of income tax benefits, related to the write-off of the methanol plant assets, net of expected proceeds, and an accrual for estimated losses during the phase-out period. The methanol plant remains idle and we intend to dismantle the facility at some time in the future. A number of methanol sales contracts have been assigned, and our methanol customer list has been sold. Proceeds from actual and future sales of the methanol railcars, customer list and other discontinued plant assets are estimated to be $2,900,000. The disposition of the methanol operations represents the disposal of a business segment under Accounting Principles Board ("APB") Opinion No. 30. Accordingly, results of this operation have been classified as discontinued, and prior periods have been restated, including the reallocation of fixed overhead charges to other business segments. For business segment reporting purposes, the methanol business results were previously classified as the segment "Gas Chemicals."

Net sales and income from the discontinued operation are as follows:

(In thousands)	1999	1998	1997
Net sales	$ 26,181	$49,726	$ 94,266
Pretax (loss) income from discontinued operation	$ (3,976)	$ (487)	$ 30,932
Pretax loss on disposal of business segment	(12,017)	—	—
Income tax benefit (expense)	5,837	181	(11,754)
Net (loss) income from discontinued operation	$(10,156)	$ (306)	$ 19,178

Assets and liabilities of the discontinued operation were as follows:

(In thousands)	1999	1998
Current assets	$3,553	$ 4,536
Property, plant and equipment, net	—	12,956
Current liabilities	(3,110)	(1,189)
Long-term liabilities	—	(2,984)
Net assets of discontinued operation	$ 443	$13,319

3.180

MAGNETEK, INC. (JUN)

(Amounts in thousands)	1999	1998	1997
Income (loss) from continuing operations before extraordinary items	$(22,877)	$16,239	$14,562
Discontinued operations—			
Income from operations (net of taxes)	10,362	21,637	14,189
Gain on disposal (net of taxes)	50,988	—	—
Extraordinary item—loss on early extinguishment of debt (net of taxes)	—	—	(4,676)
Net income	$ 38,473	$37,876	$24,075

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(All amounts in the notes to consolidated financial statements are expressed in thousands)

3. Discontinued Operations

In April, 1999, the Company sold its Generator business to Emerson Electric. Subsequent to fiscal year-end in August, 1999, the Company sold its Motor business to A. O. Smith. The results of those businesses have been reflected as Discontinued Operations in the accompanying consolidated financial statements.

The operating results of discontinued operations are as follows:

	1999	1998	1997
Net sales	$460,194	$487,815	$453,502
Income before provision for income taxes	15,162	33,837	23,589
Provision for income taxes	4,800	12,200	9,400
Income from discontinued operations	$ 10,362	$ 21,637	$ 14,189

A portion of the Company's interest expense has been allocated to discontinued operations based upon the debt balance attributable to those operations (interest expense allocated to discontinued operations was $17.0 million in fiscal 1999, $14.4 million in fiscal 1998 and $24.4 million in fiscal 1997). Taxes have been allocated using the same overall rate incurred by the Company in each of the fiscal years presented.

The accompanying financial statements have been restated to conform to discontinued operations treatment for all historical periods presented. During the year ended June 30, 1999, the Company completed the sale of the Generator business for $115 million of pre-tax proceeds. The Motor business was sold on August 2, 1999 for $253 million of pre-tax proceeds. Both transactions are subject to post closing adjustments. Proceeds from the sales were used to repay borrowings outstanding under the Bank Loan Agreement.

Net income for the year ended June 30, 1999 includes a $50,988 (net of taxes of $24,000) after-tax gain on the sale of the Company's Generator business included in discontinued operations. Subsequent to fiscal year end, the Company sold the Motor business and will recognize a gain on sale in the first quarter of fiscal year 2000. Continuing operations in fiscal 1999 include charges aggregating $34,400 relating to downsizing, inventory adjustments, severance costs and other asset write-downs.

Adjustment of Gain/Loss Reported in Prior Period

3.181

SPAN-AMERICA MEDICAL SYSTEMS, INC. (SEP)

	1999	1998	1997
Income from continuing operations	$132,359	$1,411,986	$1,370,221
Income from discontinued operations, net of income taxes of $201,000 (1999), $91,000 (1998) and $146,000 (1997) (Note 2)	365,270	153,530	241,695
Net income	$497,629	$1,565,516	$1,611,916

NOTES TO FINANCIAL STATEMENTS

2. Sale of Contract Packaging Business Unit

On February 27, 1998, the Company sold substantially all of the assets of its contract packaging business unit. The purchase price for the contract packaging assets was $2.3 million, with $1.84 million paid in cash at closing and the remainder financed by Span-America over five years. No gain or loss was recorded at the time of the sale due to the uncertainty of collectibility of the amount financed.

The Company's earnings for the year ended October 2, 1999, include a one-time gain of $365,270, net of income taxes, or $0.14 per diluted share related to this sale. The purchasers of the business unit chose an early payment option on an outstanding warrant and note due to the Company. Because the Company assigned no value to the amount of the note and warrant at closing, the early payment resulted in a one-time gain. The gain, net of taxes, is shown as income from discontinued operations.

Operating results of the discontinued contract packaging operations are as follows:

	1999	1998	1997
Net sales	$ —	$3,170,055	$6,420,292
Income before income taxes	—	244,530	387,695
Gain on sale of business unit	566,270	—	—
Provision for income taxes	201,000	91,000	146,000
Income from discontinued operations	$365,270	$ 153,530	$ 241,695

3.182

SPARTON CORPORATION & SUBSIDIARIES (JUN)

	1999	1998	1997
Income from continuing operations	$1,759,081	$4,333,117	$ 2,241,903
Discontinued operations (Note 9):			
Loss from discontinued automotive operations, net of income tax credit of ($72,000) in 1997	—	—	(128,720)
Gain (loss) on disposal of discontinued automotive operations, net of applicable income tax credits of $1,480,000 and $680,000 in 1999 and 1998, respectively, and a tax provision of $18,122,000 in 1997	(2,520,000)	(1,320,000)	31,587,357
Net income (loss)	$ (760,919)	$3,013,117	$33,700,540

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9. Discontinued Operations

In August 1996, the Company formalized its decision to offer for sale its automotive operations. Accordingly, related operating results have been reported as discontinued operations. In December 1996, the Company sold substantially all of the net assets and operations of the Sparton Engineered Products, Inc.–KPI Group (KPI) which comprised approximately 80% of the automotive operations of the Company. This sale did not include the net assets and operations of the remaining automotive unit, Sparton Engineered Products, Inc.–Flora Group (Flora). The Company pursued the sale of the Flora operations since the August 1996 decision was made. During this protracted period, a number of events occurred that negatively impacted the potential value of the Flora Group including continued unplanned operating losses, loss of personnel, tornado damage to the plant on April 15, 1998 and loss of a major customer. In April 1998, the Company abandoned attempts to finalize a sale agreement with a party with whom negotiations had been ongoing for some 16 months. At June 30, 1998, based upon then-available information, the Company adjusted its recorded reserve for discontinued operations by an additional charge for loses anticipated in the disposal of these businesses.

At its meeting on August 28, 1998, the Board of Directors approved the closing of the Flora operation and an orderly liquidation of its assets. In December 1998, all production ceased. An auction of inventory and equipment was held in January 1999. It had been expected that both inventory and equipment would be sold in groupings by product lines and that 75% or more of the book value of inventory and equipment would be recovered. However, anticipated sales of various product lines did not materialize. At auction individual items were sold essentially for scrap value. As a result, a pre-tax charge to discontinued operations of $4,000,000 ($2,520,000 after tax) was recorded in the third quarter of fiscal 1999. An auction in February 1999 did not generate sufficient interest and the real estate is held for sale. At June 30, 1999, approximately $959,000 is accrued for the costs associated with the sale of the remaining assets and other open issues associated with the discontinued automotive operations as shown below.

For purposes of balance sheet presentation, the current and noncurrent assets and liabilities of discontinued operations have been netted. The presentation at June 30, 1998 has been reclassified to conform to that of June 30, 1999 amounts.

Operating results of discontinued automotive operations are as follows and are classified as such through August 1996, the date the Company formalized its plan to offer for sale its automotive operations.

	1997
Revenues	$30,461,930
Loss before income taxes	$ (200,720)
Income tax credits	72,000
Net loss	$ (128,720)

Assets and liabilities of discontinued automotive operations are as follows at June 30, 1999 and 1998:

	1999	1998
Current assets	$ 169,553	$7,036,482
Current liabilities	(958,851)	(4,134,635)
Net	$(789,298)	$2,901,847
Noncurrent assets	$ 598,976	$2,808,360
Noncurrent liabilities	—	(58,301)
Net	$ 598,976	$2,750,059

CHARGES OR CREDITS SHOWN AFTER INCOME TAX CAPTION

3.183 Table 3-16 indicates the nature of charges or credits, other than extraordinary items, positioned on an income statement after the caption for income taxes applicable to income from continuing operations. Examples of charges or credits shown after the caption for income taxes applicable to income from continuing operations follow.

3.184

TABLE 3-16: CHARGES OR CREDITS SHOWN AFTER INCOME TAX CAPTION

	Number of Companies			
	1999	1998	1997	1996
Minority interest	97	101	87	86
Equity in earnings or losses of investees	44	37	34	36
Cumulative effect of accounting change	41	32	30	5
Other*	6	10	10	9

* For the current year, other captions consisted of distributions on trust preferred securities and restructuring charges from joint ventures.

3.185

ECOLAB INC. (DEC)

(Thousands)	1999	1998	1997
Income from continuing operations before income taxes and equity in earnings of Henkel-Ecolab	$267,238	$240,238	$205,867
Provision for income taxes	109,769	101,782	85,345
Equity in earnings of Henkel-Ecolab	18,317	16,050	13,433
Income from continuing operations	175,786	154,506	133,955

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7. Henkel-Ecolab

The Company and Henkel KGaA, Düsseldorf, Germany, each own 50 percent of Henkel-Ecolab, a joint venture of their respective European institutional and industrial cleaning and sanitizing businesses. Henkel-Ecolab's results of operations and the Company's equity in earnings of Henkel-Ecolab included:

(Thousands)	1999	1998	1997
Henkel-Ecolab			
Net sales	$937,817	$904,217	$844,689
Gross profit	526,486	500,107	470,698
Income before income taxes	82,529	65,946	63,640
Net income	$ 46,643	$ 38,540	$ 33,701
Ecolab equity in earnings			
Ecolab equity in net income	$ 23,322	$ 19,270	$ 16,851
Ecolab royalty income from Henkel-Ecolab, net of income taxes	2,570	4,550	4,583
Amortization expense for the excess of cost over the underlying net assets of Henkel-Ecolab	(7,575)	(7,770)	(8,001)
Equity in earnings of Henkel-Ecolab	$ 18,317	$ 16,050	$ 13,433

The Company's investment in Henkel-Ecolab includes the unamortized excess of the Company's investment over its equity in Henkel-Ecolab's net assets. This excess was $117 million at December 31, 1999, and is being amortized on a straight-line basis over estimated economic useful lives of up to 30 years.

Condensed balance sheet information for Henkel-Ecolab was:

(Thousands)	1999	1998	1997
Current assets	$351,189	$368,604	$345,692
Noncurrent assets	177,855	179,188	145,601
Current liabilities	246,411	242,630	224,155
Noncurrent liabilities	$ 73,807	$ 82,097	$ 77,303

3.186

H.B. FULLER COMPANY AND SUBSIDIARIES (NOV)

(In thousands)	1999	1998	1997
Income before income taxes, minority interests and accounting change	$ 74,426	$ 32,786	$ 65,320
Income taxes	(31,807)	(18,826)	(26,651)
Minority interests in consolidated income	(1,033)	(117)	644
Income from equity investments	2,525	2,147	995
Income before cumulative effect of accounting change	44,111	15,990	40,308
Cumulative effect of accounting change	(741)	—	(3,368)
Net income	$ 43,370	$ 15,990	$ 36,940

EXTRAORDINARY ITEMS

3.187 *APB Opinion No. 30* defines extraordinary items as "events and transactions that are distinguished by their unusual nature and by the infrequency of their occurrence," and states that an event or transaction "should be presumed to be an ordinary and usual activity of the reporting entity, the effects of which should be included in income from operations, unless the evidence clearly supports its classification as an extraordinary item as defined in this Opinion." *Opinion No. 30* and a related *AICPA Accounting Interpretation* illustrate events and transactions which should and should not be classified as extraordinary items. These examples are reprinted in Section I17 of *FASB Accounting Standards—Current Text. Statement of Financial Accounting Standards No. 4* specifies that material debt extinguishment gains and losses be classified as extraordinary items.

3.188 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 1999 by the survey companies were debt extinguishments—10 at a gain, 45 at a loss. Examples of the presentation and disclosure of extraordinary items follow.

3.189

TABLE 3-17: EXTRAORDINARY ITEMS

	1999	1998	1997	1996
Nature				
Debt extinguishments	56	73	62	60
Other*	6	2	3	5
Total Extraordinary Items	**62**	**75**	**65**	**65**
Number of Companies				
Presenting extraordinary items	61	74	64	63
Not presenting extraordinary items	539	526	536	537
Total Companies	**600**	**600**	**600**	**600**

* For the current year, the nature of the other items included casualty losses and gains from asset disposals.

Debt Extinguishments

3.190

INGRAM MICRO INC. (DEC)

(Dollars in 000s)	1999	1998	1997
Income before extraordinary item	$179,641	$245,175	$193,640
Extraordinary gain on repurchase of debentures, net of $2,405 in income taxes	3,778	—	—
Net income	$183,419	$245,175	$193,640

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars in 000s, except per share data)

Note 7 (In Part): Long-Term Debt

On June 9, 1998, the Company sold $1,330,000 aggregate principal amount at maturity of its Zero Coupon Convertible Senior Debentures due 2018 in a private placement. The Company subsequently registered the resale of these debentures with the SEC. Gross proceeds from the offering were $460,400. The debentures were sold at an issue price of $346.18 per $1,000 principal amount at maturity (representing a yield to maturity of 5.375% per annum), and are convertible into shares of the Company's Class A Common Stock at a rate of 5.495 shares per $1,000 principal amount at maturity, subject to adjustment under certain circumstances. In March 1999, the Company repurchased Zero Coupon Convertible Senior Debentures with a carrying value of $56,504 as of the repurchase date for approximately $50,321 in cash. The debenture repurchase resulted in an extraordinary gain of $3,778 (net of $2,405 in income taxes).

3.191

SEQUA CORPORATION AND SUBSIDIARIES (DEC)

(Amounts in thousands)	1999	1998	1997
Income before extraordinary item	$27,799	$63,897	$19,627
Extraordinary loss on early retirement of debt, net of, tax benefit of $3,087 (Note 9)	(5,732)	—	—
Net income	$22,067	$63,897	$19,627

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 9 (In Part): Indebtedness

On October 15, 1999, Sequa retired the $138,519,000 principal amount of 9⅝% Senior Notes then due. On December 15, 1999, the date on which the call premiums decreased by a total of $3,925,000, Sequa retired the entire $80,638,000 principal amount outstanding of its 8¾% Senior Notes and the entire $138,335,000 principal amount outstanding of its 9⅜% Senior Subordinated Notes. An extraordinary loss of $5,732,000 was incurred as a result of the early retirement of debt, consisting of $5,902,000 of retirement premiums and the $2,917,000 write-off of associated debt issuance costs, net of a tax benefit of $3,087,000.

EARNINGS PER SHARE

3.192 Effective for periods ending after December 15, 1997, *Statement of Financial Accounting Standards No. 128* supersedes *APB Opinion No. 15.* The reporting and disclosure requirements of *SFAS No. 128* are stated in paragraphs 36–42. Examples of earnings per share presentations follow.

3.193

ALLEGHENY TECHNOLOGIES INCORPORATED AND SUBSIDIARIES (DEC)

(In millions except per share amounts)	1999	1998	1997
Income from continuing operations before extraordinary gains	$111.0	$155.0	$230.4
Income from discontinued operations, net of income taxes	59.6	86.2	98.4
Extraordinary gains on sales of operations, net of income taxes	129.6	—	—
Net income	$300.2	$241.2	$328.8
Basic net income per common share:			
Income from continuing operations before extraordinary gains	$ 1.17	$ 1.57	$ 2.34
Income from discontinued operations	0.62	0.88	1.00
Extraordinary gains on sales of operations	1.36	—	—
Basic net income per common share	$ 3.15	$ 2.45	$ 3.34
Diluted net income per common share:			
Income from continuing operations before extraordinary gains	$ 1.16	$ 1.56	$ 2.30
Income from discontinued operations	0.62	0.87	0.98
Extraordinary gains on sales of operations	1.35	—	—
Diluted net income per common share	$ 3.13	$ 2.43	$ 3.28

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Reverse Stock Split

At a stockholders' meeting held on November 11, 1999, the Company's stockholders approved a reduction in the authorized number of shares of the Company's common stock and a one-for-two reverse stock split of the common stock. The reverse stock split was effective immediately following the spin-offs of Teledyne Technologies Incorporated and Water Pik Technologies, Inc. on November 29, 1999. Stockholders' equity has been restated to give retroactive recognition to the reverse stock split for all periods presented by reclassifying from common stock to additional paid-in capital the par value of the number of shares that were eliminated as a result of the reverse stock split. In addition, all references in the financial statements and notes to the number of shares and per share amounts, stock option data and market prices have been restated to reflect this reverse stock split.

Net Income Per Common Share

Basic earnings per share is calculated by dividing net income available to common stockholders by the weighted average of common shares outstanding during the year. Diluted earnings per share is calculated by using the weighted average of common shares outstanding adjusted to include the potentially dilutive effect of outstanding stock options.

Note 14. Earnings Per Share

The following table sets forth the computation of basic and diluted net income per common share:

(In millions except per share amounts)	1999	1998	1997
Numerator:			
Income from continuing operations before extraordinary gains	$111.0	$155.0	$230.4
Income from discontinued operations	59.6	86.2	98.4
Extraordinary gains on sales of operations	129.6	—	—
Numerator for basic and diluted net income per common share—net income	$300.2	$241.2	$328.8
Denominator:			
Weighted average shares	95.3	98.2	98.2
Contingent issuable stock	0.1	0.2	0.1
Denominator for basic net income per common share	95.4	98.4	98.3
Effect of dilutive securities:			
Employee stock options	0.5	0.8	1.8
Dilutive potential common shares	0.5	0.8	1.8
Denominator for diluted net income per common share—adjusted weighted average shares and assumed conversions	95.9	99.2	100.1
Basic net income per common share:			
Income from continuing operations before extraordinary gains	$ 1.17	$ 1.57	$ 2.34
Income from discontinued operations	0.62	0.88	1.00
Extraordinary gains on sales of operations	1.36	—	—
Basic net income per common share	$ 3.15	$ 2.45	$ 3.34
Diluted net income per common share:			
Income from continuing operations before extraordinary gains	$ 1.16	$ 1.56	$ 2.30
Income from discontinued operations	0.62	0.87	0.98
Extraordinary gains on sales of operations	1.35	—	—
Diluted net income per common share	$ 3.13	$ 2.43	$ 3.28

Weighted average shares issuable upon the exercise of stock options which were not included in the calculation were 2.3 million in 1999 and 1.2 million in 1998 because they were antidilutive.

3.194

INTERFACE, INC. AND SUBSIDIARIES (DEC)

(In thousands, except share data)	1999	1998	1997
Net income	$23,545	$29,823	$37,514
Earnings per common share[1]			
Basic	$ 0.45	$ 0.58	$ 0.79
Diluted	$ 0.45	$ 0.56	$ 0.76

[1] 1997 earnings per share have been restated to reflect a two-for-one stock split that occurred in June 1998.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Earnings Per Share

Basic earnings per share is computed by dividing net income by the weighted average number of shares of Class A and Class B Common Stock outstanding during each year. Shares issued during the year and shares reacquired during the year are weighted for the portion of the year that they were outstanding. Diluted earnings per share is computed in a manner consistent with that of basic earnings per share while giving effect to all potentially dilutive common shares that were outstanding during the period.

The following is a reconciliation from basic earnings per share to diluted earnings per share for each of the last three years:

(In thousands, except earnings per share)	Net Income	Weighted Average Shares Outstanding	Earnings Per Share
1999			
Basic	$23,545	52,562	$.45
Effect of dilution:			
Stock options		241	
Diluted	$23,545	52,803	$.45
1998			
Basic	$29,823	51,808	$.58
Effect of dilution:			
Stock options and awards		1,927	
Diluted	$29,823	53,735	$.56
1997			
Basic	$37,514	47,416	$.79
Effect of dilution:			
Stock options and awards		1,546	
Convertible debt	153	340	
Diluted	$37,667	49,302	$.76

In 1999, 1,817,309 stock options were excluded from the computation of diluted earnings per share due to their antidilutive effect.

3.195

INTERNATIONAL MULTIFOODS CORPORATION AND SUBSIDIARIES (FEB)

(In thousands, except per share data)	1999	1998	1997
Earnings (loss) from continuing operations	$ 6,832	$24,674	$(11,374)
Discontinued operations:			
Operating earnings (loss), after tax	(14,068)	(4,650)	14,154
Net loss on disposition, after tax	(124,634)	—	—
Earnings (loss) from discontinued operations	(138,702)	(4,650)	14,154
Net earnings (loss)	$(131,870)	$20,024	$ 2,780
Basic earnings (loss) per share:			
Continuing operations	$ 0.36	$ 1.34	$ (0.63)
Discontinued operations	(7.39)	(0.25)	0.78
Total	$ (7.03)	$ 1.09	$ 0.15
Diluted earnings (loss) per share:			
Continued operations	$ 0.36	$ 1.33	$ (0.63)
Discontinued operations	(7.34)	(0.25)	0.78
Total	$ (6.98)	$ 1.08	$ 0.15
Average shares of common stock outstanding:			
Basic	18,759	18,385	17,982
Diluted	18,903	18,619	17,982

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Earnings Per Share

Basic earnings per share are computed by dividing net earnings by the weighted average shares outstanding during the reporting period. Diluted earnings per share are computed similar to basic earnings per share except that the weighted average shares outstanding are increased to include additional shares from the assumed exercise of stock options, if dilutive. The number of additional shares is calculated by assuming that outstanding stock options were exercised and that the proceeds from such exercises were used to acquire shares of common stock at the average market price during the reporting period.

The computations for basic and diluted earnings (loss) per share from continuing operations are as follows:

(In thousands, except per share data)	1999	1998	1997
Earnings (loss) from continuing operations	$6,832	$24,674	$(11,374)
Average shares of common stock outstanding:			
Basic	18,759	18,385	17,982
Effect of stock options	144	234	—
Diluted	18,903	18,619	17,982
Earnings (loss) per share from continued operations:			
Basic	$ 0.36	$ 1.34	$ (0.63)
Diluted	0.36	1.33	(0.63)

3.196

TEXTRON INC. (DEC)

(In millions except per share amounts)	1999	1998	1997
Income from continuing operations	$ 623	$ 443	$372
Discontinued operations, net of income taxes:			
Income from operations	—	165	186
Gain on disposal	1,646	—	—
	1,646	608	558
Income before extraordinary loss	2,269	608	558
Extraordinary loss from debt retirement, net of income taxes	(43)	—	—
Net income	$2,226	$608	$558
Per common share:			
Basic:			
Income from continuing operations	$4.14	$2.74	$2.25
Discontinued operations, net of income taxes	10.94	1.03	1.13
Extraordinary loss from debt retirement, net of income taxes	(.28)	—	—
Net income	$14.80	$3.77	$3.38
Diluted:			
Income from continuing operations	$ 4.05	$2.68	$2.19
Discontinued operations, net of income taxes	10.70	1.00	1.10
Extraordinary loss from debt retirement, net of income taxes	(.27)	—	—
Net income	$14.48	$3.68	$3.29

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

11 (In Part): Shareholders' Equity

Income Per Common Share

A reconciliation of income from continuing operations and basic to diluted share amounts is presented below.

	1999		1998		1997	
(Dollars in millions, shares in thousands)	Income	Average Shares	Income	Average Shares	Income	Average Shares
Income from continuing operations	$623		$443		$372	
Less: preferred stock dividends	(1)		(1)		(1)	
Basic						
Available to common shareholders	622	150,389	442	161,254	371	164,830
Dilutive effect of convertible preferred stock and stock options	1	3,365	1	4,120	1	4,673
Diluted						
Available to common shareholders and assumed conversions	$623	153,754	$443	165,374	$372	169,503

3.197

THE TJX COMPANIES, INC. (JAN)

(Dollars in thousands except per share amounts)	2000	1999	1998
			(53 weeks)
Income from continuing operations before extraordinary item and cumulative effect of accounting change	$526,822	$433,202	$306,592
(Loss) from discontinued operations, net of income taxes	—	(9,048)	—
Income before extraordinary item and cumulative effect of accounting change	526,822	424,154	306,592
Extraordinary (charge), net of income taxes	—	—	(1,777)
Cumulative effect of accounting change, net of income taxes	(5,154)	—	—
Net income	521,668	424,154	304,815
Preferred stock dividends	—	3,523	11,668
Net income available to common shareholders	$521,668	$420,631	$293,147
Basic earnings per share:			
Income from continuing operations before extraordinary item and cumulative effect of accounting change	$ 1.67	$ 1.35	$ .92
Net income	$ 1.66	$ 1.32	$ .91
Weighted average common shares—basic	314,577,145	318,073,081	321,474,046
Diluted earnings per share:			
Income from continuing operations before extraordinary item and cumulative effect of accounting change	$ 1.66	$ 1.29	$ .88
Net income	$ 1.64	$ 1.27	$ .87
Weighted average common shares—diluted	317,790,764	334,647,950	349,612,184
Cash dividends declared per share	$ .14	$ .12	$ .10

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Summary of Accounting Policies (In Part)

Earnings Per Share

All earnings per share amounts discussed refer to diluted earnings per share unless otherwise indicated. All historical earnings per share amounts reflect the June 1998 and June 1997 two-for-one stock splits.

G (In Part): Capital Stock and Earnings Per Share

Capital Stock

The Company distributed a two-for-one stock split, effected in the form of a 100% stock dividend, on June 25, 1998 to shareholders of record on June 11, 1998, which resulted in the issuance of 158.9 million shares of common stock and corresponding decreases of $96.5 million in additional paid-in capital and $62.4 million in retained earnings. Similar transfers were made between additional paid-in capital and common stock in the amount of $79.8 million, reflecting the two-for-one stock split of June 26, 1997 to shareholders of record on June 11, 1997. All historical earnings per share amounts have been restated to reflect both two-for-one stock splits. Reference to common stock activity before the distribution of the related stock split has not been restated unless otherwise noted. All activity after the distribution date reflects the two-for-one stock splits.

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Earnings Per Share

The following schedule presents the calculation of basic and diluted earnings per share for income from continuing operations:

(Dollars in thousands except per share amounts)	2000	1999	1998
			(53 weeks)
Basic earnings per share:			
Income from continuing operations before extraordinary item and cumulative effect of accounting change	$ 526,822	$ 433,202	$ 306,592
Less preferred stock dividends	—	3,523	11,668
Income from continuing operations before extraordinary item and cumulative effect of accounting change available to common shareholders	$ 526,822	$ 429,679	$ 294,924
Weighted average common stock outstanding for basic earnings per share	314,577,145	318,073,081	321,474,046
Basic earnings per share	$ 1.67	$ 1.35	$ .92
Diluted earnings per share:			
Income from continuing operations before extraordinary item and cumulative effect of accounting change available to common shareholders	$ 526,822	$ 429,679	$ 294,924
Add preferred stock dividends	—	3,523	11,668
Income from continuing operations before extraordinary item and cumulative effect of accounting change for diluted earnings per share calculation	$ 526,822	$ 433,202	$ 306,592
Weighted average common stock outstanding for basic earnings per share	314,577,145	318,073,081	321,474,046
Assumed conversion of:			
Convertible preferred stock	—	10,914,354	24,032,172
Stock options and awards	3,213,619	5,660,515	4,105,966
Weighted average common shares for diluted earnings per share calculation	317,790,764	334,647,950	349,612,184
Diluted earnings per share	$1.66	$1.29	$.88

The weighted average common shares for diluted earnings per share calculation at January 29, 2000 excludes the incremental effect related to outstanding stock options whose exercise price is in excess of the average price of the Company's stock of $28.50 for the fiscal year. These options are excluded due to their antidilutive effect at January 29, 2000.

Section 4: Comprehensive Income

PRESENTATION IN ANNUAL REPORT

4.01 Effective for fiscal years beginning after December 15, 1997, *Statement of Financial Accounting Standards No. 130* requires that a full set of general-purpose financial statements report comprehensive income and its components. Comprehensive income includes net income, foreign currency items, minimum pension liability adjustments, and unrealized gains and losses on certain investments in debt and equity securities. If an entity has only net income, it is not required to report comprehensive income. *SFAS No. 130* "encourages" reporting comprehensive income in either a combined statement of income and comprehensive income or in a separate statement of comprehensive income.

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

	1999	1998
Reporting format:		
Included in statement of changes in stockholders' equity	406	272
Separate statement of comprehensive income	65	61
Separate statement of income and comprehensive income	26	14
	497	**347**
No comprehensive income reported	103	253
Total Companies	**600**	**600**
Tax effect disclosure, in any statement:		
Amount of tax effect allocated to each component	81	N/C*
Amount of tax effect allocated to some, but not all, components	54	N/C*
Total amount of tax effect	32	N/C*
	167	N/C*
Tax effect not disclosed in any statement	268	95
	435	N/C*
Tax effect disclosed only in notes, not in any statement	62	84
	497	**347**
No comprehensive income reported	103	253
Total Companies	**600**	**600**

* N/C = Not compiled. 1998 was the first year comprehensive income data was begun to be compiled, and of the 347 companies which reported comprehensive income, 80 companies disclosed the tax effect in a statement. 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 and shows 1999 data only. 1998 was the first year comprehensive income data was begun to be compiled, and none of the data in Table 4-2 was compiled for that year in the format below.

4.06

TABLE 4-2: COMPREHENSIVE INCOME—REPORTING STATEMENT TITLE

	1999
Comprehensive income reported in a statement of income and comprehensive income, or in a statement of comprehensive income	
Comprehensive income	71
Comprehensive income (loss)	14
Comprehensive loss	3
Comprehensive earnings	1
Statement title does not refer to comprehensive income	2
	91
Comprehensive income reported in a statement of changes in stockholders' equity	
Statement title does not refer to comprehensive income	350
Statement title does refer to comprehensive income	56
	406
No comprehensive income reported	103
Total Companies	**600**

4.07 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.

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)	1999	1998	1997
Common stock			
Balance, beginning of year	$ 249.4	$ 124.7	$ 124.7
Two-for-one stock split	—	124.7	—
Balance, end of year	249.4	249.4	124.7
Capital in excess of par value			
Balance, beginning of year	329.2	453.0	461.2
Issuance of treasury shares and shares in trust for benefit and stock option and award plans, 2,194,464 shares in 1999, 677,844 shares in 1998, and 1,254,990 shares in 1998	(1.0)	(11.2)	(26.8)
Tax benefit of stock option and award plans	13.3	12.1	18.6
Two-for-one stock split	—	(124.7)	—
Balance, end of year	341.5	329.2	453.0
Retained earnings			
Balance, beginning of year	3,400.0	2,990.2	2,687.2
Net income	450.5	546.8	429.3
Cash dividends—common stock, $.70 per share in 1999, $.64 per share in 1998, and $.58 per share in 1997, restated	(148.7)	(137.0)	(126.3)
Balance, end of year	3,701.8	3,400.0	2,990.2
Unrealized gain on investments			
Balance, beginning of year	5.0	6.9	40.4
Change in unrealized gain, net of income tax expense of $4.9 in 1999 and income tax benefits of $1.0 in 1998, and $18.4 in 1997	8.9	(1.9)	(33.5)
Balance, end of year	13.9	5.0	6.9
Minimum pension liability adjustments			
Balance, beginning of year	(14.3)	—	—
Adjustments during year, net of income tax expense of $5.7 in 1999 and income tax benefit of $8.6 in 1998	9.5	(14.3)	—
Balance, end of year	(4.8)	(14.3)	—
Cumulative translation adjustments			
Balance, beginning of year	(222.2)	(186.1)	(70.2)
Translation adjustments, net of income tax expense of $2.2 in 1999 and income tax benefits of $13.8 in 1998 and $8.7 in 1997	(61.3)	(36.1)	(115.9)
Balance, end of year	(283.5)	(222.2)	(186.1)
Treasury stock			
Balance, beginning of year	(657.9)	(297.3)	(211.2)
Issuance of treasury shares for benefit and stock option and award plans, 371 shares in 1999, 108,975 shares in 1998, and 942,550 shares in 1997	—	5.3	48.9
Purchase of treasury shares, 620,000 in 1999, 6,835,394 in 1998, and 1,918,465 in 1997	(24.6)	(365.0)	(135.0)
Balance, end of year	(681.6)	(657.0)	(297.3)
Shares in trust			
Balance, beginning of year	(422.8)	(443.3)	(457.5)
Issuance of shares in trust for benefit and stock option and award plans, 2,194,093 shares in 1999, 568,869 shares in 1998, and 312,440 shares in 1997	47.7	20.5	14.2
Balance, end of year	(375.1)	(422.8)	(443.3)
Total shareholders' equity	$2,961.6	$2,667.3	$2,648.1

4.09

BAKER HUGHES INCORPORATED (DEC)

Consolidated Statements of Stockholders' Equity

				Accumulated Other Comprehensive Income (Loss)				
(In millions, except per share amounts)	Common Stock	Capital in Excess of Par Value	Retained Earnings (Deficit)	Foreign Currency Translation Adjustment	Unrealized Gain (Loss) on Securities Available for Sale	Pension Liability Adjustment	Treasury Stock	Total
			(As Restated See Note 19)					(As Restated See Note 19)
Balance, September 30, 1996 as previously reported	$289.5	$2,448.4	$542.1	$(106.3)	$19.3	$ —	$(2.1)	$3,190.9
Prior period adjustment (see Note 19)			(27.3)					(27.3)
Balance, September 30, 1996	289.5	2,448.4	514.8	(106.3)	19.3		(2.1)	3,163.6
Comprehensive income:								
Net income (as restated—see Note 19)			25.4					
Other comprehensive income (loss) (net tax of $1.1, $22.3 and $1.9, respectively)				(29.8)	41.4	(3.5)		
Total comprehensive income								33.5
Drilex pooling of interest	2.7	46.9	5.7					55.3
Spin-off of UNOVA (see Note 3)		(513.1)	(77.9)	(8.8)				(599.8)
Cash dividends ($.46 per share)			(69.6)					(69.6)
Petrolite and other acquisitions	20.2	758.4						778.6
Stock issued pursuant to employee stock plans	4.1	87.9					13.5	105.5
Treasury stock purchase							(11.4)	(11.4)
Balance, September 30, 1997	316.5	2,828.5	398.4	(144.9)	60.7	(3.5)	—	3,455.7
Comprehensive income:								
Net income (as restated—see Note 19)			114.2					
Other comprehensive income (loss) (net of tax of $1.6 and $10.3, respectively)				(15.6)	(22.6)			
Total comprehensive income								76.0
Cash dividends ($.115 per share)			(19.5)					(19.5)
Stock issued pursuant to employee stock plans	0.3	5.5						5.8
Adjustment for change in year end			(34.6)					(34.6)
Balance, December 31, 1997	316.8	2,834.0	458.5	(160.5)	38.1	(3.5)	—	3,483.4
Comprehensive income:								
Net loss (as restated—see Note 19)			(296.1)					
Other comprehensive income (loss) (net tax of $0.5, $22.5 and $0.5, respectively)				5.1	(38.2)	(0.9)		
Total comprehensive loss								(330.1)
Cash dividends ($.46 per share)			(96.3)					(96.3)
Stock issued pursuant to employee stock plans	10.3	97.8						108.1
Balance, December 31, 1998	327.1	2,931.8	66.1	(155.4)	(0.1)	(4.4)	—	3,165.1
Comprehensive income:								
Net income			33.3					
Other comprehensive income (loss) (net of tax of $2.0, $0.04 and $0.9, respectively)				(30.2)	0.1	1.7		
Total comprehensive income								4.9
Cash dividends ($.46 per share)			(150.9)					(150.9)
Stock issued pursuant to employee stock plans	2.7	49.3						52.0
Balance, December 31, 1999	$329.8	$2,981.1	$(51.5)	$(185.6)	$ —	$(2.7)	$ —	$3,071.1

4.10

NCR CORPORATION (DEC)

Consolidated Statements of Changes in Stockholders' Equity

(In millions)	Common Stock Shares	Common Stock Amount	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total
December 31, 1996	101	$1	$1,394	$ —	$ 1	$1,396
Employee stock purchase and stock compensation plans	2	—	44	—	—	44
Subtotal	103	1	1,438	—	1	1,440
Net income	—	—	—	7	—	7
Other comprehensive income, net of tax:						
Currency translation adjustments	—	—	—	—	(79)	(79)
Unrealized gains on securities:						
Unrealized holding gains arising during the period	—	—	—	—	6	6
Less: reclassification adjustment for gains included in net income	—	—	—	—	(9)	(9)
Additional minimum pension liability	—	—	—	—	(12)	(12)
Comprehensive income (loss)	—	—	—	7	(94)	(87)
December 31, 1997	103	1	1,438	7	(93)	1,353
Employee stock purchase and stock compensation plans	2	—	57	—	—	57
Purchase of Company common stock	(6)	—	(200)	—	—	(200)
Subtotal	99	1	1,295	7	(93)	1,210
Net income	—	—	—	122	—	122
Other comprehensive income, net of tax:						
Currency translation adjustments	—	—	—	—	95	95
Unrealized gains on securities:						
Unrealized holding gains arising during the period	—	—	—	—	9	9
Less: reclassification adjustment for gains included in net income	—	—	—	—	(4)	(4)
Additional minimum pension liability	—	—	—	—	15	15
Comprehensive income	—	—	—	122	115	237
December 31, 1998	99	1	1,295	129	22	1,447
Employee stock purchase and stock compensation plans	3	—	80	—	—	80
Proceeds from sale of put options	—	—	1	—	—	1
Reclassification of put option obligation	—	—	(13)	—	—	(13)
Purchase of Company common stock	(8)	—	(282)	—	—	(282)
Subtotal	94	1	1,081	129	22	1,233
Net income	—	—	—	337	—	337
Other comprehensive income, net of tax:						
Currency translation adjustments	—	—	—	—	(13)	(13)
Unrealized gains on securities:						
Unrealized holding gains arising during the period	—	—	—	—	54	54
Less: reclassification adjustment for gains included in net income	—	—	—	—	(14)	(14)
Additional minimum pension liability	—	—	—	—	(1)	(1)
Comprehensive income	—	—	—	337	26	363
December 31, 1999	94	$1	$1,081	$466	$48	$1,586

Separate Statement of Comprehensive Income

4.11

DELUXE CORPORATION (DEC)

Consolidated Statements of Comprehensive Income

(Dollars in thousands)	1999	1998	1997
Net income	$203,022	$143,063	$44,672
Other comprehensive (loss) income, net of tax:			
Foreign currency translation adjustments	(555)	177	(1,135)
Unrealized gains on securities:			
Unrealized holding gains arising during the year	4	116	
Less reclassification adjustments for gains included in net income	(489)	(46)	
Other comprehensive (loss) income	(1,040)	247	(1,135)
Comprehensive income	$201,982	$143,310	$43,537
Related tax benefit (expense) of other comprehensive income:			
Foreign currency translation adjustments	$ 333	$ (124)	$ 1,790
Unrealized gains on securities:			
Unrealized holding gains arising during the year	(2)	(61)	
Less reclassification adjustments for gains included in net income	263	24	

4.12

MCDERMOTT INTERNATIONAL, INC. (MAR)

Consolidated Statement of Comprehensive Income (Loss)

(In thousands)	1999	1998	1997
Net income (loss)	$153,362	$215,690	$(206,105)
Other comprehensive income (loss):			
Currency translation adjustments:			
Foreign currency translation adjustments	(856)		
Foreign currency translation adjustments, net of reclassification adjustments		(3,689)	(11,271)
Reclassification adjustments for sales of investments in foreign entities in fiscal year 1999	15,596		
Minimum pension liability adjustment, net of taxes of $791,000, $1,547,000 and $480,000 in fiscal years 1999, 1998 and 1987, respectively	(1,058)	(2,582)	(720)
Unrealized gains (losses) on investments:			
Unrealized gains (losses) arising during the period, net of taxes of $3,000 in fiscal year 1999	1,887		
Unrealized gains (losses), net of reclassification adjustments arising during the period, net of taxes of $360,000 and $85,000 in fiscal years 1998 and 1997, respectively		4,807	(2,257)
Reclassification adjustment for (gains) losses included in net income, net of taxes of $11,000 in fiscal year 1999	(1,656)		
Other comprehensive income (loss)	13,913	(1,464)	(14,249)
Comprehensive income (loss)	$167,275	$214,226	$(220,353)

4.13

SCI SYSTEMS, INC. (JUN)

Consolidated Statements of Comprehensive Income

(In thousands of dollars)	1999	1998	1997
Net income	$137,848	$145,085	$112,713
Currency translation (loss) gain	(7,146)	623	1,902
Tax benefit (expense)	2,615	(240)	(770)
Other comprehensive income	(4,531)	383	1,132
Comprehensive income	$133,317	$145,468	$113,845

4.14

SOLECTRON CORPORATION AND SUBSIDIARIES (AUG)

Consolidated Statements of Comprehensive Income

(In millions)	1999	1998	1997
Net income	$293.9	$198.8	$158.1
Other comprehensive income (loss):			
Foreign currency translation adjustments, net of income tax benefit of $0.4 in 1999	(80.5)	3.7	(12.4)
Unrealized loss on investments, net of income tax benefit of $0.6 in 1999	(1.0)	—	—
Comprehensive income	$212.4	$202.5	$145.7

NOTE: Accumulated foreign currency translation losses were $87.5 million at August 31, 1999, $7.0 million at August 31, 1998, and $10.7 at August 31, 1997. For fiscal year 1999, the foreign currency translation loss primarily resulted from the devaluation of the Brazilian real. Most of Solectron's foreign currency translation adjustment amounts relate to investments which are permanent in nature. To the extent that such amounts related to investments which are permanent in nature, no adjustment for income taxes is made. Accumulated unrealized losses on investments were $1.0 million at August 31, 1999.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

(n) Recent Account Pronouncements: Effective in the first quarter of fiscal 1999, Solectron adopted Statement of Financial Accounting Standards No. 130 (SFAS No. 130), "Reporting Comprehensive Income," which requires the Company to report and display certain information related to comprehensive income. Comprehensive income includes net income and other comprehensive income. Other comprehensive income is classified separately into foreign currency items, minimum pension liability adjustments, and unrealized gains and losses on certain investments in debt and equity securities. The adoption of SFAS No. 130 had no impact on Solectron's financial position, results of operations or cash flows.

4.15

W. R. GRACE & CO. AND SUBSIDIARIES (DEC)

Consolidated Statement of Comprehensive Income (Loss)

(Dollars in millions)	1999	1998	1997
Net income (loss)	$135.9	$(183.6)	$261.0
Other comprehensive income (loss):			
Foreign currency translation adjustments	(19.3)	(7.2)	(134.2)
Net unrealized gains on investments	1.5	16.5	—
Minimum pension liability adjustments	2.8	(10.6)	—
Total other comprehensive (loss)	(15.0)	(1.3)	(134.2)
Comprehensive income (loss)	$120.9	$(184.9)	$126.8

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in millions unless otherwise stated)

18. Comprehensive Income (Loss)

The tables below present the pre-tax, tax and after-tax components of the Company's other comprehensive income (loss) for the years ended December 31, 1999 and 1998:

Year Ended December 31, 1999	Pre-tax Amount	Tax (Expense) Benefit	After Tax Amount
Unrealized gains on security:			
Change in unrealized appreciation during year	$ 11.5	$ (4.0)	$ 7.5
Reclassification adjustment for gains realized in net income	(9.3)	3.3	(6.0)
Net unrealized gains	2.2	(0.7)	1.5
Minimum pension liability adjustments	4.4	(1.6)	2.8
Foreign currency translation adjustments	(19.3)	—	(19.3)
Other comprehensive loss	$(12.7)	$ (2.3)	$(15.0)
Year Ended December 31, 1998			
Unrealized gains on security:			
Change in unrealized appreciation during year	$ 29.5	$(10.3)	$ 19.2
Reclassification adjustment for gains realized in net income	(4.1)		(2.7)
Net unrealized gains		(8.9)	16.5
Minimum pension liability adjustments	(20.0)	9.4	(10.6)
Foreign currency translation adjustments	(7.2)	—	(7.2)
Other comprehensive loss	$ (1.8)	$ 0.5	$ (1.3)

Combined Statement of Net Income and Comprehensive Income

4.16

ABBOTT LABORATORIES AND SUBSIDIARIES (DEC)

Consolidated Statement of Earnings and Comprehensive Income

(Dollars and shares in thousands except per share data)	1999	1998	1997
Net Sales	$13,177,625	$12,512,734	$11,889,283
Cost of products sold	5,977,183	5,406,635	5,052,313
Research and development	1,193,963	1,228,777	1,307,362
Selling, general and administrative	2,857,104	2,759,757	2,695,758
Total operating cost and expenses	10,028,250	9,395,169	9,055,433
Operating earnings	3,149,375	3,117,565	2,833,850
Net interest expense	81,765	102,540	85,543
Income from TAP Holdings Inc. joint venture	(390,152)	(266,347)	(189,497)
Net foreign exchange (gain) loss	26,238	31,158	(9,048)
Other (income) expense, net	34,636	8,349	12,267
Earnings before taxes	3,396,888	3,241,865	2,934,585
Taxes on earnings	951,129	907,512	855,484
Net earnings	$ 2,445,759	$ 2,334,353	$ 2,079,101
Basic earnings per common share	$1.59	$1.52	$1.34
Diluted earnings per common share	$ 1.57	$ 1.50	$ 1.32
Average number of common shares outstanding used for basic earnings per common share	1,536,762	1,537,242	1,553,811
Dilutive common stock options	20,893	23,716	22,161
Average number of common shares outstanding plus dilutive common stock options	1,557,655	1,560,958	1,575,072
Outstanding common stock options having no dilutive effect	1,807	657	2,216
Comprehensive income:			
Foreign currency translation adjustments	$ (172,517)	$ 1,504	$ (183,886)
Tax benefit related to foreign currency translation adjustments	1,286	441	—
Unrealized gains (loss) on marketable equity securities	(10,548)	1,000	3,067
Tax benefit (expense) related to unrealized gains (loss) on marketable equity securities	4,171	(396)	(1,210)
Other comprehensive income (loss), net of tax	(177,608)	2,549	(182,029)
Net earnings	2,445,759	2,334,353	2,079,101
Comprehensive income	$ 2,268,151	$ 2,336,902	$ 1,897,072
Supplemental comprehensive income information:			
Cumulative foreign currency translation loss adjustments, net of tax	$ 431,942	$ 260,711	$ 262,656
Cumulative unrealized (gains) on marketable equity securities, net of tax	(26,641)	(33,018)	(32,414)

4.17

HECLA MINING COMPANY AND SUBSIDIARIES (DEC)

Consolidated Statements of Operations and Comprehensive Loss

(Dollars and shares in thousands, except per share amounts)	1999	1998	1997
Sales of products	$163,614	$159,231	$163,948
Cost of sales and other direct production costs	129,476	127,933	126,742
Depreciation, depletion and amortization	23,417	22,206	21,009
	152,893	150,139	147,751
Gross profit	10,721	9,092	16,197
Other operating expenses			
General and administrative	7,449	7,583	7,976
Exploration	5,934	4,866	7,422
Depreciation and amortization	321	389	311
Provision for (benefit from) closed operations and environmental matters	30,100	734	(724)
Reduction in carrying value of mining properties	4,577	—	715
	43,381	13,572	15,700
Income (loss) from operations	(37,660)	(4,480)	497
Other income (expense)			
Interest and other income	5,063	5,917	4,621
Miscellaneous expense	(1,581)	(1,487)	(1,643)
Gain (loss) on investments	(96)	1,136	(405)
Interest expense			
Interest costs	(4,635)	(3,261)	(2,462)
Less amount capitalized	19	959	806
	(1,230)	3,264	917
Income (loss) before income taxes and cumulative effect of change in accounting principle	(38,890)	(1,216)	1,414
Income tax benefit (provision)	285	916	1,897
Loss before cumulative effect of change in accounting principle	(38,605)	(300)	(483)
Cumulative effect of change in accounting principle, net of tax	(1,385)	—	—
Net loss	(39,990)	(300)	(483)
Preferred stock dividends	(8,050)	(8,050)	(8,050)
Loss applicable to common shareholders	(48,040)	(8,350)	(8,533)
Other comprehensive income (loss), net of tax			
Unrealized gains (losses) on securities	13	(115)	(351)
Reclassification adjustment for losses included in net loss	96	96	320
Minimum pension liability adjustment	289	(289)	—
Other comprehensive income (loss)	398	(308)	(31)
Comprehensive loss applicable to common shareholders	$ (47,642)	$ (8,658)	$ 8,564)
Basic and diluted loss per common share before cumulative effect of change in accounting principle	$ (0.75)	$ (0.15)	$ (0.16)
Cumulative effect of change in accounting principle	$ (0.02)	—	—
Basic and diluted loss per common share	$ (0.77)	$ (0.15)	$ (0.16)
Weighted average number of common shares outstanding	62,347	55,101	54,763

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 14 (In Part): Other Comprehensive Loss

Due to the availability of net operating losses, there is no tax effect associated with any component of other comprehensive loss.

4.18

NACCO INDUSTRIES, INC. AND SUBSIDIARIES (DEC)

Consolidated Statements of Income and Comprehensive Income

(In millions, except per share data)	1999	1998	1997
Revenues	$2,602.8	$2,536.2	$2,246.9
Cost of sales	2,118.1	2,020.7	1,825.9
Gross profit	484.7	515.5	421.0
Selling, general and administrative expenses	337.0	301.1	265.2
Amortization of goodwill	15.2	14.7	15.8
Restructuring charges	1.2	1.6	8.0
Operating profit	131.3	198.1	132.0
Other income (expense)			
Interest expense	(43.3)	(34.6)	(36.6)
Other—net	(1.4)	2.5	(6.3)
	(44.7)	(32.1)	(42.9)
Income before income taxes, minority interest and cumulative effect of accounting change	86.6	166.0	89.1
Provision for income taxes	31.7	60.7	26.4
Income before minority interest and cumulative effect of accounting change	54.9	105.3	62.7
Minority interest	(.6)	(3.0)	(.9)
Income before cumulative effect of accounting change	54.3	102.3	61.8
Cumulative effect of accounting change (net of $0.6 tax benefit)	(1.2)	—	—
Net income	$ 53.1	$ 102.3	$ 61.8
Other comprehensive income			
Foreign currency translation adjustment	$ (11.9)	$ 3.6	$ (8.5)
Minimum pension liability adjustment, net of $2.3 tax in 1999; ($1.4) tax in 1998; $0.4 tax in 1997	3.8	(2.4)	.6
	(8.1)	1.2	(7.9)
Comprehensive income	$ 45.0	$ 103.5	$ 53.9
Basic earnings per share			
Income before cumulative effect of accounting change	$ 6.67	$ 12.56	$ 7.56
Cumulative effect of accounting change, net-of-tax	(.15)	—	—
Net income	$ 6.52	$ 12.56	$ 7.56
Diluted earnings per share			
Income before cumulative effect of accounting change	$ 6.66	$ 12.53	$ 7.55
Cumulative effect of accounting change, net-of-tax	(.15)	—	—
Net income	$ 6.51	$ 12.53	$ 7.55

TAX EFFECT DISCLOSURE

4.19

BAKER HUGHES INCORPORATED (DEC)

Consolidated Statements of Stockholders' Equity

(In millions, except per share amounts)	Common Stock	Capital in Excess of Par Value	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income (Loss): Foreign Currency Translation Adjustment	Accumulated Other Comprehensive Income (Loss): Unrealized Gain (Loss) on Securities Available for Sale	Accumulated Other Comprehensive Income (Loss): Pension Liability Adjustment	Treasury Stock	Total
Balance, December 31, 1998	$327.1	$2,931.8	$ 66.1	$(155.4)	$(0.1)	$(4.4)	$—	$3,165.1
Comprehensive income:								
Net income			33.3					
Other comprehensive income (loss) (net of tax of $2.0, $0.04 and $0.9, respectively)				(30.2)	0.1	1.7		
Total comprehensive income								4.9
Cash dividends ($.46 per share)			(150.9)					(150.9)
Stock issued pursuant to employee stock plans	2.7	49.3						52.0
Balance, December 31, 1999	$329.8	$2,981.1	$(51.5)	$(185.6)	$ —	$(2.7)	$—	$3,071.1

4.20

GENERAL MOTORS CORPORATION (DEC)

Consolidated Statements of Stockholders' Equity

(Dollars in millions)	Total Capital Stock	Capital Surplus	Comprehensive Income	Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
Balance at December 31, 1998	$1,104	$12,661		$6,984	$(5,697)	$15,052
Shares reacquired (Note 18)	(76)	(3,794)		—	—	(3,870)
Shares issued	19	3,588		—	—	3,607
Comprehensive income:						
Net income	—	—	$ 6,002	6,002	—	6,002
Other comprehensive income (loss) (Note 18):						
Foreign currency translation adjustments	—	—	(944)	—	—	—
Unrealized gains on securities	—	—	515	—	—	—
Minimum pension liability adjustment	—	—	4,968	—	—	—
Other comprehensive income	—	—	4,539	—	4,539	4,539
Comprehensive income	—	—	$10,451	—	—	—
Cash dividends (Note 20)	—	—		(1,367)	—	(1,367)
Delphi initial public offering (Note 2)	—	1,244		—		1,244
Delphin spin-off (Note 2)	—	95		(4,658)	—	(4,563)
Balance at December 31, 1999	$1,047	$13,794		$6,961	$(1,158)	$20,644

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 18 (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 (in millions):

Years ended December 31,	1999			1998			1997		
	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	$(1,519)	$ (575)	$ (944)	$ (280)	$ (1)	$ (279)	$(1,140)	$(448)	$ (692)
Unrealized gain (loss) on securities:									
Unrealized holding gain	998	372	626	38	(14)	52	272	114	158
Reclassification adjustment	(171)	(60)	(111)	(115)	(40)	(75)	(118)	(41)	(77)
Net unrealized gain (loss)	827	312	515	(77)	(54)	(23)	154	73	81
Minimum pension liability adjustment	7,980	3,012	4,968	(1,657)	(630)	(1,027)	(906)	(334)	(572)
Other comprehensive income (loss) from continuing operations	$ 7,288	$2,749	$4,539	$(2,014)	$(685)	$(1,329)	$(1,892)	$(709)	$(1,183)

4.21

HARSCO CORPORATION (DEC)

Consolidated Statement of Stockholders' Equity

	Common			Accumulated Other Comprehensive Income (Expense)				
(In thousands, except share amounts)	Issued	Treasury	Additional Paid-in Capital	Translation	Net Unrealized Investment Gains/ (Losses)	Pension Liability	Total	Retained Earnings
Balances, December 31, 1998	$82,594	$(529,462)	$85,384	$(51,391)	$—	$(3,654)	$(55,045)	$1,101,828
Net income								90,713
Cash dividends declared, $.91 per share								(36,955)
Translation adjustments				(27,273)			(27,273)	
Pension liability adjustments, net of ($1,277) deferred income taxes						1,780	1,780	
Acquired during the year, 2,326,798 shares		(66,441)						
Stock options exercised, 146,164 shares	183		2,740					
Other, 2,497 shares		98	(23)					
Balances, December 31, 1999	$82,777	$(595,805)	$88,101	$(78,664)	$—	$(1,874)	$(80,538)	$1,155,586

4.22

SPRINGS INDUSTRIES, INC. (DEC)

Consolidated Statement of Shareholders' Equity

(In thousands)	Total Shareholders' Equity	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Class A Common Stock	Class B Common Stock	Additional Paid-in Capital	Class A Stock Held in Treasury
Balance at January 2, 1999	$724,116	$631,943	$(10,524)	$2,682	$1,799	$100,446	$(2,230)
Comprehensive income:							
Net income	68,961	68,961	—	—	—	—	—
Other comprehensive income, before tax:							
Foreign currency translation adjustment	910	—	910	—	—	—	—
Minimum pension liability adjustment	689	—	689	—	—	—	—
Income tax expense related to items of other comprehensive income	(278)	—	(278)	—	—	—	—
Total comprehensive income, net of tax	70,282						
Exchange of Class B common stock for Class A common stock	—	—	—	10	(10)	—	—
Shares awarded under various employee plans	933	—	—	6	—	878	49
Exercise of stock options	2,274	—	—	14	—	2,260	—
Dividends declared	(22,734)	(22,734)	—	—	—	—	—
Balance at January 1, 2000	$774,871	$678,170	$ (9,203)	$2,712	$1,789	$103,584	$(2,181)

ACCUMULATED BALANCES FOR OTHER COMPREHENSIVE INCOME

4.23 *SFAS No. 130* requires that a separate caption for accumulated other comprehensive income be presented in the equity section of a balance sheet. Accumulated balances, 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.

4.24 Table 4-3 summarizes the captions used to describe comprehensive income in the stockholders' equity section of the balance sheet and shows 1999 data only. 1998 was the first year comprehensive income data was begun to be compiled, and none of the data in Table 4-3 was compiled for that year in the format below.

4.25 Table 4-4 shows where accumulated component balances are presented and shows 1999 data only. 1998 was the first year comprehensive income data was begun to be compiled, and none of the data in Table 4-4 was compiled for that year in the format below.

4.26 Examples showing the disclosure of accumulated balances for other comprehensive income items follows.

4.27

TABLE 4-3: ACCUMULATED OTHER COMPREHENSIVE INCOME—BALANCE SHEET CAPTION

	1999
Accumulated Other Comprehensive Income	176
Accumulated Other Comprehensive Loss	120
Accumulated Other Comprehensive Income (Loss)	108
Accumulated Other Non-Owner Changes in Equity	6
Accumulated Other Comprehensive Earnings	2
Other captions	14
	426
Accumulated balance by component presented	77
	503
No accumulated other comprehensive income	97
Total Companies	**600**

4.28

TABLE 4-4: ACCUMULATED OTHER COMPREHENSIVE INCOME—PRESENTATION OF COMPONENT BALANCES

	1999
Statement of changes in stockholders' equity	335
Notes to financial statements	94
Stockholders' equity section of the balance sheet	77
	506
No accumulated other comprehensive income	94*
Total Companies	**600**

* Of the 97 survey companies that did not present accumulated other comprehensive income as a balance sheet caption (in Table 4-3 above), 3 survey companies did present accumulated other comprehensive income elsewhere in the annual report to stockholders.

Statement of Changes in Stockholders' Equity

4.29

APPLE COMPUTER, INC. (SEP)

Consolidated Statements of Shareholders' Equity

(In millions, except share and per share amounts)	Preferred Stock Shares (In thousands)	Preferred Stock Amount	Common Stock Shares (In thousands)	Common Stock Amount	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balances as of September 27, 1996	—	$ —	124,497	$ 439	$1,634	$ (15)	$2,058
Components of comprehensive income (loss):							
Net loss	—	—	—	—	(1,045)	—	(1,045)
Foreign currency translation	—	—	—	—	—	(22)	(22)
Total comprehensive income (loss)							(1,067)
Common stock issued under stock option and purchase plans and in connection with the acquisition of NeXT	—	—	3,452	59	—	—	59
Series A non-voting convertible preferred stock issued	150	150	—	—	—	—	150
Balances as of September 26, 1997	150	150	127,949	498	589	(37)	1,200
Components of comprehensive income (loss):							
Net income	—	—	—	—	309	—	309
Foreign currency translation	—	—	—	—	—	(2)	(2)
Total comprehensive income (loss)							307
Common stock issued under stock option and purchase plans	—	—	3,085	41	—	—	41
Common stock issued in connection with the acquisition of certain assets of PCC	—	—	4,159	80	—	—	80
Tax benefit related to disqualifying dispositions of stock options	—	—	—	14	—	—	14
Balances as of September 25, 1998	150	150	135,193	633	898	(39)	1,642
Components of comprehensive income (loss):							
Net income	—	—	—	—	601	—	601
Foreign currency translation	—	—	—	—	—	3	3
Unrealized gain on available-for-sale securities, net of tax	—	—	—	—	—	318	318
Reclassification adjustment for gains on available-for-sale securities included in net income	—	—	—	—	—	(176)	(176)
Total comprehensive income (loss)							746
Common stock issued under stock option and purchase plans	—	—	4,124	86	—	—	86
Common stock issued in connection with the Company's redemption of long-term debt	—	—	22,642	654	—	—	654
Common stock repurchased	—	—	(1,250)	(75)	—	—	(75)
Tax benefit related to disqualifying dispositions of stock options	—	—	—	51	—	—	51
Balances as of September 25, 1999	150	$150	160,799	$1,349	$1,499	$106	$3,104

4.30

ARCHER DANIELS MIDLAND COMPANY (JUN)

Consolidated Statements of Shareholders' Equity

(In thousands)	Common Stock Shares	Common Stock Amount	Reinvested Earnings	Accumulated Other Comprehensive Income: Foreign Currency Translation	Accumulated Other Comprehensive Income: Unrealized Net Gains on Marketable Securities	Total Shareholders' Equity
Balance July 1, 1996	545,812	$3,869,875	$2,169,281	$ (34,041)	$139,697	$6,144,812
Comprehensive income						
Net earnings			377,309			
Foreign currency translation				(73,393)		
Change in unrealized net gains on marketable securities					(19,199)	
Total comprehensive income						284,717
Cash dividends paid—$.17 per share			(106,990)			(106,990)
5% stock divided	26,565	594,590	(594,590)			—
Treasury stock purchases	(16,707)	(312,525)				(312,525)
Other	2,195	40,381	(266)			40,115
Balance June 30, 1997	557,874	4,192,321	1,844,744	(107,434)	120,498	6,050,129
Comprehensive income						
Net earnings			403,609			
Foreign currency translation				(108,551)		
Change in unrealized net gains on marketable securities					1,187	
Total comprehensive income						296,245
Cash dividends paid—$.18 per share			(111,551)			(111,551)
5% stock divided	28,534	473,948	(473,948)			—
Treasury stock purchases	(3,767)	(81,154)				(81,154)
Common stock issued in purchase acquisition	13,953	298,244				298,244
Other	2,627	53,290	(291)			52,999
Balance June 30, 1998	599,221	4,936,649	1,662,563	(215,985)	121,685	6,504,912
Comprehensive income						
Net earnings			265,964			
Foreign currency translation				(83,842)		
Change in unrealized net gains on marketable securities					(83,842)	
Total comprehensive income						100,263
Cash dividends paid—$.19 per share			(117,089)			(117,089)
5% stock divided	29,180	391,889	(391,889)			—
Treasury stock purchases	(19,867)	(313,829)				(313,829)
Other	4,261	66,611	(228)			66,383
Balance June 30, 1999	612,785	$5,081,320	$1,419,321	$(299,827)	$ 39,826	$6,240,640

Notes to Financial Statements

4.31

AMERICAN GREETINGS CORPORATION (FEB)

(Thousands of dollars)	1999	1998
Shareholders' equity		
Common shares—par value $1:		
Class A—71,717,174 shares issued less 7,283,846 Treasury shares in 1999 and 71,321,420 shares issued less 4,417,399 Treasury shares in 1998	$ 64,433	$ 66,904
Class B—6,066,096 shares issued less 1,405,711 Treasury shares in 1999 and 6,066,096 shares issued less 1,787,665 Treasury shares in 1998	4,660	4,278
Capital in excess of par value	304,086	290,820
Treasury stock	(320,492)	(200,380)
Accumulated other comprehensive loss	(23,565)	(23,437)
Retained earnings	1,317,489	1,207,032
	$1,346,611	$1,345,217

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Thousands of dollars except per share amounts)

Note D: Comprehensive Income

In 1999, the Corporation adopted Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income" (SFAS No. 130). SFAS No. 130 establishes new rules for the reporting and display of comprehensive income and its components; however, the adoption of this statement had no impact on the Corporation's net income or shareholders' equity. SFAS No. 130 requires other comprehensive income to include foreign currency translation adjustments and unrealized gains on available-for-sale securities, which prior to adoption were reported separately in shareholders' equity.

Accumulated other comprehensive income (loss) consists of the following components:

	Foreign Currency Translation Adjustments	Unrealized Gains on Available-For-Sale Securities	Comprehensive Income (Loss)
Balance at March 1, 1996	$(24,202)		$(24,202)
Other comprehensive income	4,556		4,556
Balance at February 28, 1997	(19,646)		(19,646)
Other comprehensive loss	(3,791)		(3,791)
Balance at February 28, 1998	(23,437)		(23,437)
Other comprehensive income (loss)	(6,819)	$6,691	(128)
Balance at February 28, 1999	$(30,256)	$6,691	$(23,565)

4.32

CUMMINS ENGINE COMPANY, INC. (DEC)

(Millions, except per share amounts)	1999	1998
Shareholders' investment:		
Common stock, $2.50 par value, 48.3 and 48.1 shares issued	$ 121	$ 120
Additional contributed capital	1,129	1,121
Retained earnings	760	648
Accumulated other comprehensive income	(109)	(167)
Common stock in treasury, at cost, 6.8 and 6.1 shares	(274)	(240)
Common stock held in trust for employee benefit plans, 3.4 and 3.6 shares	(163)	(172)
Unearned compensation	(35)	(38)
	$1,429	$1,272

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 15 (In Part): Comprehensive Income

The components of accumulated other comprehensive income are as follows:

$ Millions)	Foreign Currency Translation Adjustments	Unrealized Losses on Securities	Minimum Pension Liability Adjustments	Accumulated Other Comprehensive Income
Balance at December 31, 1996	$ (47)	$—	$(13)	$ (60)
Change in 1997	(21)	(1)	12	(10)
Balance at December 31, 1997	(68)	(1)	(1)	(70)
Change in 1998	(43)	—	(54)	(97)
Balance at December 31, 1998	(111)	(1)	(55)	(167)
Change in 1999	4	(1)	55	58
Balance at December 31, 1999	$(107)	$ (2)	$ —	$(109)

Equity Section of Balance Sheet

4.33

BECKMAN COULTER, INC. (DEC)

(In millions, except amounts per share)	1999	1998
Stockholders' equity:		
Preferred stock, $0.10 par value; authorized 10.0 shares; none issued	—	—
Common stock, $0.10 par value; authorized 75.0 shares; shares issued 29.1 at 1999 and 1998; shares outstanding 29.0 at 1999 and 28.4 at 1998	2.9	2.9
Additional paid-in capital	134.5	131.9
Retained earnings	123.0	35.4
Accumulated other comprehensive loss:		
Cumulative foreign currency translation adjustments	(24.3)	(13.9)
Treasury stock, at cost	(8.2)	(29.4)
Total stockholders' equity	227.9	126.9

4.34

FANSTEEL INC. (DEC)

	1999	1998
Stockholders' equity:		
Preferred stock without par value		
Authorized and unissued 1,000,000 shares	—	—
Common stock, par value $2.50		
Authorized 12,000,000 shares; issued and outstanding 8,698,858 shares in 1999 and 8,598,858 shares in 1998	21,747,145	21,497,145
Capital in excess of par value	316,000	—
Unamortized cost of restricted stock awards	(392,136)	—
Retained earnings	34,745,161	30,829,632
Other comprehensive income		
Minimum pension liability	—	(4,778,714)
Foreign currency translation	766	(973)
Total other comprehensive income	766	(4,779,687)
Total shareholders' equity	56,416,936	47,547,090

Section 5: Stockholders' Equity

GENERAL

5.01 This section reviews the presentation of transactions, other than net income (loss) for the year, affecting stockholders' equity.

RETAINED EARNINGS

PRESENTATION OF CHANGES IN RETAINED EARNINGS

5.02 Paragraph 152 of *Statement of Financial Accounting Standards No. 95* states that a complete set of financial statements includes a presentation of "results of operations." Paragraph 7 of *APB Opinion No. 9* states that a statement of income and a statement of retained earnings "are designed to reflect" results of operations. As shown in Table 5-1, which summarizes the presentation formats used by the survey companies to present changes in retained earnings, changes in retained earnings are most frequently presented in a Statement of Stockholders' Equity. Examples of statements showing changes in retained earnings are presented throughout this section.

5.03

TABLE 5-1: PRESENTATION OF CHANGES IN RETAINED EARNINGS

	1999	1998	1997	1996
Statement of stockholders' equity	534	562	521	505
Separate statement of retained earnings	41	15	26	32
Combined statement of income and retained earnings	8	7	12	15
Schedule in notes	17	16	41	48
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 25% 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 13 survey companies issuing stock purchase rights during 1999, 2 companies 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			
	1999	1998	1997	1996
Cash Dividends Paid to Common Stock Shareholders				
Per share amount disclosed in retained earnings statements	253	253	256	268
Per share amount not disclosed in retained earnings statements	168	182	182	178
Total	**421**	**435**	**438**	**446**
Cash Dividends Paid to Preferred Stock Shareholders				
Per share amount disclosed in retained earnings statements	19	22	28	37
Per share amount not disclosed in retained earnings statements	57	61	70	89
Total	**76**	**83**	**98**	**126**
Dividends Paid by Pooled Companies	1	1	1	2
Stock Dividends	18	9	7	7
Dividends in Kind	2	10	14	16
Stock Purchase Rights	13	42	13	36

Cash Dividends

5.08

ABBOTT LABORATORIES AND SUBSIDIARIES (DEC)

Consolidated Statement of Shareholders' Investment

(Dollars in thousands except per share data)	1999	1998	1997
Common shares:			
Beginning of year			
Shares: 1999: 1,548,382,682; 1998: 1,560,865,737; 1997: 1,580,928,032	$1,310,500	$ 985,575	$ 751,619
Issued shares: 1999: 9,000,000; 1997: 1,350,000	329,490	—	19,417
Issued under incentive stock programs			
Shares: 1999: 11,476,536; 1998: 13,929,668; 1997: 15,463,343	240,897	259,058	179,208
Tax benefit from option shares and vesting of restricted stock awards (no share effect)	62,458	85,070	53,866
Retired—Shares: 1999: 4,188,788; 1998: 26,412,723; 1997: 36,875,638	(3,672)	(19,203)	(18,535)
End of year			
Shares: 1999: 1,564,670,440; 1998: 1,548,382,682; 1997: 1,560,865,737	$1,939,673	$1,310,500	$ 985,575
Common shares held in treasury:			
Beginning of year			
Shares: 1999: 17,710,838; 1998: 18,280,398; 1997: 19,177,264	$ (46,735)	$ (48,238)	$ (50,605)
Private transaction in 1999			
Shares purchased: 5,099,720			
Shares issued: 4,985,475	(211,822)	—	—
Issued under incentive stock programs			
Shares: 1999: 174,249; 1998: 569,560; 1997: 896,866	801	1,503	2,367
End of year			
Shares: 1999: 17,650,834; 1998: 17,710,838; 1997: 18,280,398	$ (257,756)	$ (46,735)	$ (48,238)
Unearned compensation—restricted stock awards:			
Beginning of year	$ (25,796)	$ (26,187)	$ (7,804)
Issued at market value—			
Shares: 1999: 106,500; 1998: 554,000; 1997: 888,000	(7,186)	(20,584)	(26,879)
Lapses—Shares: 1998: 22,000	—	705	—
Amortization	9,954	20,270	8,496
End of year	$ (23,028)	$ (25,796)	$ (26,187)
Earnings employed in the business:			
Beginning of year	$4,743,315	$4,355,426	$4,207,409
Net earnings	2,445,759	2,334,353	2,079,101
Cash dividends declared on common shares (per share—1999: $.68; 1998: $.60; 1997: $.54)	(1,038,895)	(917,611)	(825,138)
Cost of common shares retired in excess of stated capital amount	(194,990)	(1,048,500)	(1,129,757)
Cost of treasury shares issued below market value	218,818	19,647	23,811
End of year	$6,174,007	$4,743,315	$4,355,426
Accumulated other comprehensive loss:			
Beginning of year	$ (227,693)	$ (230,242)	$ (48,213)
Other comprehensive income (loss)	(177,608)	2,549	(182,029)
End of year	$ (405,301)	$ (227,693)	$ (230,242)

5.09

ALCOA INC. (DEC)

Statement of Shareholders' Equity

(In millions, except share amounts)	Comprehensive Income	Preferred Stock	Common Stock	Additional Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (loss)	Total Shareholders' Equity
Balance at end of 1996		$56	$179	$ 592	$4,083	$ (371)	$ (76)	$4,463
Comprehensive income—1997:								
Net income—1997	$ 805				805			805
Other comprehensive income (loss):								
Minimum pension liability, net of $2 tax benefit	(4)							
Unrealized translation adjustments	(250)							
Unrealized gains on securities, net of $1 tax expense	1							
Gains on securities included in net income, net of $13 tax benefit	(24)						(277)	(277)
Comprehensive income	$ 528							
Cash dividends:								
Preferred @ $3.75 per share					(2)			(2)
Common @ $.488 per share					(169)			(169)
Treasury shares purchased						(604)		(604)
Stock issued: compensation plans				(14)		217		203
Balance at end of 1997		56	179	578	4,717	(758)	(353)	4,419
Comprehensive income—1998:								
Net income—1998	$ 853				853			853
Other comprehensive income (loss):								
Minimum pension liability, net of $3 tax benefit	(5)							
Unrealized translation adjustments	11						6	6
Comprehensive income	$ 859							
Cash dividends:								
Preferred @ $3.75 per share					(2)			(2)
Common @ $.75 per share					(263)			(263)
Treasury shares purchased						(365)		(365)
Stock issued: Alumax acquisition			19	1,302				1,321
Stock issued: compensation plans				(7)		94		87
Stock issued: two-for-one split			197	(197)				—
Balance at end of 1998		56	395	1,676	5,305	(1,029)	(347)	6,056
Comprehensive income—1999:								
Net income—1999	$1,054				1,054			1,054
Other comprehensive (loss):								
Unrealized translation adjustments (A)	(291)						(291)	(291)
Comprehensive income	$ 763							
Cash dividends:								
Preferred @ $3.75 per share					(2)			(2)
Common @ $.805 per share					(296)			(296)
Treasury shares purchased						(838)		(838)
Stock issued: compensation plans				28		607		635
Balance at end of 1999		$56	$395	$1,704	$6,061	$(1,260)	$(638)*	$6,318

* Comprised of unrealized translation adjustments of $(623) and minimum pension liability of $(15)

Stock Dividend

5.10

HAMPTON INDUSTRIES, INC. (DEC)

Consolidated Statements of Stockholders' Equity

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings	Treasury Stock at cost Shares	Treasury Stock at cost Amount	Total Stockholders' Equity
Balance, Dec. 28, 1996	5,191,154	$5,191,454	$34,018,908	$18,486,613	(605,825)	$(4,877,344)	$52,819,631
Stock options exercised	800	800	3,965	—	—	—	4,765
Net earnings	—	—	—	1,083,086	—	—	1,083,086
Balance, Dec. 27, 1997	5,192,254	5,192,254	34,022,873	19,569,699	(605,825)	(4,877,344)	53,907,482
Stock options exercised	3,450	3,450	16,058	—	—	—	19,508
Stock dividend	519,365	519,365	3,181,111	(3,701,545)	(60,581)	—	(1,069)
Net earnings	—	—	—	2,415,745	—	—	2,415,745
Balance, Dec. 28, 1998	5,715,069	5,715,069	37,220,042	18,283,899	(666,406)	(4,877,344)	56,341,666
Stock dividend	571,349	571,349	1,928,308	(2,500,344)	(66,639)	—	(687)
Net loss*	—	—	—	(4,756,209)	—	—	(4,756,209)
Balance, Jan. 1, 2000	6,286,418	$6,286,418	$39,148,350	$11,027,346	(733,045)	$(4,877,344)	$51,584,770

* 53 weeks

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

I (In Part): Stockholders' Equity

Common Stock

The Board of Directors declared a 10% stock dividend in 1998 and 1999. The dividends were payable on July 2nd to stockholders of record on June 2nd of both years. Basic and diluted (loss) earnings per share have been restated for all periods presented to reflect the stock dividends. Stock options have also been restated to reflect the stock dividends.

Dividends-in-Kind

5.11

GENCORP INC. (NOV)

Consolidated Statements of Shareholders' Equity

(Dollars in millions)	Common Stock Issued Shares	Common Stock Issued Amount	Other Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
November 30, 1996	33,479,647	$3	$22	$24	$7	$56
Net income				137		137
Currency translation adjustments and other					(15)	(15)
Cash dividends—$.60 per share				(22)		(22)
Conversion of subordinated debentures	7,151,686	1	114			115
Shares issued under stock option and incentive plans, net	694,126	—	10			10
November 30, 1997	41,325,459	4	146	139	(8)	281
Net income				84		84
Currency translation adjustments and other					(1)	(1)
Cash dividends—$.60 per share				(25)		(25)
Shares issued under stock option and incentive plans, net	210,065	—	5			5
November 30, 1998	41,535,524	4	151	198	(9)	344
Net income				72		72
Currency translation adjustments and other					(9)	(9)
Cash dividends—$.48 per share				(20)		(20)
Shares issued under stock option and incentive plans, net	326,777	—	4			4
Dividend transfer from OMNOVA Solutions, Inc.,			200			200
Net asset transfer to OMNOVA Solutions, Inc.			(355)	(157)	1	(511)
November 30, 1999	41,862,301	$4	$—	$93	$(17)	$80

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note B: Discontinued Operations

On December 17, 1998, the Company announced a plan to spin-off its performance chemicals and decorative & building products businesses (OMNOVA Solutions Inc.) to GenCorp shareholders as a separate, publicly traded company. During the third fiscal quarter of 1999, the Internal Revenue Service issued a favorable ruling that GenCorp's planned spin-off would be a tax-free transaction. Shareholders voted to approve the transaction at a special shareholders meeting on September 8, 1999. GenCorp's Board of Directors gave final approval of the plan on September 17, 1999 and declared a dividend of one share of OMNOVA Solutions Inc. common stock for each share of GenCorp common stock held on the September 27, 1999 record date for the dividend. The dividend distribution was made on October 1, 1999. GenCorp continues to operate Aerojet, its existing aerospace, defense and fine chemicals segment, and its Vehicle Sealing segment.

On April 30, 1999, the Company sold its Penn Racquet Sports division (Penn) to HTM Sports-und Freizeitgerate AG, an Austrian company and HTM USA Holdings Inc., for aggregate consideration of approximately $42 million. The Company recognized a pre-tax gain of $16 million on this transaction.

GenCorp has effectively disposed of its polymer products segment as a result of the spin-off and sale of Penn, and the Company's financial statements now reflect OMNOVA Solutions Inc. and Penn as discontinued operations. Discontinued operations also include certain other operations of the Company's polymer products segment which were previously sold and expenses related to the spin-off totaling approximately $25 million. Interest expense allocated to the business segments by GenCorp management, based on the use of the borrowings, amounted to $14 million, $8 million, and $4 million in 1999, 1998, and 1997, respectively. Results of these discontinued operations were:

(Dollars in millions)	Years Ended November 30 1999	1998	1997
Net sales	$666	$689	$615
Income before income taxes	$ 50	$ 76	$ 65
Income tax provision	(24)	(30)	(26)
Income from discontinued operations, net of taxes	$ 26	$ 46	$ 38

5.12

LYNCH CORPORATION AND SUBSIDIARIES (DEC)

Consolidated Statements of Shareholders' Equity

(In thousands except for shares of common stock)	Shares of Common Stock Outstanding	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock	Total
Balance at December 31, 1996	1,391,034	$5,139	$8,417	$26,472	$—	$(1,105)	$38,923
Issuance of treasury stock	26,014	—	313	—	—	359	672
Capital transactions of The Morgan Group, Inc.	—	—	(86)	—	—	—	(86)
Dividend of East/West Communications, Inc.	—	—	—	(180)	—	—	(180)
Net loss (loss) for the year	—	—	—	(2,878)	—	—	(2,878)
Balance at December 31, 1997	1,417,048	5,139	8,644	23,414	—	(746)	36,451
Issuance of treasury stock	1,200	—	74	—	—	16	90
Capital transactions of The Morgan Group, Inc.	—	—	(164)	—	—	—	(164)
Net income (loss) for year	—	—	—	3,357	—	—	3,357
Other comprehensive income	—	—	—	—	59	—	59
Balance at December 31, 1998	1,418,248	5,139	8,554	26,771	59	(730)	39,793
Purchase of treasury stock	(8,065)	—	—	—	—	(523)	(523)
Capital transactions of The Morgan Group, Inc.	—	—	(252)	—	—	—	(252)
Dividend of Lynch Interactive Corporation	—	—	—	(21,345)	(59)	—	(21,404)
Net income (loss) for year	—	—	—	(1,583)	—	—	(1,583)
Other comprehensive income	—	—	—	—	(40)	—	(40)
Balance at December 31, 1999	1,410,183	$5,139	$8,302	$ 3,843	$(40)	$(1,253)	$15,991

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. Spin Off

On August 12, 1999, the Board of Directors approved a plan to distribute the stock of Lynch Interactive Corporation on a one for one basis to the shareholders of Lynch Corporation ("spin off"). Lynch completed the spin off of Lynch Interactive Corporation ("Interactive") on September 1, 1999, to stockholders of record on August 23, 1999. Pursuant to the spin off, each Lynch shareholder received one share of Interactive common stock for each share of Lynch owned. Lynch had received a private letter ruling from the Internal Revenue Service that the spin off would be tax free to Lynch shareholders. Interactive is listed on the American Stock Exchange under the symbol "LIC."

Interactive owns all of what were Lynch's multimedia and service businesses while Lynch retained the manufacturing businesses. Interactive owns the telephone companies, television interests and PCS interests, as well as the 55% equity interest of The Morgan Group, Inc. In addition, Interactive owns a 13.6% equity interest in Spinnaker Industries, Inc. Lynch owns a 47.6% equity interest in Spinnaker (60.4% of voting interest), as well as 100% of M-tron Industries, Inc. and 92% of Lynch Systems, Inc.

As a result, the Company's multimedia and services segments are being reported as operations distributed to shareholders in the accompanying consolidated financial statements. Accordingly, operating results of Lynch Interactive Corporation have been segregated from continuing operations and reported as a separate line item on the statements of operations.

Lynch has restated its prior year financial statements to present the operating results of the Company on a comparable basis. Interactive's net sales were $204.6 million, $205.2 million, and $194.1 million for the fiscal years ended December 31, 1999, 1998, and 1997, respectively.

In the third quarter of 1999, Lynch acquired by merger, all of the stock of Central Scott Telephone Company. This company became part of Lynch Interactive and was included in the spin off.

Lynch Interactive and Lynch have entered into certain agreements governing various ongoing relationships, including the provision of support services and a tax allocation agreement. The tax allocation agreement provides for the allocation of tax attributes to each company as if it had actually filed with the respective tax authority. At the spin off, the employees of the corporate office of Lynch Corporation became the employees of Lynch Interactive Corporation and Lynch Interactive Corporation began providing certain support services to Lynch. The Company was charged a management fee for these services amounting to approximately $200,000 in 1999.

The net assets of Interactive included in the accompanying audited consolidated balance sheet as of December 31, 1998 consist of the following *(in thousands)*:

Cash, cash equivalents and marketable securities	$ 27,988
Accounts receivable, net	18,853
Deferred income taxes	4,265
Prepaid expenses and other	6,941
Current assets of subsidiaries distributed to shareholders	$ 58,047
Property, plant and equipment, net	$ 91,183
Goodwill	47,740
Investment in and advances to PCS license holders	23,360
Other assets	8,012
Non-current assets of subsidiaries distributed to shareholders	$170,295
Notes payable	$ 2,037
Accounts payable	4,662
Accrued liabilities	21,902
Current portion of long term debt	8,639
Current liabilities of subsidiaries distributed to shareholders	$ 37,240
Long term debt	$119,024
Deferred income tax	13,062
Other long term debt	4,987
Minority interest	10,527
Non-current liabilities and minority interest of subsidiaries distributed to shareholders	$147,600

The net assets distributed to Interactive were estimated to be $23.0 million at September 1, 1999. Such amount was subsequently decreased in the fourth quarter by $1.6 million to reflect revised estimates of liabilities distributed.

Stock Purchase Rights

5.13

FLOWERS INDUSTRIES, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 8 (In Part): Stockholders' Equity

FII Shareholder's Rights Plan

On March 19, 1999, the Company's Board of Directors declared a dividend of one preferred share purchase right (a "Right" or, collectively, the "Rights") for each share of Common Stock held of record on the close of business on April 2, 1999. Under certain circumstances, a Right may be exercised to purchase one ten-thousandth of a share of Series A Junior Participating Preferred Stock (the "Preferred Stock") at an exercise price of $90.00.

The Rights become exercisable upon the earlier to occur of: (i) the tenth calendar day after a person or group acquires 15% or more of the Company's outstanding Common Stock, or (ii) the tenth business day after the commencement of a tender offer for 15% or more of the Company's outstanding Common Stock. If the Rights become exercisable, each Right will entitle the holder thereof to purchase one ten-thousandth of a share of Preferred Stock. If a person or group acquires 15% or more of the outstanding Common Stock of the Company, the holder of each Right not owned by the 15% or more shareholder would be entitled to purchase for $90.00 (the exercise price of the Right) Common Stock of the Company having market value equal to $180.00. If the Company is a party to certain mergers or business combination transactions or transfers 50% or more of its assets or earning power to another party, each Right will entitle its holder to buy a number of shares of Common Stock of the acquiring or surviving company having a market value of twice the exercise price of the Rights, or $180.00. If the Rights are fully exercised, the shares issued thereby would cause a substantial dilution to the shareholders of the acquiring or surviving company. The Company may also, under certain circumstances, exchange the Rights not owned by the 15% or more shareholder at an exchange ratio of one share of Common Stock per Right.

The Rights expired April 2, 2009, and may be redeemed by the Company for $0.01 per Right at any time prior to the close of business on the later of: (i) the tenth calendar day after a person or group acquires 15% or more of the Company's outstanding Common Stock, or (ii) the tenth business day after the commencement of a tender offer for 15% or more of the Company's outstanding Common Stock.

5.14

RUSSELL CORPORATION AND SUBSIDIARIES (DEC)

NOTES TO CONSOLIDATED STATEMENTS

Note 7 (In Part): Stock Rights Plan and Execution Long-Term Incentive Plan

On September 15, 1999, the Board of Directors declared a dividend, which was issued on October 25, 1999, of one Right for each share of common stock outstanding, which, when exercisable, entitles the holder to purchase a unit of one one-hundredth share of Series A Junior Participating Preferred Stock, par value $.01, at a purchase price of $85. Upon certain events relating to the acquisition of, or right to acquire, beneficial ownership of 15% or more of the Company's outstanding common stock by a third party, or a change in control of the Company, the Rights entitle the holder to acquire, after the Rights are no longer redeemable by the Company, shares of common stock for each Right held at a significant discount to market. The Rights will expire on October 25, 2009, unless redeemed earlier by the Company at $.01 per Right under certain circumstances. The Rights were issued to replace rights previously issued to purchase Series A Junior Participating Preferred Stock which rights expired on October 25, 1999.

ADJUSTMENTS TO OPENING BALANCE OF RETAINED EARNINGS

5.15 Reasons for which the opening balance of retained earnings is properly restated include certain changes in accounting principles, changes in reporting entity, and prior period adjustments. *Statement of Financial Accounting Standards No. 16,* as amended by *SFAS No. 109,* stipulates that only corrections of errors are properly accounted for as prior period adjustments.

5.16 Table 5-3 summarizes the reasons disclosed by the survey companies as to why the opening balance of retained earnings was adjusted. Table 5-3 shows that the most common reason for an adjustment to the opening balance of retained earnings during 1999 was a pooling of interests.

5.17

TABLE 5-3: ADJUSTMENTS TO OPENING BALANCE OF RETAINED EARNINGS

	Number of Companies			
	1999	1998	1997	1996
Poolings of interests	25	20	20	17
LIFO discontinued	2	—	1	2
Other—described	5	4	3	1

Poolings of Interests

5.18

GENERAL DYNAMICS CORPORATION (DEC)

Consolidated Statement of Shareholders' Equity

(Dollars in millions, except share amounts)	Common Stock Shares	Common Stock Par	Surplus	Retained Earnings	Treasury Stock Shares	Treasury Stock Amount	Accumulated Other Comprehensive Income/(Loss)
Balance, December 31, 1996, as previously reported	168,774,672	$169	$ 22	$2,172	(42,570,314)	$(650)	$ 1
Adjustment for pooling of interests	73,911,773	74	210	(471)			(2)
Balance, December 31, 1996, as restated	242,686,445	243	232	1,701	(42,570,314)	(650)	(1)
Net earnings				559			
Minimum pension liability adjustment							1
Cash dividends declared				(102)			
Shares issued under compensation plans	631,877		31		1,413,696	19	
Tax benefit of exercised stock options			34				
Shares purchased					(1,832,500)	(60)	
Amortization of stock plan expense				1			
Balance, December 31, 1997	243,318,322	243	297	2,159	(42,989,118)	(691)	—
Net earnings				589			
Unrealized gains on securities							1
Foreign currency translation adjustment							(1)
Minimum pension liability adjustment							(2)
Cash dividends declared				(110)			
Shares issued under compensation plans	3,572,160	4	88		1,348,705	10	
Tax benefit of exercised stock options			40				
Shares purchased	(5,541,617)	(6)	(192)		(598,000)	(28)	
Amortization of stock plan expense				1			
Modification of common stock options			6				
Shares issued for business acquisition			4		157,283	3	
Balance, December 31, 1998	241,348,865	241	243	2,639	(42,081,130)	(706)	(2)
Net earnings				880			
Unrealized gains on securities							(2)
Foreign currency translation adjustment							(2)
Cash dividends declared				(156)			
Shares issued under compensation plans	864,252		32		2,158,056	34	
Tax benefit of exercised stock options			29				
Shares purchased	(1,272,800)		(58)		(19,100)	(1)	
Shares issued for business acquisition					15,424		
Balance, December 31, 1999	240,940,317	$241	$246	$3,363	(39,926,750)	$(673)	$(6)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

B (In Part): Business Combinations

Pooling of Interests Method

On July 30, 1999, the Company acquired Gulfstream, as a result of which, the holders of Gulfstream common stock became entitled to receive one share of the Company's common stock for each Gulfstream share. The common stock of Gulfstream was traded on the New York Stock Exchange through the close of business on July 30, 1999, at which time there were 72,165,645 shares of Gulfstream common stock outstanding. An additional 4,131,094 shares were reserved for issuance upon the exercise of stock options which, prior to the acquisition, had been options to purchase Gulfstream common stock. Gulfstream is a leading designer, developer, manufacturer and marketer of advanced business jet aircraft. The acquisition was accounted for as a pooling of interests, and, accordingly, the consolidated financial statements for periods prior to the combination have been restated to include the accounts and results of operations of Gulfstream.

The preacquisition results of operations for the separate companies and the combined amounts presented in the consolidated financial statements are as follows:

	Six Months Ended (unaudited)	Year Ended December 31 (audited)	
	July 4, 1999	1998	1997
Net sales:			
General Dynamics	$2,756	$4,970	$4,062
Gulfstream	1,333	2,428	1,904
Combined	$4,089	$7,398	$5,966
Net earnings:			
General Dynamics	$ 370	$ 364	$ 316
Gulfstream	128	225	243
Combined	$ 498	$ 589	$ 559

5.19

TRUE NORTH COMMUNICATIONS INC. (DEC)

Consolidated Statements of Stockholders' Equity

(In 000's)	Common Stock	Paid-in Capital	Retained Earnings	Treasury Stock	Deferred Compensation	Cumulative Translation Adjustment	Unrealized Gain On Marketable Securities	Total Stockholders' Equity
Balance at December 31, 1996, as previously reported	$13,932	$167,797	$134,047	$(4,553)	$ (750)	$ (6,822)	$ —	$303,651
Acquisition of pooled entity	400	3,575	951	—	—	—	—	4,926
Balance at December 31, 1996, as restated	14,332	171,372	134,998	(4,553)	(750)	(6,822)	—	308,577
Comprehensive income:								
Net income	—	—	(49,942)	—	—	—	—	(49,942)
Currency translation	—	—	—	—	—	(7,799)	—	(7,799)
Unrealized gain on marketable securities	—	—	—	—	—	—	—	—
Total comprehensive income								(57,741)
Dividends	—	—	(15,050)	—	—	—	—	(15,050)
Common stock issuances	888	39,803	—	2,895	—	—	—	43,586
Common stock purchases	(88)	(3,530)	—	(3,497)	—	—	—	(7,115)
Other	—	—	—	—	600	—	—	600
Balance at December 31, 1997	15,132	207,645	70,006	(5,155)	(150)	(14,621)	—	272,857
Comprehensive income:								
Net income	—	—	27,261	—	—	—	—	27,261
Currency translation	—	—	—	—	—	401	—	401
Unrealized gain on marketable securities	—	—	—	—	—	—	5,102	5,102
Total comprehensive income								32,764
Dividends	—	—	(26,771)	—	—	—	—	(26,771)
Common stock issuances	347	24,254	—	7,163	—	—	—	31,764
Common stock purchases	—	—	—	(7,158)	—	—	—	(7,158)
Other	—	—	—	—	150	—	—	150
Balance at December 31, 1998	15,479	231,899	70,496	(5,150)	—	(14,220)	5,102	303,606
Comprehensive income:								
Net income	—	—	38,790	—	—	—	—	38,790
Currency translation	—	—	—	—	—	(8,084)	—	(8,084)
Unrealized gain on marketable securities	—	—	—	—	—	—	(3,923)	(3,923)
Total comprehensive income								26,783
Dividends	—	—	(28,671)	—	—	—	—	(28,671)
Common stock issuances	816	58,898	—	17,055	—	—	—	76,769
Common stock purchases	—	—	—	(12,888)	—	—	—	(12,888)
Gain on issuance of subsidiary stock	—	2,638	—	—	—	—	—	2,638
Other	—	—	—	—	(1,861)	—	—	(1,861)
Balance at December 31, 1999	$16,295	$293,435	$ 80,615	$ (983)	$(1,861)	$(22,304)	$1,179	$366,376

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Acquisitions

In February 1999, True North issued approximately 1.2 million shares of its common stock for all the outstanding capital stock of FRB, a Chicago-based investor relations firm. This acquisition has been accounted for as a pooling of interests and, accordingly, the consolidated financial statements have been restated for all periods prior to the acquisition.

The following summarizes the separate results of True North and FRB prior to the restatement (in millions):

	True North	FRB	Combined
Year Ended December 31, 1998			
Revenues	$1,242.3	$32.0	$1,274.3
Net income (loss)	36.1	(8.8)	27.3
Year Ended December 31, 1997			
Revenues	$1,204.9	$35.1	$1,240.0
Net income (loss)	(50.0)	0.1	(49.9)

Included in the 1998 results of FRB are approximately $7.5 million of merger-related costs and other expense adjustments, consisting primarily of employee compensation-related expenses and pension costs.

Prior to the merger, FRB operated as an S Corporation; therefore, their results do not reflect corporate income taxes. Pro forma net income for FRB, assuming income taxes were charged (or credited) to operations, would be $(4.8 million) and $.01 million for the years ended December 31, 1998 and 1997, respectively.

On December 30, 1997, True North consummated its acquisition of Bozell, Jacobs, Kenyon & Eckhardt, Inc. (BJK&E) by issuing approximately 18.6 million shares of its common stock in exchange for all outstanding common stock of BJK&E. True North also assumed and exchanged all outstanding BJK&E stock options into options to purchase shares of True North's common stock. The transaction was accounted for as a pooling of interests.

The cost of business acquired by True North in transactions accounted for as purchases aggregated $61.6 million in 1999, including 0.5 million shares of common stock and treasury stock, and $48.8 million in 1998, including 0.5 million shares of common stock and treasury stock. The excess of the purchase price over the fair value of net tangible assets acquired was approximately $59.3 million and $48.2 million, respectively, and is being amortized over periods not exceeding 40 years.

OTHER CHANGES IN RETAINED EARNINGS

5.20 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.

5.21

TABLE 5-4: OTHER CHANGES IN RETAINED EARNINGS

	Number of Companies			
	1999	**1998**	**1997**	**1996**
Charges				
Purchase or retirement of capital stock	68	74	74	65
Treasury stock issued for less than cost	49	41	38	40
Translation adjustment	N/C*	11	28	24
Pension liability adjustment	N/C*	6	11	6
Preferred stock accretion	5	3	2	4
Unrealized loss on investments	N/C*	1	12	16
Other—described	32	33	29	27
Credits				
Tax benefit on dividends paid to ESOP	14	16	18	17
Unrealized gain on investments	N/C*	8	13	13
Translation adjustment	N/C*	4	1	7
Poolings of interests	2	3	11	4
Pension liability adjustment	N/C*	2	10	16
Other—described	34	40	33	28

* N/C = Not compiled. This charge or credit should no longer be included in a statement reporting retained earnings. *Statement of Financial Accounting Standards No. 130* requires that an enterprise classify items of other comprehensive income by their nature in a financial statement, and display the accumulated balance of other comprehensive income separately from retained earnings and additional paid-in capital in the equity section of a statement of financial position. *SFAS No. 130* is effective for fiscal years beginning after December 15, 1997.

Treasury Stock Transactions

5.22

BOWATER INCORPORATED (DEC)

Consolidated Statement of Capital Accounts

(In millions, except per share amounts)	LIBOR Preferred Stock	Series C Cumulative Preferred Stock	Common Stock	Exchangeable Shares	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Loan to ESOT	Treasury Stock
Balance at December 31, 1996	$24.7	$25.5	$44.0	$ —	$ 531.6	$698.4	$(12.4)	$(6.3)	$(109.5)
Net income	—	—	—	—	—	53.7	—	—	—
Dividends on:									
Common ($0.80 per share)	—	—	—	—	—	(32.2)	—	—	—
LIBOR ($0.79 per share)	—	—	—	—	—	(0.4)	—	—	—
Series C ($8.40 per share)	—	—	—	—	—	(2.2)	—	—	—
Increase in stated value of LIBOR preferred stock	0.3	—	—	—	—	(0.3)	—	—	—
Reduction in loan to ESOT	—	—	—	—	—	—	—	1.8	—
Foreign currency translation	—	—	—	—	—	—	(2.5)	—	—
Stock options exercised	—	—	0.9	—	23.6	—	—	—	—
Tax benefit on exercise of stock options	—	—	—	—	7.9	—	—	—	—
Redemption of LIBOR preferred stock	(25.0)	—	—	—	—	—	—	—	—
Pension plan additional minimum liability, net of tax benefit of $0.4	—	—	—	—	—	—	(0.6)	—	—
Purchase of common stock	—	—	—	—	—	—	—	—	(66.8)
Balance at December 31, 1997	$ —	$25.5	$44.9	$ —	$ 563.1	$717.0	$ (15.5)	$(4.5)	$(176.3)
Net loss	—	—	—	—	—	(18.5)	—	—	—
New issuance of stock	—	—	12.3	183.6	586.4	—	—	—	—
Retraction of exchangeable shares	—	—	1.5	(73.1)	71.6	—	—	—	—
Debt conversions to exchangeable shares	—	—	—	0.3	—	—	—	—	—
Dividends on:									
Common ($0.80 per share)	—	—	—	—	—	(38.9)	—	—	—
Series C ($8.40 per share)	—	—	—	—	—	(2.2)	—	—	—
Reduction in loan to ESOT	—	—	—	—	—	—	—	1.9	—
Foreign currency translation	—	—	—	—	—	—	(4.1)	—	—
Stock options exercised	—	—	0.3	—	6.5	—	—	—	—
Tax benefit on exercise of stock options	—	—	—	—	2.6	—	—	—	—
Pension plan additional minimum liability, net of tax benefit of $6.0	—	—	—	—	—	—	(9.3)	—	—
Purchase of common stock	—	—	—	—	—	—	—	—	(98.1)
Balance at December 31, 1998	$ —	$25.5	$59.0	$110.8	$1,230.2	$657.4	$(28.9)	$(2.6)	($274.4)
Net income	—	—	—	—	—	78.7	—	—	—
New issuance of exchangeable shares	—	—	—	66.2	—	—	—	—	—
Retraction of exchangeable shares	—	—	1.5	(71.6)	70.1	—	—	—	—
Redemption of Series C preferred stock	—	(25.5)	—	—	—	(0.9)	—	—	—
Dividends on:									
Common ($0.80 per share)	—	—	—	—	—	(43.3)	—	—	—
Series C ($0.56 per share)	—	—	—	—	—	(0.1)	—	—	—
Reduction in loan to ESOT	—	—	—	—	—	—	—	1.9	—
Foreign currency translation	—	—	—	—	—	—	2.8	—	—
Stock options exercised	—	—	0.3	—	10.4	—	—	—	—
Tax benefit on exercise of stock options	—	—	—	—	4.7	—	—	—	—
Pension plan additional minimum liability, net of taxes of $5.0	—	—	—	—	—	—	7.8	—	—
Purchase of common stock	—	—	—	—	—	—	—	—	(109.2)
Balance at December 31, 1999	$ —	$ —	$60.8	$105.4	$1,315.4	$691.8	$(18.3)	$ (0.7)	$(383.6)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

22. Treasury Stock

In May 1999, the Board of Directors authorized the repurchase of up to 5.5 million shares of Bowater's common stock in the open market, subject to normal trading restrictions. Under the new program, we purchased 1,030,069 shares of common stock at a cost of $51.8 million during 1999.

In addition, we completed a previously announced repurchase program in 1999. Under the previous program, we purchased 1,451,900 shares of common stock at a cost of $57.4 million in 1999, 2,441,100 shares of common stock at a cost of $98.1 million in 1998 and 220,000 shares of common stock at a cost of $9.6 million in 1997. We purchased a total of 4,113,000 shares of common stock, or 10% of the outstanding shares, at a cost of $165.1 million. In February 1997, we completed another stock repurchase program, purchasing 1,408,300 shares of common stock at a cost of $57.2 million.

Currently, we use shares of treasury stock to pay employee/director benefits and to fund our Dividend Reinvestment Plan.

5.23

TARGET CORPORATION (JAN)

Consolidated Statements of Shareholders' Investment

(Millions, except share data)	Convertible Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Loan to ESOP	Total
February 1, 1997	$271	$72	$146	$3,348	$(47)	$3,790
Consolidated net earnings	—	—	—	751	—	751
Dividends declared	—	—	—	(169)	—	(169)
Tax benefit on unallocated preferred stock dividends and options	—	—	17	—	—	17
Conversion of preferred stock and other	9	—	18	—	—	27
Net reduction in loan to ESOP	—	—	—	—	28	28
Stock option activity	—	1	15	—	—	16
January 31, 1998	280	73	196	3,930	(19)	4,460
Consolidated net earnings	—	—	—	935	—	935
Dividends declared	—	—	—	(182)	—	(182)
Tax benefit on unallocated preferred stock dividends and options	—	—	25	—	—	25
Conversion of preferred stock and other	(12)	—	37	—	—	25
Net reduction in loan to ESOP	—	—	—	—	19	19
Stock option activity	—	1	28	—	—	29
January 30, 1999	268	74	286	4,683	—	5,311
Consolidated net earnings	—	—	—	1,144	—	1,144
Dividends declared	—	—	—	(191)	—	(191)
Repurchase of stock	—	(1)	—	(580)	—	(581)
Issuance of stock for ESOP	—	—	81	—	—	81
Tax benefit on unallocated preferred stock dividends and options	—	—	29	—	—	29
Conversion of preferred stock	(268)	3	289	—	—	24
Stock option activity	—	—	45	—	—	45
January 29, 2000	$ —	$76	$730	$5,056	$ —	$5,862

Common Stock (In Part)

In January 1999, our Board of Directors authorized the repurchase of $1 billion of our common stock. We repurchased 9.4 million shares of stock during 1999 at a total cost of $588 million ($62.58 per share), net of the premium from exercised and expired put options. In March 2000, our Board of Directors authorized the repurchase of an additional $1 billion of our common stock. Repurchases are made primarily in open market transactions, subject to market conditions. Our program also includes the sale of put options that entitle the holder to sell shares of our common stock to us, at a specified price, if the holder exercises the option.

5.24

VIACOM INC. AND SUBSIDIARIES (DEC)

Consolidated Statements of Shareholders' Equity and Comprehensive Income

	1999		1998		1997	
(In millions)	Shares	Amount	Shares	Amount	Shares	Amount
Convertible Preferred Stock:						
Balance, beginning of year	12.0	$ 600.0	24.0	$ 1,200.0	24.0	$ 1,200.0
Repurchase of preferred stock	12.0	600.0	12.0	600.0	—	—
Balance, end of year	—	$ —	12.0	$ 600.0	24.0	$ 1,200.0
Class A Common Stock:						
Balance, beginning of year	141.6	$ 1.4	140.7	$ 1.4	140.2	$ 1.4
Exercise of stock options and warrants	—	—	.9	—	.5	—
Conversion of A shares into B shares	(1.9)	—	—	—	—	—
Balance, end of year	139.7	$ 1.4	141.6	$ 1.4	140.7	$ 1.4
Class B Common Stock:						
Balance, beginning of year	591.9	$ 5.9	581.1	$ 5.8	576.4	$ 5.8
Exercise of stock options and warrants	12.8	.2	10.8	.1	4.7	—
Conversion of A shares into B shares	1.9	—	—	—	—	—
Balance, end of year	606.6	$ 6.1	591.9	$ 5.9	581.1	$ 5.8
Additional Paid-in Capital:						
Balance, beginning of year		$10,574.7		$10,329.5		$10,238.5
Exercise of stock options and warrants, net of tax benefit		443.5		280.1		94.9
Loss on Blockbuster Offering		(662.1)		—		—
Warrants repurchased		(17.6)		(34.9)		(3.9)
Balance, end of year		$10,338.5		$10,574.7		$10,329.5
Retained Earnings:						
Balance, beginning of year		$ 1,932.9		$ 2,089.0		$ 1,358.6
Net earnings (loss)		334.0		(122.4)		793.6
Preferred stock dividend requirement		(.4)		(57.2)		(60.0)
Discount (premium) on repurchase of preferred stock		(12.0)		30.0		—
Comprehensive income reclassification		—		—		(3.2)
Exercise of stock options		(6.6)		(6.5)		—
Balance, end of year		$ 2,247.9		$ 1,932.9		$ 2,089.0
Accumulated Other Comprehensive Income (Loss):						
Balance, beginning of year		$ (67.1)		$ (12.6)		$ 5.9
Other comprehensive income (loss)		36.9		(54.5)		(18.5)
Balance, end of year		$ (30.2)		$ (67.1)		$ (12.6)
Treasury Stock, at cost:						
Balance, beginning of year	38.5	$ (998.2)	13.0	$ (229.5)	12.5	$ (223.6)
Common stock repurchased	10.6	(448.8)	26.2	(787.0)	.5	(5.9)
Exercise of stock options (Class B)	(.6)	15.3	(.7)	18.3	—	—
Balance, end of year	48.5	$ (1,431.7)	38.5	$ (998.2)	13.0	$ (229.5)
Total Shareholders' Equity		$11,132.0		$12,049.6		$13,383.6
Comprehensive Income (Loss):						
Net earnings (loss)		$ 334.0		$ (122.4)		$ 793.6
Other Comprehensive Income (Loss):						
Unrealized gain on securities		15.8		85.2		29.9
Reclassification adjustment for gains included in net earnings		(2.3)		(118.9)		—
Cumulative translation adjustments		21.2		(19.0)		(50.4)
Minimum pension liability adjustment		2.2		(1.8)		2.0
Total Other Comprehensive Income (Loss)		36.9		(54.5)		(18.5)
Total Comprehensive Income (Loss)		$ 370.9		$ (176.9)		$ 775.1

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

12 (In Part): Shareholders' Equity

On December 2, 1998, the Company repurchased 12 million shares of its convertible preferred stock from Bell Atlantic Corporation for $564 million in cash. On January 5, 1999, the Company repurchased the remaining 12 million shares of its convertible preferred stock from Bell Atlantic Corporation for $612 million in cash.

Tax Benefit From Esop Dividends

5.25

ARMSTRONG WORLD INDUSTRIES, INC. (DEC)

Consolidated Statements of Shareholders' Equity

(Millions except for per-share data)	1999		1998		1997	
Common stock, $1 par value:						
Balance at beginning and end of year	$ 51.9		$ 51.9		$ 51.9	
Capital in excess of par value:						
Balance at beginning of year	$ 173.0		$ 169.5		$ 169.5	
Stock issuances and other	3.4		3.5		—	
Balance at end of year	$ 176.4		$ 173.0		$ 169.5	
Reduction for ESOP loan guarantee:						
Balance at beginning of year	$ (199.1)		$ (207.7)		$ (217.4)	
Principal paid	23.3		23.2		19.6	
Loans to ESOP	(12.8)		(10.1)		(5.5)	
Interest on loans to ESOP	(1.3)		(0.8)		(0.3)	
Accrued compensation	(0.4)		(3.7)		(4.1)	
Balance at end of year	$ (190.3)		$ (199.1)		$ (207.7)	
Retained earnings:						
Balance at beginning of year	$1,257.0		$1,339.6		$1,222.6	
Net earnings (loss) for year	14.3	$14.3	(9.3)	$ (9.3)	185.0	$185.0
Tax benefit on dividends paid on unallocated ESOP common shares	1.8		2.0		2.0	
Less: common stock dividends (per share): $1.92 in 1999; $1.88 in 1998; $1.72 in 1997	76.9		75.3		70.0	
Balance at end of year	$1,196.2		$1,257.0		$1,339.6	
Accumulated other comprehensive income (loss):						
Balance at beginning of year	$ (25.4)		$ (16.2)		$ 9.9	
Foreign currency translation adjustments and hedging activities	(3.4)		(7.0)		(19.1)	
Minimum pension liability adjustments	12.3		(2.2)		(7.0)	
Total other comprehensive income (loss)	8.9	$ 8.9	(9.2)	$ (9.2)	(26.1)	$ (26.1)
Balance at end of year	$ (16.5)		$ (25.4)		$ (16.2)	
Comprehensive income (loss)		$23.2		$ (18.5)		$158.9
Less treasury stock at cost:						
Balance at beginning of year	$ 547.7		$ 526.5		$ 446.5	
Stock purchases	1.3		31.8		89.2	
Stock issuance activity, net	(10.5)		(10.6)		(9.2)	
Balance at end of year	$ 538.5		$ 547.7		$ 526.5	
Total shareholders' equity	$ 679.2		$ 709.7		$ 810.6	

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Taxes

Deferred tax assets and liabilities are recognized using enacted tax rates for expected future tax consequences of events recognized in the financial statements or tax returns. The tax benefit for dividends paid on unallocated shares of stock held by an ESOP is recognized in shareholders' equity.

5.26

TEXACO INC. (DEC)

Statement of Consolidated Stockholders' Equity

(Millions of dollars)	1999	1998	1997
Paid-in capital in excess of par value			
Beginning of year	$ 1,640	$ 1,688	$ 630
Redemption of Series B and Series F ESOP			
Convertible preferred stock	(308)	—	—
Monterey acquisition	(2)	—	1,091
Treasury stock transactions relating to investor services plan and employee compensation plans	(43)	(48)	(33)
End of year	1,287	1,640	1,688
Retained earnings			
Balance at beginning of year	9,561	9,987	8,292
Add:			
Net income	1,177	578	2,664
Tax benefit associated with dividends on unallocated ESOP convertible preferred stock and common stock	2	3	4
Deduct: Dividends declared on			
Common stock			
($1.80 per share in 1999 and 1998 and $1.75 per share in 1997)	964	952	918
Preferred stock			
Series B ESOP convertible preferred stock	17	38	40
Series F ESOP convertible preferred stock	2	4	4
Market auction preferred shares (Series G, H, I and J)	9	13	11
Balance at end of year	9,748	9,561	9,987
Other accumulated non-owner changes in equity			
Currency translation adjustment			
Beginning of year	(107)	(105)	(65)
Change during year	8	(2)	(40)
End of year	(99)	(107)	(105)
Minimum pension liability adjustment			
Beginning of year	(24)	(16)	—
Change during year	1	(8)	(16)
End of year	(23)	(24)	(16)
Unrealized net gain on investments			
Beginning of year	30	26	33
Change during year	(27)	4	(7)
End of year	3	30	26
Total other accumulated non-owner changes in equity	(119)	(101)	(95)
Stockholders' Equity			
End of year (including preceding page)	$12,042	$11,833	$12,766

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 11 (In Part): Employee Benefit Plans

Employee Stock Ownership Plans (ESOP)

We recorded ESOP expense of $3 million in 1999, $1 million in 1998 and $2 million in 1997. Our contributions to the Employees Thrift Plan of Texaco Inc. and the Employees Savings Plan of Texaco Inc. amounted to $3 million in 1999, $1 million in 1998 and $2 million in 1997. These plans are designed to provide participants with a benefit of approximately 6% of base pay, as well as any benefits earned under the current employee Performance Compensation Program. In December 1999, we made a $27 million advanced company ESOP allocation for the period December 1999 through November 2000 to participants of the Employees Thrift Plan.

During the year, we called the Series B and Series F convertible Preferred Stock and converted them into Texaco common stock, with future ESOP allocations being made in common stock. Following this conversion, we paid $12 million in dividends. Dividends on the preferred and common ESOP shares used to service debt of the plans are tax deductible to the Company.

In 1999, 1998 and 1997, we paid $19 million, $42 million and $44 million in dividends on Series B and Series F stock. The trustee applied the dividends to fund interest payments which amounted to $2 million, $5 million and $7 million for 1999, 1998 and 1997, as well as to reduce principal on the ESOP loans. The Savings Plan ESOP loan was satisfied in January 1999. In November 1998 and December 1997, a portion of the original Thrift Plan ESOP loan was refinanced through a company loan. The refinancing will extend the ESOP for a period of up to six years.

We include in our long-term debt the plans' original ESOP loans guaranteed by Texaco Inc. As the ESOP repays the original and refinanced ESOP loans, we reduce the remaining ESOP-related unearned employee compensation included as a component of stockholders' equity.

Amortization of Original Issue Discount

5.27

GENEVA STEEL COMPANY (SEP)

Statements of Stockholders' Equity (Deficit)

(Dollars in thousands)	Shares Issued Common Class A	Shares Issued Common Class B	Amount Common Class A	Amount Common Class B	Warrants to Purchase Common Class A	Retained Earnings (Deficit)	Treasury Stock	Total
Balance at September 30, 1996	14,705,265	19,151,348	$87,979	$10,110	$5,360	$ 5,077	$(15,699)	$ 92,827
Issuance of Class A common stock to employee savings plan	—	—	—	—	—	(4,868)	6,252	1,384
Redeemable preferred stock dividends	—	—	—	—	—	(9,608)	—	(9,608)
Redeemable preferred stock accretion for original issue discount	—	—	—	—	—	(732)	—	(732)
Net loss	—	—	—	—	—	(1,268)	—	(1,268)
Balance at September 30, 1997	14,705,265	19,151,348	87,979	10,110	5,360	(11,399)	(9,447)	82,603
Issuance of Class A common stock to employee savings plan	—	—	—	—	—	(5,635)	6,955	1,320
Redeemable preferred stock dividends	—	—	—	—	—	(11,025)	—	(11,025)
Redeemable preferred stock accretion for original issue discount	—	—	—	—	—	(747)	—	(747)
Net loss	—	—	—	—	—	(18,943)	—	(18,943)
Balance at September 30, 1998	14,705,265	19,151,348	87,979	10,110	5,360	(47,749)	(2,492)	53,208
Issuance of Class A common stock to employee savings plan	—	—	—	—	—	(2,312)	2,492	180
Exercise of warrants to purchase Class A common stock	233,502	—	3,674	—	(1,105)	—	—	2,569
Conversion of Class B common stock to Class A common stock	70,000	(700,000)	369	(369)	—	—	—	—
Redeemable preferred stock dividends	—	—	—	—	—	(3,986)	—	(3,986)
Redeemable preferred stock accretion for original issue discount	—	—	—	—	—	(843)	—	(843)
Net loss	—	—	—	—	—	(185,107)	—	(185,107)
Balance at September 30, 1999	$15,008,767	$18,451,348	$ 92,022	$9,741	$4,255	$(239,997)	$ —	$(133,979)

Supplemental Schedule of Noncash Financing Activities

For the years ended September 30, 1999, 1998 and 1997, the Company increased the redeemable preferred stock by $843, $747, and $732, respectively, for the accretion required over time to amortize the original issue discount on the redeemable preferred stock incurred at the time of issuance. At September 30, 1999, the Company had accrued dividends payable of $28,492 (total contractual dividends of $36,861).

During the year ended September 30, 1999, warrants to purchase 233,502 shares of Class A common stock were exercised at $11 per share. The exercise price was paid to the Company with 11,642 shares of redeemable preferred stock as provided for in the redeemable preferred stock agreement.

NOTES TO FINANCIAL STATEMENTS

7. Redeemable Preferred Stock

In March 1993, the Company issued $40 million of 14% cumulative redeemable exchangeable preferred stock (the "Redeemable Preferred Stock") at a price of $100 per share and related warrants to purchase an aggregate of 1,132,000 shares of Class A common stock. As of September 30, 1999, the Redeemable Preferred Stock consisted of 388,358 shares, no par value, with a liquidation preference of approximately $151 per share. Pursuant to the Redeemable Preferred Stock Agreement, 11,642 shares of Redeemable Preferred Stock have been used by the holders thereof to pay for the exercise of warrants to purchase 233,502 shares of Class A common stock. The warrants to purchase the Company's Class A common stock are exercisable at $11 per share, subject to adjustment in certain circumstances, and expire in March 2000. At September 30, 1999, warrants to purchase 898,498 shares of Class A common stock were outstanding. Dividends on the Redeemable Preferred Stock accrue at a rate equal to 14% per annum of the liquidation preference and are payable quarterly in cash from funds legally available therefor. The Company is obligated to redeem all of the Redeemable Preferred Stock in March 2003 from funds legally available therefor. Restricted payment limitations under the Senior Notes precluded payment of the quarterly preferred stock dividends beginning with the dividend due June 15, 1996. Unpaid dividends accumulate until paid and accrue additional dividends at a rate of 14% per annum. As of February 1, 1999, the Company discontinued recording dividends on the Redeemable Preferred Stock. Unpaid contractual dividends as of September 30, 1999, were approximately $36.8 million, which is $8.4 million in excess of dividends accrued in the Company's balance sheet. The Company will not pay dividends on the Redeemable Preferred Stock during the pendency of its Chapter 11 proceeding and any payments will be subject to a confirmed plan of reorganization. Both the Redeemable Preferred Stock and/or the Exchange Debentures are redeemable, at the Company's option, subject to certain redemption premiums.

The Company estimates that its Redeemable Preferred Stock had nominal fair market value at September 30, 1999. The Company estimates that the aggregate fair market value of its warrants to purchase Class A common stock had no value at September 30, 1999. The Company's estimates for the Redeemable Preferred Stock and warrants to purchase Class A common stock were based on management's estimates.

Adjustment to Conform Fiscal Year End of Pooled Company

5.28

THE INTERPUBLIC GROUP OF COMPANIES, INC. (DEC)

Consolidated Statement of Stockholders' Equity and Comprehensive Income

(Dollars in thousands)	Common Stock (par value $.10)	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Unamortized Expense of Restricted Stock Grants	Unearned ESOP Plan	Total
Balances, December 31, 1996	$13,641	$246,063	$ 759,987	$ (96,972)	$ (49,082)	$(47,350)	$(7,800)	$ 818,487
Comprehensive income:								
Net income			$ 200,378					$200,378
Adjustment for minimum pension liability				(228)				(228)
Change in market value of securities available-for-sale				12,405				12,405
Foreign currency translation adjustment				(74,976)				(74,976)
Total comprehensive income								$137,579
Cash dividends—IPG			(61,242)					(61,242)
Equity adjustments—pooled companies			(12,922)					(12,922)
Awards of stock under Company plans:								
Achievement stock and incentive awards		787			175			962
Restricted stock, net of forfeitures	53	27,821			(3,664)	(9,284)		14,926
Employee stock purchases	23	9,684						9,707
Exercise of stock options, including tax benefit	138	40,855						40,993
Purchase of Company's own stock					(144,094)			(144,094)
Issuance of shares for acquisitions		49,877			25,577			75,454
Conversion of convertible debentures	443	118,357						118,800
Par value of shares issued for three-for-two stock split	59							59
Payments from ESOP							380	380
Special compensation charges		27,324						27,324
Deferred stock bonus charges		(4,876)						(4,876)
Par value of shares issued for two-for-one stock split	14,358		(14,358)					—
Balances, December 31, 1997	$28,715	$515,892	$ 871,843	$(159,771)	$(171,088)	$(56,634)	$(7,420)	$1,021,537

(Continued)

(Dollars in thousands)	Common Stock (par value $.10)	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Unamortized Expense of Restricted Stock Grants	Unearned ESOP Plan	Total
Comprehensive income:								
Net income			$ 309,905					$ 309,905
Adjustment for minimum pension liability				(23,405)				(23,405)
Change in market value of securities available-for-sale				(2,516)				(2,516)
Foreign currency translation adjustment				25,216				25,216
Total comprehensive income								$ 309,200
Cash dividends—IPG			(76,894)					(76,894)
Equity adjustments—pooled companies			(2,847)					(2,847)
Awards of stock under Company plans:								
Achievement stock and incentive awards		274			110			384
Restricted stock, net of forfeitures	63	36,619			(2,406)	(14,714)		19,562
Employee stock purchases	26	13,325						13,351
Exercise of stock options, including tax benefit	123	42,518						42,641
Purchase of Company's own stock					(164,928)			(164,928)
Issuance of shares for acquisitions		43,062			51,599			94,661
Conversion of convertible debentures	3	1,002						1,005
Payments from ESOP							7,420	7,420
Par value of shares issued for two-for-one stock split	215		(215)					—
Balances, December 31, 1998	$29,145	$652,692	$1,101,792	$(160,476)	$(286,713)	$(71,348)	$ —	$1,265,092
Comprehensive income:								
Net income			$321,921					$321,921
Adjustment for minimum pension liability				17,965				17,965
Change in market value of securities available-for-sale				158,607				158,607
Foreign currency translation adjustment				(92,500)				(92,500)
Total comprehensive income								$405,993
Cash dividends—IPG			(90,424)					(90,424)
Equity adjustments—pooled companies			(7,796)					(7,796)
Awards of stock under Company plans:								
Achievement stock and incentive awards		198			333			531
Restricted stock, net of forfeitures	66	36,902			(7,927)	(5,687)		23,354
Employee stock purchases	40	19,068						19,108
Exercise of stock options, including tax benefit	276	81,539						81,815
Purchase of Company's own stock					(300,524)			(300,524)
Issuance of shares for acquisitions		(51,446)			282,368			230,922
Par value of shares issued for two-for-one stock split	187		(187)					—
Balances, December 31, 1999	$29,714	$738,953	$1,325,306	$ (76,404)	$(312,463)	$(77,035)	$ —	$1,628,071

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4: Acquisitions

The Company acquired a number of advertising and communications companies during the three-year period ended December 31, 1999. The aggregate purchase price, including cash and stock payments for new acquisitions, was $550 million, $660 million and $302 million in 1999, 1998 and 1997, respectively. The aggregate purchase price for new acquisitions accounted for as purchases and equity investments was $284 million, $245 million, and $131 million in 1999, 1998, and 1997, respectively.

1999

In 1999, the Company paid $180 million in cash and issued 8,393,893 shares of its common stock to acquire 55 companies. Of the acquisitions, 51 were accounted for under the purchase method of accounting and 4 were accounted for under the pooling of interests method. The Company also recorded a liability for acquisition related deferred payments of $28 million, for cases where contingencies related to acquisitions have been resolved.

For those entities accounted for as purchase transactions, the purchase price of the acquisitions has been allocated to assets acquired and liabilities assumed based on estimated fair values. The results of operations of the acquired companies were included in the consolidated results of the Company from their respective acquisition dates which occurred throughout the year. The companies acquired in transactions accounted for as purchases included The Cassidy Companies, Inc., Spedic France S.A., Mullen Advertising, Inc., and PDP Promotions UK Ltd. None of the acquisitions was significant on an individual basis.

In connection with the 1999 purchase transactions, goodwill of approximately $245 million was recorded. The purchase price allocations made in 1999 are preliminary and subject to adjustment. Goodwill related to the acquisitions is being amortized on a straight-line basis over their estimated useful lives.

On December 1, 1999, the Company acquired Brands Hatch Leisure Plc. for 5,158,122 shares of stock. The acquisition has been accounted for as a pooling of interests. Additionally, during 1999 the Company issued 641,596 shares to acquire 3 other companies which have been accounted for as poolings of interests. Given that the pooling acquisitions are individually and in aggregate not material in prior periods, financial statements have not been restated.

The following unaudited pro forma data summarize the results of operations for the periods indicated as if the 1999 acquisitions had been completed as of January 1, 1998. The pro forma data give effect to actual operating results prior to the acquisition, adjusted to include the estimated pro forma effect of interest expense, amortization of intangibles and income taxes. These pro forma amounts do not purport to be indicative of the results that would have actually been obtained if the acquisitions occurred as of the beginning of the periods presented or that may be obtained in the future.

For the year ended December 31, 1999 (Amounts in thousands except per share data)	IPG (as reported)	Pre-acquisition results (unaudited)	Pro forma IPG with 1999 acquisitions (unaudited)
Revenues	$4,427,303	$104,528	$4,531,831
Net income	321,921	7,101	329,022
Earnings per share:			
Basic	1.15		1.17
Diluted	1.11		1.13

Net income amounts shown in the table above include restructuring and other merger related costs of $51.4 million, net of tax.

For the year ended December 31, 1998 (Amounts in thousands except per share data)	IPG (as reported)	Results of 1999 acquisitions (unaudited)	Pro forma IPG with 1999 acquisitions (unaudited)
Revenues	$3,844,340	$277,593	$4,121,933
Net income	309,905	19,404	329,309
Earnings per share:			
Basic	1.14		1.18
Diluted	1.10		1.14

Unaudited pro forma consolidated results after giving effect to businesses acquired in purchase transactions during 1998 would not have been materially different from the reported amounts for 1998.

1998

In 1998, 14,956,534 shares of the Company's common stock were issued for acquisitions accounted for as poolings of interests. The companies pooled and the respective shares of the Company's common stock issued were: International Public Relations Plc.—5,280,346 shares, Hill Holliday—4,124,868 shares, The Jack Morton Company—4,271,992 shares, Carmichael Lynch, Inc.—973,808 shares and KBA Marketing—305,520 shares.

The Company's consolidated financial statements, including the related notes, have been restated as of the earliest period presented to include the results of operations, financial position and cash flows of the above 1998 pooled entities in addition to all prior pooled entities. A gross income and net income reconciliation for the year ended December 31, 1997 is summarized below:

(Dollars in thousands)	Gross Income	Net Income/ (Loss)
As reported	$3,264,120	$205,033
Pooled companies	218,264	(4,655)
As restated	$3,482,384	$200,378

In 1998, the Company paid $140 million in cash and issued 2,718,504 shares of its common stock to acquire 70 companies, all of which have been accounted for as purchases. These acquisitions included Gillespie, Ryan McGinn, CSI, Flammini, Gingko and Defederico and Herrero Y Ochoa. The Company also recorded a liability for acquisition related deferred payments of $24 million.

1997

In 1997, the Company issued 8,118,510 shares of its common stock for acquisitions accounted for as poolings of interests. Some of the companies pooled and the respective shares of the Company's common stock issued were: Complete Medical Group—1,417,578 shares, Integrated Communications Corporation—1,170,108 shares, Advantage International—1,158,412 shares and Ludgate—1,078,918 shares. Additional companies accounted for as poolings of interests include Adler Boschetto Peebles, Barnett Fletcher, Davies Baron, Diefenbach Elkins, D.L. Blair, Rubin Barney & Birger, Inc. and Technology Solutions Inc.

In 1997, the Company also paid $81 million in cash and issued 2,400,118 shares of its common stock for acquisitions accounted for as purchases and equity investments. These acquisitions included Marketing Corporation of America, Medialog, The Sponsorship Group, Kaleidoscope and Addis Wechsler (51% interest). The Company increased its interest in Campbell Mithun Esty by 25%. The Company also recorded a liability for acquisition related deferred payments of $38 million.

Deferred Payments

Certain of the Company's acquisition agreements provide for deferred payments by the Company, contingent upon future revenues or profits of the companies acquired. Deferred payments of both cash and shares of the Company's common stock for prior years' acquisitions were $205 million, $75 million, and $43 million in 1999, 1998, and 1997, respectively. Such payments are capitalized and recorded as goodwill.

Investments

During 1999, the Company sold a portion of its investments in Lycos and USWEB for combined proceeds of approximately $56 million. Additionally, the Company sold its minority investment in Nicholson NY, Inc. to Icon for $19 million in shares of Icon's common stock.

During 1998, the Company sold a portion of its investments in USWEB, CKS Group, Inc. and Lycos with combined proceeds of approximately $20 million. These investments are being accounted for as available-for-sale securities, pursuant to the requirements of SFAS 115.

During 1997, the Company sold its investment in All American Communications, Inc. for approximately $77 million.

5.29

MOHAWK INDUSTRIES, INC. (DEC)

Consolidated Statements of Stockholders' Equity

(In thousands)	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Total Stockholders' Equity
Balances at December 31, 1996	59,757	$598	$162,707	$246,311	$ —	$409,616
Stock options exercised	460	5	3,631	—	—	3,636
Dividends paid	—	—	—	(24)	—	(24)
Tax benefit from exercise of stock options	—	—	1,050	—	—	1,050
Net earnings	—	—	—	79,563	—	79,563
Balances at December 31, 1997	60,217	603	167,388	325,850	—	493,841
Stock options exercised	316	3	4,414	—	—	4,417
Dividends paid	—	—	—	(24)	—	(24)
Tax benefit from exercise of stock options	—	—	243	—	—	243
Adjustments to conform fiscal year end of World	—	—	—	(2,672)	—	(2,672)
Net earnings	—	—	—	115,254	—	115,254
Balances at December 31, 1998	60,533	606	172,045	438,408	—	611,059
Stock options exercised	124	1	1,390	—	—	1,391
Purchase of treasury stock	—	—	—	—	(83,986)	(83,986)
Tax benefit from exercise of stock options	—	—	836	—	—	836
Durkan pooling adjustment	—	—	5,722	—	—	5,722
Adjustments to conform fiscal year end of Durkan	—	—	—	285	—	285
Net earnings	—	—	—	157,239	—	157,239
Balances at December 31, 1999	60,657	$607	$179,993	$595,932	$(83,986)	$692,546

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

Note 2: Acquisitions

The Company completed its acquisitions of Newmark & James, Inc. and American Weavers LLC on June 30, 1998 and August 10, 1998, respectively. Both of these acquisitions have been accounted for under the purchase method of accounting and their results are included in the Company's 1998 consolidated statement of earnings from the respective dates of acquisition.

On November 12, 1998, the Company acquired all of the outstanding capital stock of World in exchange for 4,900 shares of the Company's common stock. The acquisition of World has been accounted for under the pooling-of-interests basis of accounting and, accordingly, the Company's historical consolidated financial statements have been restated to include the accounts and results of operations of World. The Company incurred before-tax, nonrecurring charges aggregating $20,600 in 1998 related to the World Merger, of which $17,700 of the charge was recorded as non-operating expense and $2,900 of the charge was recorded as a write-down of World computer equipment that was disposed of.

On January 29, 1999, the Company acquired certain assets of Image Industries, Inc. ("Image") for approximately $192,000, including acquisition costs and the assumption of $30,000 of tax-exempt debt. The acquisition was accounted for using the purchase method of accounting and, accordingly, the purchase price was allocated to the assets acquired and liabilities assumed based on the estimated fair values at the date of acquisition. The estimated fair values were $205,366 for assets acquired and $42,903 for liabilities assumed.

The operating results of Image are included in the Company's 1999 consolidated statement of earnings from the date of acquisition. The following unaudited pro forma information presents a summary of consolidated results of operations of the Company and Image for the fiscal years ended December 31, 1999 and 1998, respectively, as if the acquisition had occurred at the beginning of 1998.

	1999	1998
Net sales	$3,099,113	$2,946,736
Net earnings	156,877	119,360
Basic earnings per share	2.63	1.98
Diluted earnings per share	2.60	1.95

On March 9, 1999, the Company acquired all of the outstanding capital stock of Durkan for approximately 3,100 shares of the Company's common stock valued at $116,500 based on the closing price the day the letter of intent was executed. The Durkan acquisition has been accounted for under the pooling-of-interests method of accounting and, accordingly, The Company's historical consolidated financial statements have been restated to include the accounts and results of operations of Durkan.

The results of operations previously reported by the separate enterprises and the combined amounts presented in the accompanying consolidated financial statements are presented below:

	Three Months Ended April 3, 1999	Year Ended December 31, 1998	Year Ended December 31, 1997
	(unaudited)		
Net sales			
Mohawk	$683,494	$2,638,820	$2,327,341
Durkan	23,673	105,800	101,744
Combined	$707,167	$2,744,620	$2,429,085
Net earnings			
Mohawk	$ 27,128	$ 107,613	$ 73,424
Durkan	764	7,641	6,139
Combined	$ 27,892	$ 115,254	$ 79,563

Prior to the combination, Durkan's fiscal year ended on February 28. In recording the pooling-of-interests combination, Durkan's financial statements for the year ended December 31, 1999 were combined with Mohawk's consolidated financial statements for the same period. Durkan's financial statements for the years ended February 27, 1999, and February 28, 1998 were combined with Mohawk's financial statements for the years ended December 31, 1998 and 1997, respectively.

An adjustment has been made to stockholders' equity in the year ended December 31, 1999 to eliminate the effect of including Durkan's results of operations for the two months ended February 28, 1999 in the Company's consolidated financial statements for the years ended December 31, 1999 and 1998. There were no significant intercompany transactions between Mohawk and Durkan prior to the combination.

ADDITIONAL PAID-IN CAPITAL

PRESENTATION OF CHANGES IN ADDITIONAL PAID-IN CAPITAL

5.30 *Paragraph 10 of APB Opinion No. 12* states:

10. When both financial position and results of operations are presented, disclosure of changes in the separate accounts comprising stockholders' equity (in addition to retained earnings) and of the changes in the number of shares of equity securities during at least the most recent annual fiscal period and any subsequent interim period presented is required to make the financial statements sufficiently informative. Disclosure of such changes may take the form of separate statements or may be made in the basic financial statements or notes thereto.

5.31 Table 5-5 summarizes the presentation formats used by the survey companies to present changes in additional paid-in capital.

5.32

TABLE 5-5: PRESENTATION OF CHANGES IN ADDITIONAL PAID-IN CAPITAL

	1999	1998	1997	1996
Statement of stockholders' equity	493	483	454	433
Statement of additional paid-in capital	1	3	5	9
Schedule in notes	13	27	52	62
No statement or schedule but changes disclosed	4	5	6	6
Balance unchanged during year	16	16	16	18
	527	**534**	**533**	**528**
Additional paid-in capital account not presented	73	66	67	72
Total Companies	**600**	**600**	**600**	**600**

STOCK SPLITS

5.33 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.

5.34

TABLE 5-6: STOCK SPLITS

	1999	1998	1997	1996
Ratio				
Less than three-for-two	5	4	3	2
Three-for-two (50%) to two-for-one	8	12	10	12
Two-for-one (100%)	36	60	60	44
Greater than two-for-one	5	7	7	5
	54	**83**	**80**	**63**
Reverse ratio				
One-for-two	1	N/C*	N/C*	N/C*
One-for-four	1	N/C*	N/C*	N/C*
Total Companies	**56**	**83**	**80**	**63**
Account charged				
Additional paid-in capital	7	30	23	23
Retained earnings	7	19	16	12
No charge	42	34	41	28
Total Companies	**56**	**83**	**80**	**63**

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

5.35

PE CORPORATION (JUN)

Consolidated Statements of Stockholders' Equity and Comprehensive Income (Loss)

(Dollar amounts and shares in thousands)	PE Corporation Common Stock	PE Biosystems Common Stock	Celera Genomics Common Stock	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock At Cost	Treasury Stock Shares	Total Stockholders' Equity
Balance at June 30, 1996	$50,026	$ —	$ —	$358,454	$ 69,519	$(7,117)	$(97,155)	(2,701)	$373,727
Comprehensive income									
Net income					130,398				130,398
Other comprehensive income, net of tax									
Foreign currency translation adjustments						(4,125)			
Minimum pension liability adjustment						28,660			
Unrealized gain on investments, net						3,156			
Sale of equity investment						(23,245)			
Other comprehensive income						4,446			4,446
Comprehensive income									134,844
Cash dividends declared					(29,536)				(29,536)
Repurchases of common stock							(25,126)	(428)	(25,126)
Issuances under stock plans	61			2,065	(1,459)		31,615	1,146	32,282
Tax benefit related to employee stock options				4,568					4,568
Restricted stock plan				6,098			5,580	187	11,678
Sale of equity put warrants				1,846					1,846
Other	35			1,392	(1,440)				(13)
Balance at June 30, 1997	50,122			374,423	167,482	(2,671)	(85,086)	(1,796)	504,270
Comprehensive income									
Net income					56,388				56,388
Other comprehensive loss, net of tax									
Foreign currency translation adjustments						(2,747)			
Minimum pension liability adjustment						354			
Unrealized loss on investments, net						(4,449)			
Other comprehensive loss						(6,842)			(6,842)
Comprehensive income									49,546
Cash dividends declared					(31,604)				(31,604)
Issuances under stock plans	26			1,358	(3,468)		37,759	965	35,675
Tax benefit related to employee stock options				2,335					2,335
Restricted stock plan				1,858	(136)				1,722
Elimination of PerSeptive results from July 1, 1997 to September 30, 1997					2,590				2,590
Other					(286)				(286)

(Dollar amounts and shares in thousands)	PE Corporation Common Stock	PE Biosystems Common Stock	Celera Genomics Common Stock	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock At Cost	Treasury Stock Shares	Total Stockholders' Equity
Balance at June 30, 1998	50,148			379,974	190,966	(9,513)	(47,327)	(831)	564,248
Comprehensive income									
Net income					175,855				175,855
Other comprehensive income, net of tax									
Foreign currency translation adjustments						(5,415)			
Minimum pension liability adjustment						(1,779)			
Unrealized gain on investments, net						11,887			
Other comprehensive income						4,693			4,693
Comprehensive income									180,548
Cash dividends declared on PE Corporation common stock					(25,479)				(25,479)
Cash dividends declared on PE Biosystems common stock					(8,677)				(8,677)
PE Corporation restricted stock plan				(883)	1,207		1,973	42	2,297
Tax benefit related to employee stock options				15,735					15,735
Issuances under PE Corporation common stock plans	873			43,323	(14,862)		45,354	789	74,688
Recapitalization (May 6, 1999)	(51,021)	510	255	50,256					
Repurchases of PE Biosystems common stock							(2,187)	(20)	(2,187)
Issuances under PE Biosystems common stock plans		3		17,967	(1,290)		2,187	20	18,867
Issuances under Celera Genomics common stock plans			2	1,483					1,485
PE Biosystems two-for-one stock split		514		(514)					
Balance at June 30, 1999	$ —	$1,027	$257	$507,341	$317,720	$(4,820)	$ —	—	$821,525

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (In Part): Accounting Policies and Practices

Earnings Per Share (In Part)

On June 17, 1999, the Board of Directors announced a two-for-one split of PE Biosystems group common stock. The two-for-one stock split was effected in the form of a 100% stock dividend paid to stockholders of record as of the close of business on July 12, 1999. All PE Biosystems share and per share data reflect this split.

5.36

TANDY CORPORATION AND SUBSIDIARIES (DEC)

Consolidated Statements of Stockholders' Equity

(In millions)	Preferred Stock	Common Stock Shares	Common Stock Dollars	Treasury Stock Shares	Treasury Stock Dollars
Balance at December 31, 1996	$100.0	85.6	$ 85.6	(28.4)	$(1,164.5)
Comprehensive income:					
Net income	—	—	—	—	—
Other comprehensive income, net of tax:					
Foreign currency translation adjustments					
Reclassification for losses included in net income					
Net unrealized loss on foreign currency translation					
Unrealized gain on securities					
Reclassification for gains included in net income					
Net unrealized gain on securities					
Other comprehensive income	—	—	—	—	—
Comprehensive income					
Purchase of treasury stock	—	—	—	(9.1)	(412.1)
Sale of treasury stock to employee stock plans	—	—	—	0.8	26. 5
Exercise of stock options and grant of stock awards	—	—	—	0.7	23.9
Series B convertible stock dividends, net of taxes of $2.1	—	—	—	—	—
Deferred compensation earned	—	—	—	—	—
Repurchase of preferred stock	—	—	—	—	(4.5)
Common stock cash dividends declared	—	—	—	—	—
Two-for-one common stock split	—	52.7	52.7	—	694.6
Balance at December 31, 1997	100.0	138.3	138.3	(36.0)	(836.1)
Comprehensive income:					
Net income	—	—	—	—	—
Other comprehensive income, net of tax:					
Foreign currency translation adjustments					
Reclassification for losses included in net income					
Net unrealized gain on foreign currency translation					
Other comprehensive income	—	—	—	—	—
Comprehensive income					
Purchase of treasury stock	—	—	—	(7.5)	(339.3)
Sale of treasury stock to employee stock plans	—	—	—	0.8	19.3
Restricted stock awards	—	0.9	0.9	(0.3)	(29.1)
Exercise of stock options and grant of stock awards	—	—	—	1.2	29.9
Series B convertible stock dividends, net of taxes of $2.1	—	—	—	—	—
Deferred compensation earned	—	—	—	—	—
Repurchase of preferred stock	—	—	—	—	(6.3)
Common stock cash dividends declared	—	—	—	—	—

(In millions)	Preferred Stock	Common Stock Shares	Common Stock Dollars	Treasury Stock Shares	Treasury Stock Dollars
Balance at December 31, 1998	100.0	139.2	139.2	(41.8)	(1,161.6)
Comprehensive income:					
Net income	—	—	—	—	—
Other comprehensive income, net of tax:					
Foreign currency translation adjustments					
Other comprehensive income	—	—	—	—	—
Comprehensive income					
Purchase of treasury stock	—	—	—	(8.5)	(435.9)
Common stock put options	—	—	—	—	(16.1)
Sale of treasury stock to employee stock plans	—	—	—	0.4	9.3
Restricted stock awards	—	—	—	—	1.5
Purchase of AmeriLink Corporation	—	—	—	1.8	25.5
Dealer/Franchsiee Rewards Program	—	—	—	—	0.8
Exercise of stock options and grant of stock awards	—	—	—	3.0	51.6
Series B convertible stock dividends, net of taxes of $1.9	—	—	—	—	—
Deferred compensation earned	—	—	—	—	—
Cancellation of preferred stock, net of repurchases	(27.2)	—	—	—	28.8
Common stock cash dividends declared	—	—	—	—	—
Two-for-one common stock split	—	96.6	96.6	—	603.8
Balance at December 31, 1999	$ 72.8	235.8	$235.8	(45.1)	$ (892.3)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3: Stock Split

On May 20, 1999, Tandy's Board of Directors declared a two-for-one split of Tandy common stock, payable on June 21, 1999. This resulted in the issuance of 96.6 million shares of common stock along with a corresponding decrease of $96.6 million in additional paid-in capital. Treasury shares were not split. However, an adjustment was made to Tandy's stockholders' equity section of the balance sheet to split the cost of treasury stock (in effect a cancellation of treasury shares by reducing paid-in capital and retained earnings). All references to the number of shares (other than common stock issued or outstanding on the 1998 Consolidated Balance Sheet and 1997 and 1998 Consolidated Statements of Stockholders' Equity), per share amounts, cash dividends, and any other reference to shares in the Consolidated Financial Statements and the accompanying Notes to Consolidated Financial Statements ("Notes"), unless otherwise noted, have been adjusted to reflect the split on a retroactive basis. Previously awarded stock options, restricted stock awards, and all other agreements payable in Tandy's common stock have been adjusted or amended to reflect the split.

5.37

TERADYNE, INC. (DEC)

Consolidated Statements of Changes in Shareholders' Equity

(In thousands)	Shares Issued	Shares Reacquired	Common Stock Par Value	Additional Paid-in Capital	Retained Earnings	Total
Balance, December 31, 1996	87,242	4,762	$10,310	$355,576	$476,125	$ 842,011
Issuance of stock to employees under benefit plans	3,373		422	43,643		44,065
Tax benefit from stock options				27,982		27,982
Repurchase of stock		2,550	(319)	(104,216)		(104,535)
Net income					127,608	127,608
Balance, December 31, 1997	90,615	7,312	10,413	322,985	603,733	937,131
Issuance of stock to employees under benefit plans	1,796		224	26,355		26,579
Tax benefit from stock options				11,701		11,701
Repurchase of stock		1,355	(169)	(50,989)		(51,158)
Net income					102,117	102,117
Balance, December 31, 1998	92,411	8,667	10,468	310,052	705,850	1,026,370
Issuance of stock to employees under benefit plans	3,205		401	60,730		61,131
Repurchase of stock		1,366	(171)	(86,980)		(87,151)
Two-for-one stock split effected in the form of a 100% stock dividend	95,616	10,033	10,698	(10,698)		0
Issuance of stock to employees under benefit plans after two-for-one stock split	1,973		246	20,947		21,193
Tax benefit from stock options				60,462		60,462
Repurchase of stock after two-for-one stock split		2,820	(352)	(120,315)		(120,667)
Net income					191,694	191,694
Balance, December 31, 1999	193,205	22,886	$21,290	$234,198	$897,544	$1,153,032

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

I. Common Stock Split

On July 30, 1999 the Company's Board of Directors authorized a two-for-one stock split effected in the form of a 100% stock dividend distributed on August 31, 1999 to shareholders of record as of August 17, 1999. As a result of the stock split, the accompanying consolidated financial statements reflect an increase in the number of outstanding shares of common stock and the transfer of the par value of these additional shares from paid-in capital. All share and per share amounts have been restated to reflect the retroactive effect of the stock split, except for the capitalization of the Company.

5.38

TEXAS INSTRUMENTS INCORPORATED (DEC)

Consolidated Financial Statements
(Millions of Dollars, Except Per-Share Amounts)

Stockholders Equity	Common Stock	Paid-In Capital	Retained Earnings	Treasury Common Stock	Accumulated Other Comprehensive Income
Balance December 31, 1996	$195	$1,166	$2,901	$ (12)	$ (11)
1997					
Net income	—	—	1,842	—	—
Dividends declared on common stock ($.17 per share)	—	—	(132)	—	—
Two-for-one common stock split	199	(199)	—	—	—
Common stock issued:					
On exercise of stock options	3	107	—	5	—
On conversion of debentures	2	101	—	—	—
Stock repurchase program	—	—	—	(86)	—
Other stock transactions, net	(1)	72	—	(1)	—
Pension liability adjustment	—	—	—	—	(24)
Equity and cash investments adjustment	—	—	—	—	(18)
Balance, December 31, 1997	398	1,247	4,611	(94)	(53)
1998					
Net income	—	—	416	—	—
Dividends declared on common stock ($.1275 per share)	—	—	(100)	—	—
Common stock issued on exercise of stock options	2	(107)	—	254	—
Stock repurchase program	—	—	—	(294)	—
Other stock transactions, net	—	108	—	—	—
Pension liability adjustment	—	—	—	—	(117)
Equity, debt and cash investments adjustment	—	—	—	—	465
Balance, December 31, 1998	400	1,248	4,927	(134)	295
1999					
Net income	—	—	1,406	—	—
Dividends declared on common stock ($.17 per share)	—	—	(134)	—	—
Two-for-one common stock split	401	(401)	—	—	—
Common stock issued on exercise of stock options	5	(253)	—	451	—
Stock repurchase program	—	—	—	(426)	—
Other stock transactions, net	—	196	—	—	—
Pension liability adjustment	—	—	—	—	132
Equity, debt and cash investments adjustment	—	—	—	—	1,126
Pooling of interest acquisitions	9	32	(15)	—	—
Adjustment to conform fiscal year end of pooled acquisition	—	—	(9)	—	—
Balance, December 31, 1999	$814	$ 822	$6,175	$(109)	$1,553

NOTES TO FINANCIAL STATEMENTS

Accounting Policies and Practices (In Part)

Amounts in the prior periods' financial statements and related notes have been restated to reflect the two-for-one stock split effective August 1999 and the acquisition of Unitrode Corporation (Unitrode) in October, 1999, which was accounted for as a pooling of interests. See also the Pooling of Interests Acquisitions note.

CHANGES IN ADDITIONAL PAID-IN CAPITAL

5.39 Table 5-7 summarizes credits and charges to additional paid-in capital. Examples of such credits and charges follow.

5.40

TABLE 5-7: CHANGES IN ADDITIONAL PAID-IN CAPITAL

	Number of Companies			
	1999	**1998**	**1997**	**1996**
Credits				
Common stock issued				
Employee benefits	454	410	401	395
Business combinations	71	68	70	58
Preferred stock conversions	20	28	30	28
Debt conversions/ extinguishments	23	19	20	22
Public offerings	40	26	24	24
Stock compensation tax benefits	124	120	116	99
Put options/warrants	7	11	13	8
Purchase or retirement of capital stock	9	6	12	8
Warrants issued or exercised	9	6	8	12
Other—described	30	35	47	37
Charges				
Purchase or retirement of capital stock	121	128	110	101
Treasury stock issued for less than cost	72	76	69	74
Conversion of preferred stock	10	9	14	12
Stock issued cost	7	3	3	3
Other—described	69	59	66	59

Common Stock Issued in Connection With Employee Benefit Plans

5.41

AMETEK, INC. (DEC)

Consolidated Statement of Stockholders' Equity

(Dollars in thousands)	1999 Comprehensive Income	1999 Stockholders' Equity	1998 Comprehensive Income	1998 Stockholders' Equity	1997 Comprehensive Income	1997 Stockholders' Equity
Capital Stock						
Preferred stock, $.01 par value		$ —		$ —		$ —
Common stock, $.01 par value						
Balance at the beginning of the year		334		332		342
Shares issued, net of common stock retirement		—		2		(10)
Balance at the end of the year		334		334		332
Capital in Excess of Par Value						
Balance at the beginning of the year		4,727		3,146		1,190
Employee stock option, savings and award plans		(2,686)		1,581		4,788
Common stock retirement		—		—		(2,832)
Balance at the end of the year		2,041		4,727		3,146
Retained Earnings						
Balance at the beginning of the year		216,837		182,935		157,843
Net income	$60,768	60,768	$41,739	41,739	$50,413	50,413
Cash dividends paid		(7,744)		(7,837)		(7,906)
Common stock retirement		—		—		(7,882)
Disposition of Water Filtration Business		—		—		(9,533)
Balance at the end of the year		269,861		216,837		182,935
Accumulated Other Comprehensive Losses						
Foreign currency translation:						
Balance at the beginning of the year		(16,277)		(20,246)		(13,727)
Translation adjustments	(10,015)	(10,015)	3,969	3,969	(6,519)	(6,519)
Balance at the end of the year		(26,292)		(16,277)		(20,246)
Minimum pension liability adjustment:						
Balance at the beginning of the year		(4,012)		(1,909)		(2,582)
Adjustments during the year	3,732	3,732	(2,103)	(2,103)	673	673
Balance at the end of the year		(280)		(4,012)		(1,909)

(Dollars in thousands)	1999 Comprehensive Income	1999 Stockholders' Equity	1998 Comprehensive Income	1998 Stockholders' Equity	1997 Comprehensive Income	1997 Stockholders' Equity
Valuation adjustments for marketable securities and other:						
Balance at the beginning of the year		(575)		268		934
Decrease in marketable securities	(248)	(248)	(1,018)	(1,018)	(690)	(690)
Other	0	0	175	175	24	24
Net change in marketable securities and other	(248)		(843)		(666)	
Balance at the end of the year		(823)		(575)		268
Total other comprehensive (loss) income for the year	(6,531)		1,023		(6,512)	
Total comprehensive income for the year	$54,237		$42,762		$43,901	
Accumulated other comprehensive loss at the end of the year		(27,395)		(20,864)		(21,887)
Treasury Stock						
Balance at the beginning of the year		(26,985)		(5,479)		(14,502)
Employee stock option, savings and award plans		7,641		6,493		3,672
Purchase of treasury stock		(9,281)		(27,999)		(5,375)
Retirement of treasury stock		—		—		10,726
Balance at the end of the year		(28,625)		(26,985)		(5,479)
Total stockholders' equity		$216,216		$174,049		$159,047

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7. Stock Option and Award Plans

In 1999, the Company adopted the 1999 Stock Incentive Plan ("the 1999 Plan"). The 1999 plan provided for the grant of up to 2.0 million shares of common stock to eligible employees and nonemployee directors of the Company in the form of options, phantom stock awards, restricted stock awards and stock rights. The Company's 1997 Stock Incentive Plan permitted the grant of up to 3.8 million shares of common stock. Stock options may be granted as non-qualified stock options or as incentive stock options under the Internal Revenue Code of 1986.

Restricted stock awards of the Company's common stock are made to eligible employees and nonemployee directors at such cost to the recipient as the stock incentive committee of the Board of Directors may determine. Such shares are issued subject to certain conditions with respect to transfer and other restrictions as prescribed by the plan. 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 stockholders' equity and is amortized to expense over the periods until the restrictions lapses. The Company did not grant any restricted stock in 1999.

In 1999, the Company reserved an additional 17,500 shares, net of share adjustments for terminations, under a Supplemental Executive Retirement Plan ("SERP"), bringing the total number of shares reserved to 79,500 shares. Charges to expense under the SERP are considered pension expense (see Note 10), with the offsetting credit reflected in stockholders' equity.

At December 31, 1999, 4,842,758 (3,220,018 in 1998) shares of common stock were reserved for grant under the 1999 and 1997 plans. The options are exercisable at prices not less than market prices on dates of grant, and in installments over four-to-ten-year-periods from dates of grant. The Company had no stock appreciation rights outstanding at December 31, 1999 or 1998. Stock appreciation rights, when issued, are exercisable for cash and/or shares of the Company's common stock when the related option is exercised. A charge to income, not significant in amount, is made for these rights and certain related options.

Upon completion of the 1997 spin-off of the Company's former water filtration business, all options outstanding at that time were amended by adjusting the exercise price and the number of shares to maintain each option's inherent economic value, the per-share ratio between the market price of the Company's common stock and the exercise price of the option, and the vesting and term provisions of the option that existed prior to the spin-off.

A summary of the Company's stock option activity and related information for the years ended December 31 follows:

	1999		1998		1997	
	Shares	Price Range	Shares	Price Range	Shares	Price Range
Outstanding at beginning of year	2,687,031	$10.92 - $30.34	2,601,564	$ 9.73 - $23.78	2,767,302	$11.69 - $19.56
Granted	717,400	$18.78 - $24.84	593,600	$25.69 - $30.34	46,500	$18.10 - $23.78
Options issued in conversion for Spin-off and Merger*	—	—	—	—	464.812	$ 9.73-$18.10
Exercised	(377,260)	$11.60 - $22.00	(417,653)	$ 9.73 - $18.10	(552,737)	$ 9.73 - $17.69
Canceled	(119,180)	$14.15 - $30.34	(90,480)	$11.60 - $28.63	(124,313)	$11.60 - $19.19
Outstanding at end of year	2,907,991 **	$10.92 - $30.34	2,687,031	$10.92 - $30.34	2,601,564	$ 9.73 - $23.78
Exercisable at end of year	1,628,799 **	$10.92 - $30.34	1,570,966	$10.92 - $23.78	1,421,506	$ 9.73 - $15.97

* Shares added and prices adjusted to reflect conversion of the Company's stock price for completion of the Spin-off and Merger of its former Water Filtration Business on August 1, 1997.

** Expiring from 2000 through 2007 Of the 2,907,991 options issued and outstanding at December 31, 1999, 1,659,641 options had exercise prices from $10.92 to $18.10 per share, of which approximately 90% of those options were exercisable at year end 1999. The remaining 1,248,350 options outstanding had exercise prices between $18.78 and $30.34 per share.

The Company applies Accounting Principles Board Opinion No. 25, *"Accounting for Stock Issued to Employees,"* in accounting for its stock option plans. Had compensation expense for such plans been determined in accordance with Financial Accounting Standards Board Statement No. 123, *"Accounting for Stock-Based Compensation"* pro forma net income and related per share amounts for the years ended December 31, 1999, 1998, and 1997 would have been as follows:

(In thousands, except per share data)	1999	1998	1997
Net income:			
As reported	$60,768	$41,739	$50,413
Pro forma	58,838	40,120	49,217
Net income per share:			
Basic:			
As reported	$ 1.88	$ 1.28	$ 1.53
Pro forma	1.82	1.23	1.50
Diluted:			
As reported	1.85	1.24	1.49
Pro forma	1.82	1.23	1.48

The weighted average fair value of each option grant on the grant date was $6.65 for 1999, $8.41 for 1998, and $5.68 for 1997. The fair value of each option was estimated using the Black-Scholes option pricing model with the following weighted-average assumptions for options granted in each of the last three years.

	1999	1998	1997
Expected life (years)	5.0	5.0	5.0
Expected volatility	28.0%	24.5%	23.6%
Dividend yield	1.2%	0.8%	1.1%
Risk-free interest rate	5.58%	4.79%	5.71%

5.42

CROWN CENTRAL PETROLEUM CORPORATION AND SUBSIDIARIES (DEC)

Consolidated Statements of Changes in Common Stockholders' Equity

(Thousands of dollars, except per share amounts)	Total Shares	Class A Common Stock Amount	Class B Common Stock Amount	Additional Paid-In Capital	Unearned Restricted Stock	Retained Earnings	Accumulated Other Comprehensive Income	Total
Balance at December 31, 1996	9,983,180	$24,087	$25,829	$91,817	$(2,951)	$48,582	$11	$187,375
Comprehensive income:								
Net income for 1997						19,235		19,235
Adjustment to minimum pension liability, net of deferred income tax benefit of $69							(128)	(128)
Comprehensive income								(19,107)
Stock registered to participants of stock incentive plans	92,700		464	736	(1,200)			
Cancellation of non-vested stock registered to participants of stock incentive plans	(81,700)		(409)	(571)	980			
Stock option exercises	63,988		320	557				877
Market value adjustments to unearned restricted stock				2,120	(2,120)			
Other				(4)				(4)
Balance at December 31, 1997	10,058,168	24,087	26,204	94,655	(5,291)	67,817	(117)	207,355
Comprehensive income:								
Net (loss) for 1998						(29,380)		(29,380)
Adjustment to minimum pension liability, net of deferred income tax benefit of $117							219	219
Comprehensive income								(29,161)
Stock registered to participants of stock incentive plans	85,415		427	645	(1,072)			
Cancellation of non-vested stock registered to participants of stock incentive plans	(114,140)		(571)	(1,649)	2,220			
Stock option exercises	41,814		209	387				596
Market value adjustments to unearned restricted stock				(2,530)	2,530			
Other	(17,646)		(88)	(42)	113			(17)
Balance at December 31, 1998	10,053,611	24,087	26,181	91,466	(1,500)	38,437	102	178,773
Comprehensive income:								
Net (loss) for 1999						(30,026)		(30,026)
Adjustment to minimum pension liability, net of deferred income tax benefit of $175							327	327
Comprehensive income								(29,699)
Stock registered to participants of stock incentive plans	40,200		201	111	(312)			
Stock released to participants of stock incentive plans				227				227
Cancellation of non-vested stock registered to participants of stock incentive plans	(22,555)		(113)	(56)	169			
Market value adjustments to unearned restricted stock				(594)	594			
Balance at December 31, 1999	10,071,256	$24,087	$26,269	$91,154	$(1,049)	$8,411	$429	$149,301

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note G: Long-Term Incentive Plan

Under the terms of the 1994 Long-term Incentive Plan (Plan), the Company may distribute to employees restricted shares of the Company's Class B Common Stock and options to purchase Class B Common Stock. Up to 1.1 million shares of Class B Common Stock may be distributed under the Plan. The balance sheet caption "Unearned restricted stock" is charged for the market value of restricted shares at their grant date and changes in the market value of shares outstanding until the vesting date, and is shown as a reduction of stockholders' equity. The impact is further reflected within Class B Common Stock and Additional Paid-in-Capital.

PVRS awards are subject to minimum years of service requirements from the date of grant with earlier vesting possible subject to the attainment of performance goals. Additionally, PVRS awards are subject to certain other restrictions including the receipt of dividends and transfers of ownership. As of December 31, 1999, 199,825 shares of PVRS have been registered in the participants names and are being held by the Company subject to the attainment of the related performance goals or years of service. PVRS awards to employees who have left the Company are canceled. PVRS awards granted prior to 1996 whose related performance goals have not been achieved were forfeited.

Under the 1994 Long-Term Incentive Plan, non-qualified stock options are granted to participants at a price not less than 100% of the fair market value of the stock on the date of grant. The exercise period is ten years with the options vesting one-third per year over three years after a one-year waiting period.

Under the terms of the 1995 Management Stock Option Plan, the Company may award to participants non-qualified stock options to purchase shares of the Company's Class B Common Stock at a price equal to 100% of the fair market value of the stock at the date of grant. Up to 500,000 shares of Class B Common Stock may be distributed under the Plan. The exercise period is ten years with the options vesting one-third per year over three years after a one-year waiting period.

Shares of Class B Common Stock available for issuance under options or awards amounted to 226,173 and 213,189 at December 31, 1999 and 1998, respectively.

Detail of the Company's stock options are as follows:

	Common Shares	Price Range Per Share	Weighted Average Price Per Share
1994 Long-Term Incentive Plan			
Outstanding—January 1, 1997	484,556	$12.81 - $19.50	$14.69
Granted—1997	166,000	$11.69	$11.69
Exercised—1997	(4,963)	$12.81 - $16.13	$13.24
Canceled—1997	(4,536)	$12.81 - $17.06	$15.37
Outstanding—December 31, 1997	641,657	$11.69 - $19.50	$13.92
Shares exercisable at December 31, 1997	310,142	$12.81 - $19.50	$14.66
Granted—1998	165,915	$ 9.38 - $15.00	$14.92
Exercised—1998	(29,942)	$12.81 - $17.69	$14.27
Canceled—1998	(37,982)	$11.69 - $17.69	$13.20
Outstanding—December 31, 1998	739,648	$ 9.38 - $19.50	$14.17
Shares exercisable at December 31, 1998	509,559	$ 9.38 - $19.50	$14.20
Granted—1999	68,600	$ 7.75	$ 7.75
Canceled—1999	(74,610)	$ 7.75 - $17.69	$13.68
Outstanding—December 31, 1999	733,638	$ 7.75 - $19.50	$13.62
Shares exercisable at December 31, 1999	557,713	$ 7.75 - $19.50	$14.20

(Continued)

	Common Shares	Price Range Per Share	Weighted Average Price Per Share
1995 Management Stock Option Plan			
Outstanding—January 1, 1997	430,480	$13.75 - $16.06	$13.77
Exercised—1997	(59,025)	$13.75	$13.75
Canceled—1997	(32,704)	$13.75	$13.75
Outstanding—December 31, 1997	338,751	$13.75 - $16.06	$13.78
Shares exercisable at December 31, 1997	207,388	$13.75 - $16.06	$13.78
Exercised—1998	(11,872)	$13.75 - $16.06	$14.27
Canceled—1998	(1,500)	$13.75	$13.75
Outstanding—December 31, 1998	325,379	$13.75 - $16.06	$13.76
Shares exercisable at December 31, 1998	325,379	$13.75 - $16.06	$13.76
Canceled—1999	(26,645)	$13.75 - $16.06	$13.87
Outstanding—December 31, 1999	298,734	$13.75 - $16.06	$13.75
Shares exercisable at December 31, 1999	298,734	$13.75 - $16.06	$13.75
Total outstanding—December 31, 1999	1,032,372	$ 7.75 - $19.50	$13.66
Total exercisable—December 21, 1999	856,447	$ 7.75 - $19.50	$14.04

The weighted average remaining life for options outstanding at December 31, 1999 was approximately seven years for the 1994 Long-Term Incentive Plan and approximately five years for the 1995 Management Stock Option Plan.

All options were granted at an exercise price equal to the fair market value of the common stock at the date of grant. The weighted average fair value at the date of grant for options granted under the Long-Term Incentive Plan was $2.15, $3.57 and $2.31 for 1999, 1998 and 1997, respectively. There were no grants under the Management Stock Option Plan in 1999, 1998, or 1997. The fair value of options at date of grant was estimated using the Black-Scholes model with the following assumptions:

Long-Term Incentive Plan	1999	1998	1997
Expected life (years)	3	3	3
Risk free interest rate	5.50%	5.63%	5.67%
Volatility	36.6%	27.5%	27.0%
Dividend Yield	0.0%	0.0%	0.0%

The Company granted 40,200, 85,415 and 92,700 of shares of PVRS Awards during 1999, 1998 and 1997, respectively. The weighted average fair value at date of grant for PVRS Awards granted in 1999, 1998 and 1997 was $7.75, $14.94 and $11.69, respectively, which in each case represents the market value of the Company's Class B Common Stock at the date of grant.

The amount of compensation expense recognized for PVRS Awards was not significant for 1999, 1998, or 1997.

Stock-based compensation costs would have increased the pretax loss by approximately $728,000 ($455,000 after tax or $.05 per basic and diluted share) for the year ended December 31, 1999, increased the pretax loss by approximately $864,000 ($540,000 after tax or $.05 per basic and diluted share) for the year ended December 31, 1998, and decreased the pretax income by approximately $1,610,000 ($1,007,000 after tax or $.10 per basic and diluted share) for the year ended December 31, 1997 had the fair values of options and the PVRS granted since 1996 been recognized as compensation expense on a straight line basis over the vesting period of the grant giving consideration to achievement of performance objectives where applicable. The pro-forma effect on net income for 1998 and 1997 is not representative of the pro-forma effect on net income in future years as it does not consider the pro-forma compensation expense related to grants made prior to 1996.

Purchase Method Acquisition

5.43

ASHLAND INC. AND CONSOLIDATED SUBSIDIARIES (SEP)

Statements of Consolidated Stockholders' Equity

(In millions)	Preferred Stock	Common Stock	Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balance at October 1, 1996	$293	$64	$280	$1,186	$ (9)	1,814
Total comprehensive income				279	(26)	253
Preferred stock cash dividends				(9)		(9)
Common stock cash dividends, $1.10 a share				(77)		(77)
Issued common stock under						
Preferred stock conversion	(290)	9	281			—
Stock incentive plans		2	44			46
Employee savings plan			1			1
Preferred stock redemption	(3)					(3)
Other changes			(1)			(1)
Balance at September 30, 1997	—	75	605	1,379	(35)	2,024
Total comprehensive income				203	(7)	196
Common stock cash dividends, $1.10 a share				(84)		(84)
Issued common stock under						
Stock incentive plans		1	15			16
Acquisitions of other companies		1	29	3		33
Repurchase of common stock		(1)	(45)			(46)
Other changes			(2)			(2)
Balance at September 30, 1998	—	76	602	1,501	(42)	2,137
Total comprehensive income				290	(4)	286
Common stock cash dividends, $1.10 a share				(81)		(81)
Issued common stock under						
Stock incentive plans			7			7
Acquisitions of other companies		2	77			79
Repurchase of common stock		(6)	(222)			(228)
Balance at September 30, 1999	$ —	$72	$464	$1,710	$(46)	$2,200

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note L (In Part): Acquisitions and Divestitures

Acquisitions

During 1999, APAC acquired 14 construction businesses, six of which included the issuance of $79 million in Ashland common stock. During 1998, APAC acquired 10 Missouri-based companies known as the Masters-Jackson group, strengthening APAC's capabilities in asphalt production and paving, concrete paving, aggregate production and bridge-building, and also acquired several smaller construction businesses. Also in 1998, Ashland Distribution and Ashland Specialty Chemical acquired Gwil Industries' Plastics Division and made several smaller acquisitions. In addition, Valvoline acquired the Eagle One brand of premium automotive appearance products. Eagle One and four of the smaller APAC acquisitions were acquired by the issuance of a total of $61 million in Ashland common stock, certain of which were accounted for as poolings of interests. Prior periods were not restated, since the effects would have been insignificant. The other acquisitions, as well as several smaller acquisitions completed during the last three years, were accounted for as purchases and did not have a significant effect on Ashland's consolidated financial statements.

Preferred Stock Conversion

5.44

AK STEEL HOLDING CORPORATION (DEC)

Consolidated Statements of Stockholders' Equity

(Dollars in millions)	Preferred Stock	Common Stock	Additional Paid-In Capital	Treasury Stock	Accumulated Deficit	Other	Total
Balance, December 31, 1996, previously reported	$ 0.1	$0.3	$ 708.9	$(21.5)	$ 89.2		$ 777.0
Armco pooling of interests	130.4	0.2	963.9		(995.7)	$ 1.9	100.7
Balance, December 31, 1996	130.5	0.5	1,672.8	(21.5)	(906.5)	1.9	877.7
Net income					185.1		185.1
Unrealized gain on marketable securities						2.0	2.0
Stock options exercised			7.0				7.0
Two-for-one common split		0.5	(0.5)				—
Tax benefit from exercise of stock options			1.2				1.2
Tax benefit from vesting of restricted stock			0.1				0.1
Purchase of stock				(26.7)			(26.7)
Redemption of preferred stock	(0.1)		(2.9)		(0.2)		(3.2)
Preferred stock $.538 cash dividend per quarter					(7.7)		(7.7)
Preferred stock $.90625 cash dividend per quarter					(9.8)		(9.8)
Common stock $.10 cash dividend per quarter, $.125 in fourth quarter					(23.8)		(23.8)
Translation adjustment						(1.4)	(1.4)
Issuance of restricted stock, net			8.9				8.9
Unamortized restricted stock			(4.1)				(4.1)
Balance, December 31, 1997	130.4	1.0	1,682.5	(48.2)	(762.9)	2.5	1,005.3
Net income					329.7		329.7
Unrealized gain on marketable securities						(0.5)	(0.5)
Stock options exercised			2.0				2.0
Tax benefit from exercise of stock options			0.2				0.2
Tax benefit from vesting of restricted stock			0.2				0.2
Purchase of stock				(39.6)			(39.6)
Preferred stock $.90625 cash dividend per quarter					(9.8)		(9.8)
Common stock $.125 cash dividend per quarter					(29.7)		(29.7)
Translation adjustment						0.3	0.3
Minimum pension liability						(2.6)	(2.6)
Issuance of restricted stock, net		0.1	8.5				8.6
Unamortized restricted stock			(1.4)				(1.4)
Balance, December 31, 1998	130.4	1.1	1,692.0	(87.8)	(472.7)	(0.3)	1,262.7
Net income					65.4		65.4
Unrealized gain on marketable securities						(1.2)	(1.2)
Stock options exercised			31.7				31.7
Tax benefit from exercise of stock options			5.5				5.5
Purchase of treasury stock				(1.5)			(1.5)
Sale of treasury stock			(1.1)	9.1			8.0
Conversion of preferred stock to common stock	(115.5)	0.1	115.4				—
Conversion of minority interest preferred stock			(62.3)				(62.3)
Conversion of minority interest to common stock			2.1				2.1
Preferred stock $.90625 cash dividend per quarter					(7.6)		(7.6)
Common stock $.125 cash dividend per quarter					(35.1)		(35.1)
Translation adjustment						(1.4)	(1.4)
Minimum pension liability						1.2	1.2
Issuance of restricted stock, net			10.8				10.8
Unamortized restricted stock			(0.5)				(0.5)
Balance, December 31, 1999	$ 14.9	$1.2	$1,793.6	$(80.2)	$(450.0)	$(1.7)	$1,277.8

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

3 (In Part): Stockholders' Equity

Preferred Stock: On September 30, 1999, upon the effectiveness of the merger with Armco, the 2,700,000 outstanding shares of Armco's $3.625 convertible preferred stock were converted into the right to receive a like number of shares of a substantially identical new series of cumulative convertible preferred stock of the Company with an annual dividend rate of $3.625 per share. However, in accordance with the change of control provisions of Armco's $3.625 preferred stock issue, holders of that stock had the right, during a 45-day period starting September 30, 1999, to convert their shares into 3.009 shares of AK Holding common stock. Holders of 2,392,069 converted their shares during the 45-day window period. At December 31, 1999, there were authorized and issuable 307,931 shares of $3.625 preferred stock with a $1 per share par value, all of which were outstanding.

The Company's new $3.625 preferred stock ranks senior to its common stock with respect to dividends and upon liquidation. The holders of this preferred stock are entitled to one vote per share with respect to all matters to be voted upon by the stockholders of the Company. Each share may be converted, at the holder's option, into 2.6 shares of the Company's common stock. At the Company's option, each share of preferred stock may be redeemed at a price of $51.0875 until October 15, 2000. This price, then, is reduced at twelve-month intervals until it reaches $50 per share on and after October 15, 2002. Upon dissolution, liquidation or winding up of the Company, whether voluntary or involuntary, holders of the $3.625 preferred stock are entitled to a payment of $50 per share plus accrued but unpaid dividends before payments can be made to the holders of common stock. On December 31, 1999, the Company paid the regular quarterly dividend of $0.90625 per share on its $3.625 cumulative convertible preferred stock.

5.45

FEDERAL-MOGUL CORPORATION (DEC)

Consolidated Statements of Shareholders' Equity

(Millions of dollars)	Series C ESOP Preferred Stock	Series D & E Preferred Stock	Common Stock	Additional Paid-In Capital	Retained Earnings (Accumulated Deficit)	Unearned ESOP Compensation	Accumulated Other Comprehensive Income	Other	Total
Balance at January 1, 1997	$53.1	$76.6	$175.7	$ 283.5	$ (193.0)	$(28.4)	$ (40.1)	$(8.9)	$ 318.5
Net earnings					69.4				69.4
Currency translation							(27.4)		(27.4)
Other							1.8		1.8
Total comprehensive income									43.8
Conversion of Series D preferred stock		(76.6)	22.3	54.3					—
Issuance of stock			3.0	14.7				6.7	24.4
Retirement of Series C ESOP preferred stock	(4.1)								(4.1)
Amortization of unearned ESOP compensation						6.6			6.6
Dividends				(24.8)					(24.8)
Preferred dividend tax benefits				4.9					4.9
Balance at December 31, 1997	49.0	—	201.0	332.6	(123.6)	(21.8)	(65.7)	(2.2)	369.3
Net earnings					53.7				53.7
Currency translation							(36.7)		(36.7)
Other							(3.6)		(3.6)
Total comprehensive income									13.4
Issuance of Series E preferred stock		225.0							225.0
Issuance of stock		(92.3)	135.8	1,338.4				(0.3)	1,381.6
Retirement of Series C ESOP preferred stock	(4.6)								(4.6)
Amortization of unearned ESOP compensation						6.7			6.7
Dividends				(10.4)					(10.4)
Preferred dividend tax benefits				5.2					5.2
Balance at December 31, 1998	44.4	132.7	336.8	1,665.8	(69.9)	(15.1)	(106.0)	(2.5)	1,986.2
Net earnings					243.2				243.2
Currency translation							(149.7)		(149.7)
Other							(6.4)		(6.4)
Total comprehensive income									87.1
Conversion of Series E preferred stock		(132.7)	15.2	117.5					—
Issuance of stock, net			0.1	(1.1)				1.4	0.4
Retirement of Series C ESOP preferred stock	(2.9)								(2.9)
Amortization of unearned ESOP compensation						7.2			7.2
Dividends				(1.3)	(3.0)				(4.3)
Preferred dividend tax benefits				1.5					1.5
Balance at December 31, 1999	$41.5	—	$352.1	$1,782.4	$170.3	$ (7.9)	$(262.1)	$(1.1)	$2,075.2

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9 (In Part): Capital Stock and Preferred Share Purchase Rights

In February 1998, in connection with the Fel-Pro acquisition, the Company issued 1,030,326 shares of Series E Stock with an imputed value of $225 million. The shares of Series E Stock were exchangeable into shares of the Company's common stock at a rate of five shares of common stock per share of Series E Stock. In conjunction with the June 1998 common stock offering described above, the Company converted 422,581 shares of Series E Stock into approximately 2.1 million shares of common stock. On February 24, 1999, the remaining 607,745 shares of the Company's Series E Stock were exchanged into shares of the Company's common stock.

Debt Conversion

5.46

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 September 1, 1996	196,436	$1,964	$321,832	$ (71,883)	$1,524,885	$1,777,798
Comprehensive income						
Net income	—	—	—	—	312,197	312,197
Other accumulated comprehensive loss						
Foreign currency translation adjustment	—	—	—	(6,543)	—	(6,543)
Total comprehensive income	—	—	—	(6,543)	312,197	305,654
Stock options exercised including income tax benefits	4,077	41	78,186	—	—	78,227
Conversion of convertible debentures	13,080	131	306,306	—	—	306,437
Balance at August 31, 1997	213,593	2,136	706,324	(78,426)	1,838,082	2,468,116
Comprehensive income						
Net income	—	—	—	—	459,842	459,842
Other accumulated comprehensive loss						
Foreign currency translation adjustment	—	—	—	(73,416)	—	(73,416)
Total comprehensive income	—	—	—	(73,416)	459,842	386,426
Stock options exercised including income tax benefits	3,996	40	111,304	—	—	111,344
Balance at August 30, 1998	217,589	2,176	817,628	(151,842)	2,297,924	2,965,886
Comprehensive income						
Net income	—	—	—	—	397,298	397,298
Other accumulated comprehensive loss						
Foreign currency translation adjustment	—	—	—	33,758	—	33,758
Total comprehensive income	—	—	—	33,758	397,298	431,056
Stock options exercised including income tax benefits	3,234	33	110,282	—	—	110,315
Conversion of convertible debentures	545	5	24,848	—	—	24,853
Balance at August 29, 1999	221,368	$2,214	$952,758	$(118,084)	$2,695,222	$3,532,110

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

Note 2 (In Part): Debt

Long-Term Debt

Long-term debt at August 29, 1999 and August 30, 1998:

	1999	1998
7⅞% Senior Notes due June 2005	$300,000	$300,000
3½% Zero Coupon convertible subordinated notes due August 2017	456,783	466,082
Unsecured note payable to banks due April 2001	140,000	140,000
Notes payable secured by trust deeds on real estate	12,723	13,667
Capital lease obligations and other	21,213	21,030
	930,719	940,779
Less current portion (included in other current liabilities)	11,831	10,744
Total long-term debt	$918,888	$930,035

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On August 19, 1997, the Company completed the sale of $900,000 principal amount at maturity of 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 10,219,090 shares of Costco Common Stock at an initial conversion price of $44.00. 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, 2002, 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. On March 29, 1999, $48,000 principal amount of the Zero Coupon Notes were converted by note holders to 545,016 shares of Costco Common Stock.

Public Offering

5.47

HECLA MINING COMPANY (DEC)

Consolidated Statements of Changes in Shareholders' Equity

(Dollars and shares in thousands, except per share amounts)	Preferred Stock Shares	Preferred Stock Amount	Common Stock Shares	Common Stock Amount	Capital Surplus	Accumulated Deficit	Accumulated Other Comprehensive Loss	Stock Held by Grantor Trust	Treasury Stock
Balances, December 31, 1996	2,300	$575	51,199	$12,800	$351,559	$(213,610)	$(4,930)	$ —	$(886)
Net loss	—	—	—	—	—	(483)	—	—	—
Preferred stock dividends ($3.50 per share)	—	—	—	—	—	(8,050)	—	—	—
Stock issued for cash, net of issuance costs	—	—	3,950	987	22,368	—	—	—	—
Stock issued to directors	—	—	7	2	39	—	—	—	—
Other comprehensive loss	—	—	—	—	—	—	(31)	—	—
Balances, December 31, 1997	2,300	575	55,156	13,789	373,966	(222,143)	(4,961)	—	(886)
Net loss	—	—	—	—	—	(300)	—	—	—
Preferred stock dividends ($3.50 per share)	—	—	—	—	—	(8,050)	—	—	—
Stock issued under stock option plans	—	—	2	1	11	—	—	—	—
Stock issued to directors	—	—	9	2	40	—	—	—	—
Other comprehensive loss	—	—	—	—	—	—	(308)	—	—
Balances, December 31, 1998	2,300	575	55,167	13,792	374,017	(230,493)	(5,269)	—	(886)
Net loss	—	—	—	—	—	(39,990)	—	—	—
Preferred stock dividends ($3.50 per share)	—	—	—	—	—	(8,050)	—	—	—
Stock issued for cash, net of issuance costs	—	—	4,739	1,184	10,681	—	—	—	—
Stock issued under stock option and warrant plans	—	—	99	25	232	—	—	—	—
Stock issued to directors	—	—	8	2	18	—	—	—	—
Stock issued in connection with acquisition of MRIL	—	—	6,700	1,675	14,290	—	—	—	—
Stock issued and held by grantor trust	—	—	132	33	967	—	—	(500)	—
Other comprehensive loss	—	—	—	—	—	—	398	—	—
Balances, December 31, 1999	2,300	$575	66,845	$16,711	$400,205	$(278,533)	$(4,871)	$(500)	$(886)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 10 (In Part): Shareholders' Equity

Common Stock Offerings

In March 1999, Hecla issued 155,955 shares of its common stock realizing proceeds of approximately $0.5 million, net of issuance costs. In May 1999, Hecla issued 4,582,852 shares of its common stock realizing proceeds of approximately $11.4 million, net of approximately $0.6 million of issuance costs. In connection with the shares sold in May, Hecla issued 1,603,998 warrants to purchase Hecla common stock. Each warrant entitles the holder to purchase one share of common stock at an exercise price equal to the lesser of (i) $3.19 and (ii) 102% of the volume weighted average price on the NYSE for each trading day during the ten consecutive trading days immediately preceding the date that notice of exercise is given to Hecla. These warrants are exercisable until May 11, 2002. In September 1999, 97,000 warrants were exercised and Hecla issued 97,000 shares of its common stock. Proceeds of $0.3 million were realized from the exercise of the warrants. At December 31, 1999, 1,506,998 warrants remain outstanding.

In February 1997, Hecla issued 3,950,000 shares of its common stock realizing proceeds of approximately $23.4 million, net of issuance costs of approximately $1.3 million.

Shares of the equity offerings were sold under Hecla's existing Registration Statement on Form S-3 which provides for the issuance of up to $100.0 million of equity and debt securities. Hecla used the net proceeds from the equity offerings for general corporate purposes including repayment of indebtedness under the existing $55.0 million bank credit agreement.

Stock Option Tax Benefit

5.48

AIR PRODUCTS AND CHEMICALS, INC. AND SUBSIDIARIES (SEP)

Consolidated Shareholders' Equity

(Millions of dollars, except per share)	1999	1998	1997
Common stock			
Balance, beginning of year	$ 249.4	$ 124.7	$ 124.7
Two-for-one stock split	—	124.7	—
Balance, end of year	249.4	249.4	124.7
Capital in excess of par value			
Balance, beginning of year	329.2	453.0	461.2
Issuance of treasury shares and shares in trust for benefit and stock option and award plans, 2,194,464 shares in 1999, 677,844 shares in 1998, and 1,254,990 shares in 1997	(1.0)	(11.2)	(26.8)
Tax benefit of stock option and award plans	13.3	12.1	18.6
Two-for-one stock split	—	(124.7)	—
Balance, end of year	341.5	329.2	453.0
Retained earnings			
Balance, beginning of year	3,400.0	2,990.2	2,687.2
Net income	450.5	546.8	429.3
Cash dividends—common stock, $.70 per share in 1999, $.64 per share in 1998, and $.58 per share in 1997, restated	(148.7)	(137.0)	(126.3)
Balance, end of year	3,701.8	3,400.0	2,990.2
Unrealized gain on investments			
Balance, beginning of year	5.0	6.9	40.4
Change in unrealized gain, net of income tax expense of $4.9 in 1999 and income tax benefits of $1.0 in 1998, and $18.4 in 1997	8.9	(1.9)	(33.5)
Balance, end of year	13.9	5.0	6.9
Minimum pension liability adjustments			
Balance, beginning of year	(14.3)	—	—
Adjustments during year, net of income tax expense of $5.7 in 1999 and income tax benefit of $8.6 in 1998	9.5	(14.3)	—
Balance, end of year	(4.8)	(14.3)	—
Cumulative translation adjustments			
Balance, beginning of year	(222.2)	(186.1)	(70.2)
Translation adjustments, net of income tax expense of $2.2 in 1999 and income tax benefits of $13.8 in 1998 and $8.7 in 1997	(61.3)	(36.1)	(115.9)
Balance, end of year	(283.5)	(222.2)	(186.1)
Treasury stock			
Balance, beginning of year	(657.0)	(297.3)	(211.2)
Issuance of treasury shares for benefit and stock option and award plans, 371 shares in 1999, 108,975 shares in 1998, and 942,550 shares in 1997	—	5.3	48.9
Purchase of treasury shares, 620,000 in 1999, 6,835,394 in 1998, and 1,918,465 in 1997	(24.6)	(365.0)	(135.0)
Balance, end of year	(681.6)	(657.0)	(297.3)
Shares in trust			
Balance, beginning of year	(422.8)	(443.3)	(457.5)
Issuance of shares in trust for benefit and stock option and award plans, 2,194,093 shares in 1999, 568,869 shares in 1998, and 312,440 shares in 1997	47.7	20.5	14.2
Balance, end of year	(375.1)	(422.8)	(443.3)
Total shareholders' equity	$2,961.5	$2,667.3	$2,648.1

Sale of Put Warrants

5.49

INTEL CORPORATION (DEC)

Consolidated Statements of Stockholders' Equity

(In millions—except per share amounts)	Common stock and capital in excess of par value Number of Shares	Amount	Retained Earnings	Accumulated Other Comprehensive Income	Total
Balance at December 28, 1996	3,283	$2,897	$13,853	$ 122	$16,872
Components of comprehensive income:					
Net income	—	—	6,945	—	6,945
Change in unrealized gain on available-for-sale investments, net of tax	—	—	—	(64)	(64)
Total comprehensive income					6,881
Proceeds from sales of shares through employee stock plans, tax benefit of $224 and other	61	581	(1)	—	580
Proceeds from sales of put warrants	—	288	—	—	288
Reclassification of put warrant obligation, net	—	(144)	(1,622)		(1,766)
Repurchase and retirement of common stock	(88)	(311)	(3,061)	—	(3,372)
Cash dividends declared ($0.058 per share)	—	—	(188)	—	(188)
Balance at December 27, 1997	3,256	3,311	15,926	58	19,295
Components of comprehensive income:					
Net income	—	—	6,068	—	6,068
Change in unrealized gain on available-for-sale investments, net of tax	—	—	—	545	545
Total comprehensive income					6,613
Proceeds from sales of shares through employee stock plans, tax benefit of $415 and other	66	922	—	—	922
Proceeds from exercise of 1998 step-up warrants	155	1,620		—	1,620
Proceeds from sales of put warrants	—	40	—	—	40
Reclassification of put warrant obligation, net	—	53	588	—	641
Repurchase and retirement of common stock	(162)	(1,124)	(4,462)	—	(5,586)
Cash dividends declared ($0.050 per share)	—	—	(168)	—	(168)
Balance at December 26, 1998	3,315	4,822	17,952	603	23,377
Components of comprehensive income:					
Net income	—	—	7,314	—	7,314
Change in unrealized gain on available-for-sale investments, net of tax	—	—	—	3,188	3,188
Total comprehensive income					10,502
Proceeds from sales of shares through employee stock plans, tax benefit of $506 and other	56	1,049	—	—	1,049
Proceeds from sales of put warrants	—	20	—	—	20
Reclassification of put warrant obligation, net	—	7	64	—	71
Repurchase and retirement of common stock	(71)	(1,076)	(3,536)	—	(4,612)
Issuance of common stock in connection with Level One Communications acquisition	34	1,963	—	—	1,963
Stock options assumed in connection with acquisitions	—	531	—	—	531
Cash dividends declared ($0.110 per share)	—	—	(366)	—	(366)
Balance at December 25, 1999	3,334	$7,316	$21,428	$3,791	$32,535

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Put Warrants

In a series of private placements from 1991 through 1999, the Company sold put warrants that entitle the holder of each warrant to sell to the Company, by physical delivery, one share of common stock at a specified price. Activity during the past three years is summarized as follows:

(In millions)	Cumulative Net Premium Received	Put warrants outstanding Number of Warrants	Potential Obligation
December 28, 1996	$335	18.0	$275
Sales	288	92.6	3,525
Expirations	—	(58.0)	(1,759)
December 27, 1997	623	52.6	2,041
Sales	40	15.0	588
Exercises	—	(30.0)	(1,199)
Expirations	—	(32.6)	(1,229)
December 26, 1998	663	5.0	201
Sales	20	4.0	261
Expirations	—	(7.0)	(332)
December 25, 1999	$683	2.0	$130

The amount related to Intel's potential repurchase obligation has been reclassified from stockholders' equity to put warrants. The 2 million put warrants outstanding at December 25, 1999 expired unexercised in January 2000 and had an average exercise price of $65 per share.

Cancellation of Common Stock

5.50

ZENITH ELECTRONICS CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note Two (In Part): Plan of Reorganization

On August 23, 1999, the Company filed a voluntary petition for relief under Chapter 11 of Title 11 of the U.S. Code in the U.S. Bankruptcy Court for the District of Delaware. At the time of its filing, the Company had already solicited and received approval of its prepackaged plan of reorganization by holders of the Company's 6¼ percent subordinated debentures due 2011, LGE Electronics Inc. ("LGE") and Citibank, as secured creditors.

On November 5, 1999, the U.S. Bankruptcy Court for the District of Delaware entered an order confirming the Company's prepackaged plan of reorganization. On November 9, 1999, the Company satisfied certain conditions precedent to the plan's effectiveness, declared the prepackaged plan effective and emerged from the bankruptcy proceeding.

On November 9, 1999, as a result of the Company's prepackaged plan of reorganization,

(i) LGE exchanged approximately $165.7 million of its claims for restructured senior notes, interest on which is payable in kind under certain circumstances,

(ii) the Company's $103.5 million of 6¼ percent subordinated debentures due 2011 and related accrued interest were exchanged for $50.0 million of new 8.19 percent senior debentures maturing in November 2009, which when recorded at fair value of $39.1 million, resulted in the recognition of an extraordinary gain of approximately $70.2 million,

(iii) the Company entered into a three-year $150.0 million exit financing facility with a bank group for which Citicorp North America was the agent,

(iv) the Company and LGE entered into a new $60.0 million credit facility,

(v) $39.5 million of the restructured senior notes referred to above were settled by the transfer of the Company's production facility located in Reynosa, Mexico to an affiliate of LGE on January 1, 2000,

(vi) the Company's old common stock and treasury stock were canceled, thereby increasing old additional paid-in capital (no distribution was made to any holders as a result of their shares),

(vii) the Company's articles of incorporation and by-laws were amended, and

(viii) LGE converted $200.0 million of the Company's debt and extended-term payables with LGE into 100 percent of the Company's new common stock, and as a result, the Company became a wholly-owned subsidiary of LGE.

The impact of the above transactions on the Company's financial statements is as follows (in millions):

Entry to record settlement of debt:		
Short-term debt with LGE	$220.3	
Current maturities of convertible debentures	11.5	
Extended-term payables with LGE	117.5	
Accrued interest	22.3	
Other accrued expense	0.5	
Convertible debentures	92.0	
Long-term liabilities with LGE	10.9	
Accounts payable with LGE		$39.5
New senior debentures ($50.0 due at maturity)		39.1
Restructured senior note with LGE		126.2
New additional paid-in capital		200.0
Extraordinary gain		70.2
Entry to record cancellation of old common stock:		
Old common stock ($1 par value)	$ 67.6	
Old additional paid-in capital		$65.9
Treasury stock		1.7

Note Twelve: Stockholders' Equity

Changes in stockholders' equity accounts are shown below (in millions):

	Common Stock	Additional Paid-in Capital	Treasury Shares
Balance, December 31, 1996	$66.6	$459.4	$(1.7)
Stock issued for benefit plans	0.5	4.4	—
Stock issued for stock options	0.1	1.0	—
Paid in capital—LGE guarantee	—	39.7	—
Paid in capital—LGE services	—	2.2	—
Other	(0.1)	0.6	—
Balance, December 31, 1997	67.1	507.3	(1.7)
Restricted stock issued	0.5	(0.5)	—
Balance, December 31, 1998	67.6	506.8	(1.7)
Cancellation of old common stock	(67.6)	65.9	1.7
Issuance of new common stock	—	200.0	—
Balance, December 31, 1999	$ —	$772.7	$ —

During 1997, the Company entered into certain transactions with LGE that affected additional paid-in capital. These transactions dealt with the granting of stock options and donated services. See Note 6 for further discussion of these items.

As discussed in Note 2, under the terms of the prepackaged plan, all of the shares of $1 par value common stock, including shares held by LGE, were canceled and the holders thereof received no distribution and retained no property on account of such equity interests. Also, as part of the prepackaged plan, LGE was issued 1,000 shares of $.01 par value common stock in exchange for $200.0 million of debt and extended-term payables.

Warrants Exercised

5.51

BJ SERVICES COMPANY (SEP)

Consolidated Statement of Stockholders' Equity

(In thousands)	Common Stock	Capital In Excess Of Par	Treasury Stock	Unearned Compensation	Retained Earnings	Accumulated Other Comprehensive Income	Total
Balance, September 30, 1996	$3,809	$748,712		$(3,186)	$ 93,991	$(1,623)	$841,703
Comprehensive income:							
Net income					107,906		
Other comprehensive income, net of tax							
Cumulative translation adjustments						2,163	
Minimum pension liability adjustment						(2,051)	
Comprehensive income							108,018
Issuance of stock for:							
Stock options	36	7,270					7,306
Stock purchase plan	8	1,676					1,684
Warrants surrendered		16					16
Stock performance awards		964		(964)			
Recognition of unearned compensation				1,500			1,500
Revaluation of stock performance		4,425		(4,425)			
Balance, September 30, 1997	3,853	763,063		(7,075)	201,897	(1,511)	960,227
Comprehensive income:					117,400		
Net income							
Other comprehensive income, net of tax							
Cumulative translation adjustments						12,855	
Minimum pension liability adjustment						(3,295)	
Comprehensive income							126,330
Issuance of stock for:							
Stock options	7	1,873					1,880
Stock purchase plan	9	2,861					2,870
Warrants surrendered		39					39
Stock performance awards		1,068		(1,068)			
Stock split	3,769				(3,769)		
Treasury stock purchased			$(196,608)				(196,608)
Treasury stock reissued			2,804		(1,899)		905
Recognition of unearned compensation				1,850			1,850
Revaluation of stock performance		(7,790)		5,928			(1,862)
Tax benefit from exercise of options		4,433					4,433
Balance, September 30, 1998	7,638	765,547	(193,804)	(365)	313,629	7,419	900,064
Comprehensive income:							
Net loss					(29,688)		
Other comprehensive income, net of tax							
Cumulative translation adjustments						(5,585)	
Minimum pension liability adjustment						3,090	
Comprehensive loss							(32,183)
Issuance of stock for:							
Warrants surrendered		70					70
Reissuance of treasury stock for:							
Stock options			14,796		(9,750)		5,046
Stock purchase plan			4,144		(2,172)		1,972
Stock performance awards		(2,235)	4,342	115	(2,222)		
Recognition of unearned compensation				1,140			1,140
Revaluation of stock performance awards	1,504			(1,504)			
Tax benefit from exercise of options		980					980
Balance, September 30, 1999	$7,638	$765,866	$(170,522)	$ (614)	$269,797	$ 4,924	$877,089

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

14 (In Part): Stockholders' Equity

Stock Purchase Warrants

In connection with the acquisition of Western in 1995, the Company issued 4,800,037 stock purchase warrants ("Warrants"). The Warrants were issued on April 14, 1995 at an initial value of $5.00 per Warrant. Subsequent to the February 1998 stock split, each Warrant represents the right to purchase two shares of the Common Stock at an exercise price of $15 per share, until the expiration date of April 13, 2000. As of September 30, 1999, 4,923 Warrants had been exercised.

Capital Contributions From Shareholders of Pooled Companies

5.52

MASCO CORPORATION AND CONSOLIDATED SUBSIDIARIES (DEC)

Consolidated Statements of Shareholders' Equity

	Total	Common Shares ($1 Par Value)	Paid-in Capital	Retained Earnings	Other Comprehensive Income (Loss)
Balance, January 1, 1997	$2,064,040,000	$212,840,000	$230,020,000	$1,618,660,000	$ 2,520,000
Net income	444,100,000			444,100,000	
Cumulative translation adjustments	(28,000,000)				(28,000,000)
Total comprehensive income	416,100,000				
Shares issued	169,250,000	4,700,000	164,550,000		
Cash dividends declared	(134,440,000)			(134,440,000)	
Re: Shareholders of pooled companies:					
Capital contributions from	245,450,000		245,450,000		
Distribution to	(536,060,000)			(536,060,000)	
Compensatory stock options	480,000		480,000		
Balance, December 31, 1997	2,224,920,000	217,540,000	640,500,000	1,392,260,000	(25,480,000)
Net income	565,100,000			565,100,000	
Cumulative translation adjustments	8,910,000				8,910,000
Total comprehensive income	574,010,000				
Shares issued	206,590,000	5,670,000	200,920,000		
100 percent stock distribution	—	221,960,000	(221,960,000)		
Shares repurchased	(43,330,000)	(1,890,000)	(41,440,000)		
Cash dividends declared	(148,610,000)			(148,610,000)	
Re: Shareholders of pooled companies:					
Capital contributions from	1,520,000		1,520,000		
Distribution to	(45,950,000)			(45,950,000)	
Compensatory stock options	4,990,000		4,990,000		
Balance, December 31,1998	2,774,040,000	443,280,000	584,530,000	1,762,800,000	(16,570,000)
Net income	569,600,000			569,600,000	
Cumulative translation adjustments	(43,950,000)				(43,950,000)
Total comprehensive income	525,650,000				
Shares issued	85,550,000	3,960,000	81,590,000		
Shares repurchased	(99,600,000)	(3,730,000)	(95,870,000)		
Cash dividends declared	(180,880,000)			(180,880,000)	
Re: Shareholders of pooled companies:					
Capital contributions from	11,490,000		11,490,000		
Compensatory stock options	20,250,000		20,250,000		
Balance, December 31, 1999	$3,136,500,000	$443,510,000	$601,990,000	$2,151,520,000	$(60,520,000)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Shareholders' Equity (In Part)

Included in the consolidated statements of shareholders' equity for 1999, 1998 and 1997 are distributions to and contributions from shareholders of pooled Companies. Such distributions and contributions occurred prior to August 31, 1999, the date of the pooling mergers. During 1997, one of the pooled Companies completed a recapitalization; such recapitalization resulted in the distribution of $512 million to existing shareholders and contributions from new shareholders totaling $234 million. Other distributions to shareholders of pooled companies in 1998 and 1997 totaled $46 million and $24 million, respectively. Other contributions from shareholders of pooled companies in 1999, 1998 and 1997 totaled $11 million, $2 million and $11 million, respectively.

Cancellation of Restricted Common Stock

5.53

W.W. GRAINGER, INC., AND SUBSIDIARIES (DEC)

Consolidated Statements of Shareholders' Equity

(In thousands of dollars except for per share amounts)	Common Stock	Additional Contributed Capital	Retained Earnings	Unearned Restricted Stock Compensation	Accumulated Other Comprehensive Earnings (Loss)	Treasury Stock
Balance at January 1, 1997	$53,338	$235,649	$1,225,624	$(17,597)	$(2,262)	$ (32,090)
Exercise of stock options	138	5,753	—	—	—	—
Issuance of 20,000 shares of restricted common stock	10	793	—	(803)	—	—
Amortization of unearned restricted stock compensation	—	107	—	1,872	—	—
Purchase of 8,430,372 shares of treasury stock, net of 5,600 shares issued	—	(13)	—	—	—	(346,809)
Cumulative translation adjustments	—	—	—	—	(6,948)	—
Net earnings	—	—	231,833	—	—	—
Cash dividends paid ($0.53 per share)	—	—	(53,934)	—	—	—
Balance at December 31, 1997	53,486	242,289	1,403,523	(16,528)	(9,210)	(378,899)
Exercise of stock options	105	4,316	—	—	—	—
Issuance of 52,500 shares of restricted common stock	26	2,706	—	(2,732)	—	—
Amortization of unearned restricted stock compensation	—	129	—	2,022	—	—
Purchase of 4,479,100 shares of treasury stock, net of 4,000 shares issued	—	42	—	—	—	(194,001)
Cumulative translation adjustments	—	—	—	—	(10,354)	—
Net earnings	—	—	238,504	—	—	—
Cash dividends paid ($0.585 per share)	—	—	(56,683)	—	—	—
Balance at December 31, 1998	53,617	249,482	1,585,344	(17,238)	(19,564)	(572,900)
Exercise of stock options	97	4,411	—	—	—	—
Issuance of 42,000 shares of restricted common stock	21	1,880	—	(1,901)	—	—
Cancellation of 10,000 shares of restricted common stock	(5)	(375)	—	380	—	—
Amortization of unearned restricted stock compensation	—	139	—	2,178	—	—
Purchase of 350,620 shares of treasury stock, net of 4,680 shares issued	—	32	—	—	—	(15,338)
Cumulative translation adjustments	—	—	—	—	9,672	—
Unrealized gain on investments, net of tax	—	—	—	—	78,683	—
Net earnings	—	—	180,731	—	—	—
Cash dividends paid ($0.63 per share)	—	—	(58,817)	—	—	—
Balance at December 31, 1999	$53,730	$255,569	$1,707,258	$(16,581)	$68,791	$(588,238)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 12: Stock Incentive Plans

The Company's Long-Term Stock Incentive Plan ("The Plan") allows the Company to grant a variety of incentive awards to key employees of the Company. A maximum of 8,056,828 shares of common stock are authorized for issuance under the Plan, in connection with awards of non-qualified stock options, stock appreciation rights, restricted stock, phantom stock rights, and other stock-based awards.

The Plan authorizes the granting of restricted stock which is held by the Company until terms and conditions specified by the Company are satisfied. Except for the right of disposal, holders of restricted stock have full shareholders' rights during the period of restriction, including voting rights and the right to receive dividends.

The Plan authorizes the granting of options to purchase shares at a price of not less than 100% of the closing market price on the last trading day preceding the date of grant. The options expire no later than ten years after the date of grant.

Shares covered by terminated, surrendered or canceled options and stock appreciation rights, by forfeited restricted stock, or by the forfeiture of other awards that do not result in shares being issued, are again available for awards under the Plan.

There were 42,000 shares of restricted stock issued in 1999 with a weighted average fair market value of $45.26 per share. There were 52,500 shares of restricted stock issued in 1998 with a weighted average fair market value of $52.04 per share. There were 20,000 shares of restricted stock issued in 1997 with a fair market value of $40.125 per share. The shares vest over periods from three to ten years from issuance, although accelerated vesting is provided in certain instances. Restricted stock released totaled 400 and 1,000 shares in 1998 and 1997, respectively. There was no restricted stock released in 1999. Compensation expense related to restricted stock awards is based upon market price at date of grant and is charged to earnings on a straight-line basis over the period of restriction. Total compensation expense related to restricted stock was $2,178,000, $2,022,000, and $1,872,000 in 1999, 1998, and 1997, respectively.

During 1997, the Company adopted a Director Stock Plan in which non-employee directors participate. A total of 500,000 shares of common stock were reserved for issuance in connection with awards of stock, stock units, stock options, restricted stock, and other stock-based awards under the new plan.

The Company awarded Stock Units under the Director Stock Plan in connection with the termination of previous director compensation plans. A Stock Unit is essentially the economic equivalent of a share of Company stock. Additional deferred fees and dividends are converted to Stock Units based on the market value of the stock at the relevant time.

Payment of the value of Stock Units generally will be made after the termination of service as a director. As of December 31, 1999, nine directors held Stock Units. As of December 31, 1998 and 1997, eight directors held Stock Units. The Company recognized expense of $300,000, $286,000, and $1,850,000 for 1999, 1998, and 1997, respectively.

Transactions involving stock options are summarized as follows:

	Option Shares	Weighted Average Price Per Share	Exercisable
Outstanding at January 1, 1997	3,063,122	$26.01	1,710,182
Granted	694,660	$37.38	
Exercised	(412,702)	$19.17	
Canceled or expired	(51,720)	$33.63	
Outstanding at December 31, 1997	3,293,360	$29.14	1,679,900
Granted	884,620	$51.35	
Exercised	(335,900)	$19.94	
Canceled or expired	(51,640)	$38.32	
Outstanding at December 31, 1998	3,790,000	$35.01	1,732,300
Granted	1,234,100	$48.43	
Exercised	(304,380)	$21.49	
Canceled or expired	(110,400)	$46.23	
Outstanding at December 31, 1998	4,609,760	$39.23	2,239,940

All options were issued at market price on the date of grant. Options were issued with initial vesting periods ranging from immediate to five years.

Information about stock options outstanding at December 31, 1999, is as follows:

Options Outstanding			
		Weighted Average	
Range of Exercise Prices	Number Outstanding	Remaining Contractual Life (Years)	Exercise Price
$13.94-$29.44	839,680	2.3	$24.75
$30.75-$38.94	1,727,000	6.2	$34.01
$40.63-$53.63	2,043,080	8.9	$49.55

Options Exercisable		
Range of Exercise Prices	Number Exercisable	Weighted Average Exercise Price
$13.94-$29.44	839,680	$24.75
$30.75-$38.75	1,400,260	$32.18

Shares available for future awards were 2,717,158, 3,877,538, and 4,767,018, at December 31, 1999, 1998, and 1997, respectively.

In accordance with Statement of Financial Accounting Standards (SFAS) No. 123, "Accounting for Stock-Based Compensation," the Company has elected to continue to account for stock compensation under Accounting Principles Board Opinion No. 25. Pro forma net earnings and earnings per share, as calculated under SFAS No. 123, are as follows:

(In thousands of dollars except for per share amounts)	1999	1998	1997
Net earnings	$174,144	$234,257	$229,107
Earnings per share:			
Basic	$1.88	$2.43	$2.28
Diluted	$1.85	$2.39	$2.25

The weighted average fair value of the stock options granted during 1999, 1998, and 1997 was $17.26, $16.12, and $12.95, respectively. The fair value of each option grant was estimated using the Black-Scholes option-pricing model based on the date of the grant and the following weighted average assumptions:

	1999	1998	1997
Risk-free interest rate	6.8%	5.8%	6.7%
Expected life	7.0 years	7.0 years	7.0 years
Expected volatility	20.1%	20.1%	21.0%
Expected dividend yield	1.5%	1.5%	1.5%

Treasury Stock Issued for Exercise of Stock Options

5.54

APPLIED INDUSTRIAL TECHNOLOGIES, INC. AND SUBSIDIARIES (JUN)

Statements of Consolidated Shareholders' Equity

(In thousands, except per share amounts)	Shares of Common Stock Outstanding	Common Stock	Additional Paid-in Capital	Retained for Use in the Business	Treasury Shares— At Cost	Unearned Restricted Common Stock Compensation	Total Shareholders' Equity
Balance at July 1, 1996	18,566	$10,000	$ 7,492	$197,232	$(21,260)	$(1,200)	$192,264
Net income				27,092			27,092
Cash dividends—$.41 per share				(7,682)			(7,682)
Purchases of common stock for treasury	(249)				(4,568)		(4,568)
Treasury shares issued for:							
Retirement Savings Plan contributions	164		1,760		1,568		3,328
Exercise of stock options	78		342		747		1,089
Restricted common stock awards	9		68		67	(135)	
Deferred compensation plans	53		532		463		995
Amortization of restricted common stock compensation			32			385	417
Other			(61)				(61)
Balance at June 30, 1997	18,621	10,000	10,165	216,642	(22,983)	(950)	212,874
Net income				30,125			30,125
Cash dividends—$.47 per share				(10,277)			(10,277)
Purchases of common stock for treasury	(291)				(8,148)		(8,148)
Issuance of common stock for the acquisition of Invetech Company	3,165		63,374				63,374
Treasury shares issued for:							
Retirement Savings Plan contributions	152		2,367		1,777		4,144
Exercise of stock options	103		610		1,179		1,789
Restricted common stock awards	201		3,560		2,005	(5,565)	
Deferred compensation plans	28		450		288		738
Acquisition of Associated Bearings Company	123		1,770		1,491		3,261
Amortization of restricted common stock compensation			360			1,586	1,946
Other			57	(381)			(324)
Balance at June 30, 1998	22,102	10,000	82,713	236,109	(24,391)	(4,929)	299,502
Net income				19,933			19,933
Cash dividends—$.48 per share				(10,397)			(10,397)
Purchases of common stock for treasury	(1,450)				(21,746)		(21,746)
Treasury shares issued for:							
Retirement Savings Plan contributions	220		337		2,980		3,317
Exercise of stock options	109		(281)		1,442		1,161
Restricted common stock awards	96		(86)		1,266	(1,180)	
Deferred compensation plans	24		55		309		364
Amortization of restricted common stock compensation			28			1,210	1,238
Other			(167)	381			214
Balance at June 30, 1999	21,101	$10,000	$82,599	$246,026	$(40,140)	$(4,899)	$293,586

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

8 (In Part): Shareholders' Equity

Stock Incentive Plans

The 1997 Long-Term Performance Plan (the "1997 Plan") provides for granting of stock options, stock awards, cash awards, and such other awards or combination thereof as the Executive Organization and Compensation Committee of the Board of Directors may determine. The number of shares of common stock which may be awarded in each fiscal year under the 1997 Plan is two percent (2%) of the total number of shares of common stock outstanding on the first day of each year for which the Plan is in effect. Common stock available for distribution under the 1997 Plan, but not distributed, may be carried over to the following year. Shares available for future grants at June 30, 1999 and 1998 were 46,000 and 327,000, respectively.

Under the 1997 Plan, the Company has awarded PARS and/or stock options to officers, other key associates and members of the Board of Directors. PARS recipients are entitled to receive dividends and have voting rights on their respective shares but are restricted from selling or transferring the shares prior to vesting. The restricted stock vests after a period of six years, with accelerated vesting based upon achievement of certain return on asset objectives or minimum stock price levels. The aggregate fair market value of the restricted stock is considered unearned compensation at the time of grant and is amortized over the six year vesting period or until such time as acceleration of vesting takes place. In fiscal 1999 and 1998 the Company recognized accelerated vesting of 17,000 and 95,000 shares, respectively, of previously awarded PARS.

At June 30, 1999, the Company has a stock option plan as described above. The stock options generally vest over a period of 4 years and expire after 10 years. The Company applies APB Opinion No. 25 and related interpretations in accounting for options granted under the 1997 Plan; accordingly, no compensation cost is recognized for stock options granted. Had compensation cost for the Company's stock options been determined based on fair value at the grant dates for awards under the Plan consistent with the method of Statement of Financial Accounting Standards (SFAS) No. 123, the Company's net income and net income per share-diluted would have been reduced to $19,118 and $.89 in 1999, $29,616 and $1.36 in 1998, and $26,502 and $1.41 in 1997.

Disclosures under the fair value method are estimated using the Black Scholes option pricing model. The assumptions used for grants issued in 1999, 1998 and 1997 are:

	1999	1998	1997
Expected Life	7 years	7 years	7 years
Risk free interest rate	5.2%	5.7%	6.4%
Dividend yield	3.0%	2.0%	2.0%
Volatility	28.0%	25.0%	20.1%

Information regarding these option plans is as follows:

	1999		1998		1997	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Outstanding July 1	1,019,078	$14.01	1,116,997	$13.36	877,168	$10.91
Granted	607,628	14.94	40,950	26.98	334,650	19.19
Exercised	(108,547)	8.86	(102,774)	11.13	(77,757)	9.26
Expired/canceled	(54,105)	17.48	(36,095)	17.59	(17,064)	14.84
Outstanding June 30	1,464,054	$14.67	1,019,078	$14.01	1,116,997	$13.36
Options exercisable June 30	663,259	$13.05	614,292	$11.23	506,919	$ 9.62
Weighted-average fair value of options granted during the year		$ 4.13		$ 7.80		$ 5.69

The following table summarizes information about stock options outstanding at June 30, 1999:

	Options Outstanding			Options Exercisable	
Ranges of Exercise Prices	Number Outstanding	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable	Weighted-Average Exercise Price
$6-$9	61,314	1.3 Years	$6.31	61,314	$6.31
9-13	241,713	3.2	9.40	241,713	9.40
13-17	605,187	8.1	13.85	206,803	14.47
17-21	516,490	8.0	18.13	143,595	19.00
21-28	39,350	8.6	26.98	9,834	26.98
Total	1,464,054			663,259	

At June 30, 1999, option prices related to outstanding options ranged from $6.31 to $27.50 per share.

Conversion of Preferred Stock

5.55

MATTEL, INC. AND SUBSIDIARIES (DEC)

Consolidated Statements of Stockholders' Equity

(In thousands)	Preferred Stock	Common Stock	Additional Paid-in Capital	Treasury Stock	Deferred Compensation	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balance, December 31, 1996	$827	$369,190	$1,233,753	$(215,999)	$ —	$820,024	$ (98,008)	$2,109,878
Comprehensive (loss):								
Net (loss)						(182,721)		(182,721)
Unrealized gain on securities							719	719
Currency translation adjustments							(113,177)	(113,177)
Comprehensive (loss)						(182,721)	(112,458)	(295,179)
Net income of Broderbund for the three months ended November 30, 1996 not included in results of operations						8,895		8,895
Purchase of treasury stock		(480)	(14,094)	(227,932)				(242,506)
Issuance of treasury stock			(45,486)	158,511				113,025
Exercise of stock options		2,135	36,655					38,790
Shares issued for acquisitions		4,362	13,591			(6,193)		11,760
Issuance of Series A preferred stock	8		202,025					202,033
Issuance of Softkey warrants			57,462					57,462
Conversion of 7% notes		893	15,141					16,034
Conversion of preferred stock	(55)	2,761	(2,706)					—
Conversion of exchangeable shares		88	(88)					—
Shares issued under employee stock purchase plan		62	1,208					1,270
Dividends declared on common stock						(77,528)		(77,528)
Dividends declared on preferred stock						(10,505)		(10,505)
Balance, December 31, 1997	780	379,011	1,497,461	(285,420)	—	551,972	(210,466)	1,933,338
Comprehensive (loss):								
Net income						206,053		206,053
Unrealized gain on securities							10,249	10,249
Currency translation adjustments							2,319	2,319
Comprehensive income						206,053	12,568	218,621
Net income of Broderbund for the month ended December 31, 1997 not included in results of operations						209		209
Purchase of treasury stock				(351,393)				(351,393)
Issuance of treasury stock			(65,210)	141,466				76,256
Exercise of stock options		4,682	76,749					81,431
Shares issued for acquisitions		5,503	111,011			(34,646)		81,868
Issuance of Softkey warrants			134,346					134,346
Conversion of exchangeable shares		10,900	(10,900)					—
Conversion of $5^1/_2$% notes		4,122	88,880					93,002
Issuance of nonvested stock		840	12,071		(12,265)			646
Shares issued under employee stock purchase plan		56	814					870
Dividends declared on common stock						(90,431)		(90,431)
Dividends declared on preferred stock						(7,960)		(7,960)

(Continued)

(In thousands)	Preferred Stock	Common Stock	Additional Paid-in Capital	Treasury Stock	Deferred Compensation	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balance, December 31, 1998	780	405,114	1,845,222	(495,347)	(12,265)	625,197	(197,898)	2,170,803
Comprehensive (loss):								
Net (loss)						(82,373)		(82,373)
Unrealized gain on securities:								
Unrealized holding gains							3,184	3,184
Less: reclassification adjustment for realized gains included in net (loss)							(11,143)	(11,143)
Currency translation adjustments							(33,790)	(33,790)
Comprehensive (loss)						(82,373)	(41,749)	(124,122)
Conversion of Series A preferred stock	(8)	18,000	(17,992)					—
Redemption of Series C preferred stock	(772)	6,382	(51,834)	46,224				—
Purchase of treasury stock				(75,507)				(75,507)
Issuance of treasury stock			(87,300)	134,977				47,677
Exercise of stock options		1,447	28,018					29,465
Shares issued for acquisitions		241	5,306					5,547
Conversion of exchangeable shares		2,342	(2,342)					—
Shares issued under employee stock purchase plan		37	719					756
Tax adjustment related to 1987 quasi-reorganization			33,400					33,400
Exercise of warrants			(24,243)	27,828				3,585
Nonvested stock activity					12,265			12,265
Dividends declared on common stock						(137,202)		(137,202)
Dividends declared on preferred stock						(3,980)		(3,980)
Balance, December 31, 1999	$ —	$433,563	$1,728,954	$(361,825)	$ —	$401,642	$(239,647)	$1,962,687

Consolidated results for all periods have been restated retroactively for the effects of the May 1999 merger with Learning Company, accounted for as a pooling of interests. See Note 7.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 5 (In Part): Stockholders' Equity

Series A Preferred Stock

During 1997, Learning Company issued 750.0 thousand shares of Series A Preferred Stock to an investor group in exchange for $150.0 million of 5½% Notes. Just prior to the consummation of the May 1999 merger, each share of Series A Preferred Stock was converted into 20 shares of Learning Company common stock, and the resale restrictions expired.

An extraordinary loss of approximately $61 million was recognized upon conversion of the 5½% Notes into the Series A Preferred Stock due to the appreciation of the underlying common stock between the date the conversion agreement was signed and the date the preferred stock was issued. The resulting income tax benefit related to the extraordinary loss was also estimated to be approximately $61 million. As a result, the extraordinary loss, net of tax, was determined to be immaterial and was not disclosed as a separate item in the consolidated statement of operations for the year ended December 31, 1997.

Series C Mandatorily Convertible Redeemable Preferred Stock
("Series C Preferred Stock")

During 1996, Tyco sold 772.8 thousand shares of Series C Preferred Stock. Each share of Series C Preferred Stock was converted into like Mattel preferred stock as a result of the March 1997 merger. Series C Depositary Shares ("Depositary Shares"), each representing one twenty-fifth of a share of Series C Preferred Stock, totaling 19.3 million shares, were sold by the depositary as part of the above offering. Each Depositary Share was converted into a like Mattel depositary share as a result of the March 1997 merger. On July 1, 1999, all outstanding shares of Series C Preferred Stock (and the related Depositary Shares) were converted by the holders into 7.7 million shares of Mattel common stock pursuant to terms of the certification of designations.

Note 7 (In Part): Acquisitions and Nonrecurring Items

Business Combination with Learning Company

In May 1999, Mattel completed its merger with Learning Company, after which Learning Company was merged with and into Mattel, with Mattel being the surviving corporation. Each share of Learning Company Series A Preferred Stock was converted into 20 shares of Learning Company common stock immediately prior to the consummation of the merger. Pursuant to the merger agreement, each outstanding share of Learning Company common stock was then converted into 1.2 shares of Mattel common stock upon consummation of the merger. As a result, approximately 126 million Mattel common shares were issued in exchange for all shares of Learning Company common stock outstanding as of the merger date. The outstanding share of Learning Company special voting stock was converted into one share of Mattel Special Voting Preferred Stock. Each outstanding exchangeable share of Learning Company's Canadian subsidiary, Softkey Software Products Inc., remains outstanding, but upon consummation of the merger became exchangeable for 1.2 shares of Mattel common stock.

This transaction has been accounted for as a pooling of interests, and accordingly, financial information for periods prior to the merger reflect the retroactive restatement of the companies' combined financial position and operating results. For periods preceding the merger, there were no material intercompany transactions which required elimination from the combined consolidated results of operations and there were no adjustments necessary to conform the accounting practices of the two companies.

Selected financial information for the combining entities included in the consolidated statements of operations for the three years ended December 31, 1999 is shown below. Although the merger was effective on May 13, 1999, interim financial information for the combining companies was not available as of that date; therefore, information for and as of March 31, 1999 has been presented.

(In thousands)	March 31, 1999	Dec. 31, 1998	Dec. 31, 1997
Net sales			
Mattel	$692,116	$4,781,892	$4,834,616
Learning Company	186,843	839,315	620,931
Combined	$878,959	$5,621,207	$5,455,547
Net income (loss)			
Mattel	$(17,856)	$332,264	$285,184
Learning Company	22,905	(126,211)	(467,905)
Combined	$5,049	$206,053	$(182,721)

Other Business Combinations (In Part)

In March 1997, Mattel completed its merger with Tyco, accounted for as a pooling of interests. Under the merger agreement, each outstanding share of Tyco common stock was converted into 0.48876 Mattel common shares and resulted in the issuance of approximately 17 million Mattel common shares. Tyco restricted stock units and stock options outstanding as of the merger date were exchanged for approximately 0.6 million Mattel common shares. In addition, each share of Tyco Series B and Series C Preferred Stock was converted into like Mattel preferred stock. Financial information for periods prior to the merger reflect the retroactive restatement of the companies' combined financial position and operating results.

Stock Issued Cost

5.56

DEL MONTE FOODS COMPANY AND SUBSIDIARIES (JUN)

Consolidated Statements of Stockholders' Equity (Deficit)

(In millions, except share data)	Common Stock	Paid-in Capital	Notes Receivable From Stockholders	Retained Earnings (Deficit)	Cumulative Translation Adjustment	Total Stockholders' Equity (Deficit
Balance at June 30, 1996	$—	$ 3	$—	$(265)	$(26)	$(288)
Cancellation of shares in connection with the Company's recapitalization		(3)		(204)		(207)
Issuance of shares		129				129
Cumulative translation adjustment					26	26
Net loss	—	—	—	(58)	—	(58)
Balance at June 30, 1997	—	129	—	(527)	—	(398)
Amortization of redeemable preferred stock discount		(1)				(1)
Issuance of shares		44				44
Net income	—	—	—	5	—	5
Balance at June 30, 1998	—	172	—	(522)	—	(350)
Amortization of redeemable preferred stock discount		(2)				(2)
Payment of preferred stock dividends				(10)		(10)
Issuance of shares	1	249				250
Costs of public equity offering		(20)				(20)
Net income	—	—	—	14	—	14
Balance at June 30, 1999	$ 1	$399	$—	$(518)	$ —	$(118)

	Number of Shares				
	Common Stock	Class A	Class B	Class E	Total Common Shares
Shares issued and outstanding at June 30, 1996	—	38,014,958	—	4,788,550	42,803,508
Cancellation of shares	—	(38,014,958)	—	(4,788,550)	(42,803,508)
Issuance of shares	26,815,880	—	—	—	26,815,880
Shares issued and outstanding at June 30, 1997	26,815,880	—	—	—	26,815,880
Issuance of shares	8,679,178	—	—	—	8,679,178
Shares issued and outstanding at June 30, 1998	35,495,058	—	—	—	35,495,058
Issuance of shares	16,676,479	—	—	—	16,676,479
Shares issued and outstanding at June 30, 1999	52,171,537	—	—	—	52,171,537

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

Note 6 (In Part): Stockholders' Equity and Redeemable Stock

In fiscal 1998, the Company filed a registration statement on Form S-1 with the Securities and Exchange Commission for the purpose of making a public offering of shares of its common stock. The offering was withdrawn in July 1998 due to conditions in the equity securities market. During the second quarter of fiscal 1999, a post-effective amendment to the registration statement was filed with the SEC for the purpose of reinitiating the offering.

On February 10, 1999, the public equity offering, consisting of 16,667,000 shares of common stock sold by the Company and 3,333,000 shares of common stock sold by certain stockholders of the Company, was consummated at an initial offering price of $15.00 per share. The Company received net proceeds of $230. Total common shares outstanding after the offering were 52,163,943. The Company used a portion of the net proceeds from the offering to redeem $46 (100%) of its preferred stock, including $2 of unamortized discount, $10 of accreted dividends and $1 of redemption premium. The remainder of the net proceeds of the offering was used to redeem notes and repay debt (see Note 5).

Esop Shares Redeemed

5.57

BESTFOODS AND SUBSIDIARIES (DEC)

Consolidated Statements of Stockholders' Equity

($ millions)	1999	1998	1997
Comprehensive income:			
Net income	$ 717	$ 624	$ 344
Foreign currency translation adjustment (pre-tax $305—1999; $41—1998; $197—1999)	(203)	(27)	(127)
Minimum pension liability adjustment (pre-tax $47—1999)	(27)	—	—
Comprehensive income	487	597	217
Preferred stock:			
Balance beginning of year	157	180	187
ESOP shares redeemed	(6)	(23)	(7)
Balance end of year	151	157	180
Common stock:			
Balance beginning of year	98	49	49
Two-for-one split	—	49	—
Balance end of year	98	98	49
Capital in excess of par value:			
Balance beginning of year	171	207	187
Two-for-one stock split	—	(49)	—
Shares issued for stock options	11	12	15
Shares issued for deferred compensation	—	5	10
ESOP shares redeemed	(8)	(4)	(5)
Balance end of year	174	171	207
Unearned ESOP compensation:			
Balance beginning of year	(80)	(96)	(111)
ESOP compensation earned	15	16	15
Balance end of year	(65)	(80)	(96)
Accumulated other comprehensive income:			
Balance beginning of year	(413)	(386)	(259)
Foreign currency translation	(203)	(27)	(127)
Minimum pension liability adjustment	(27)	—	—
Balance end of year	(643)	(413)	(386)

(Continued)

($ millions)	1999	1998	1997
Treasury stock:			
Balance beginning of year	(1,900)	(1,517)	(1,499)
Shares issued for stock options	14	13	18
Shares issued for deferred compensation	5	6	8
Treasury stock acquired	(265)	(294)	(45)
ESOP shares redeemed	1	13	1
Shares held in rabbi trust	—	(121)	—
Balance end of year	(2,145)	(1,900)	(1,517)
Retained earnings;			
Balance beginning of year	2,948	2,605	3,530
Net income	717	624	344
Cash dividends declared ($1.02—1999; $.94—1998; $.86—1997)	(287)	(271)	(247)
Series B ESOP preferred stock dividend, net of taxes	(10)	(10)	(11)
Spin-off of Corn Products International	—	—	(1,021)
Net income from change in Corn Products International reporting period	—	—	10
Balance end of year	$3,368	$2,948	$2,605

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Stockholders' Equity (In Part)

Employee Stock Ownership Plan (ESOP)

The Company has an Employee Stock Ownership Plan (ESOP) as part of its Savings/Retirement Plan covering substantially all U.S. salaried employees. The ESOP is designed to provide employees with increased ownership of the Company's stock and to satisfy the Company's obligation to match employees' contributions to the Savings/ Retirement Plan on a $1 for $1 basis.

In 1989, the ESOP borrowed $200 million in a public offering and used the proceeds to purchase approximately 2.2 million shares of the Company's Series B ESOP convertible preferred stock. Since the notes were guaranteed by the Company, they are reflected in the Consolidated Balance Sheets as short-term and long-term debt with an offsetting amount included in stockholders' equity as unearned ESOP compensation. The preferred stock is convertible into approximately 7.4 million shares of the Company's common stock. The preferred stock pays a dividend of $7.14 per share which is used by the ESOP, together with Company contributions, to make debt service payments on the ESOP notes. The notes have a 15-year maturity and an original fixed interest rate of 7.78%, which was reduced to 7.71% in 1993, in accordance with the agreement. Also beginning in 1993, a portion of the notes was refinanced on each payment date. The weighted average interest rate was 6.7% and 6.9% in 1999 and 1998, respectively.

The number of shares allocated to participants is based on the semi-annual payments of principal and interest due on the ESOP notes. In 1999 and 1998, 175,123 shares and 173,782 shares of preferred stock valued at $15.6 million and $15.5 million, respectively, were allocated to participants. The ESOP had 960,098 shares allocated to participants and 730,196 suspense shares at December 31, 1999.

Compensation cost included in the Consolidated Statements of Income was $11 million, $12 million, and $11 million in 1999, 1998, and 1997, respectively.

OTHER COMPONENTS OF STOCKHOLDERS' EQUITY

5.58 Certain items such as (1) foreign currency translation adjustments, (2) unrealized gains and losses on certain investments in debt and equity securities, (3) minimum pension liability adjustments, and (4) unearned compensation expense related to stock issuances to employees are presented as separate components of stockholders' equity. *Statement of Financial Accounting Standards No. 130,* which is effective for fiscal years beginning after December 15, 1997, defines items 1-3 as items of other comprehensive income and as such must be reported "in a financial statement that is displayed with the same prominence as other financial statements." See section 4 for examples of other comprehensive income in statements of changes in stockholders' equity.

5.59 Examples of statements reporting changes in separate components of stockholders' equity, other than those previously discussed, follow.

Unearned Compensation Expense

5.60

GARAN, INCORPORATED (SEP)

Consolidated Statements of Shareholders' Equity

Years ended 1997, 1998 and 1999	Common Stock	Additional Paid-In Capital	Unamortized Value of Restricted Stock	Retained Earnings	Total
Balance at September 30, 1996	$2,535,000	$ 5,821,000		$ 87,785,000	$ 96,141,000
Net earnings				9,715,000	9,715,000
Dividends paid—$1.00 per share				(5,070,000)	(5,070,000)
Balance at September 30, 1997	$2,535,000	$ 5,821,000		$ 92,430,000	$100,786,000
Net earnings				14,037,000	14,037,000
Exercise of stock options	29,000	971,000			1,000,000
Dividends paid—$1.20 per share				(6,116,000)	(6,116,000)
Balance at September 30, 1998	$2,564,000	$ 6,792,000		$100,351,000	$109,707,000
Net earnings				18,340,000	18,340,000
Issuance of restricted stock	80,000	4,200,000	(4,280,000)		
Amortization of restricted stock			355,000		355,000
Exercise of stock options	9,000	280,0000			289,000
Dividends paid—$1.65 per share				(8,564,000)	(8,564,000)
Balance at September 30, 1999	$2,653,000	$11,272,000	$(3,925,000)	$110,127,000	$120,127,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 14: Restricted Stock Plan

In May, 1999, the Company terminated the Supplemental Executive Retirement Plan ("SERP"). In lieu of the SERP, the Company adopted a 1999 Restricted Stock Plan ("Restricted Stock Plan") for the benefit of the same individuals covered under the SERP and issued 160,000 shares of Common Stock thereunder. The shares issued pursuant to the Restricted Stock Plan are subject to restrictions on transfer and certain other conditions. During the restriction period, plan participants are entitled to vote and receive dividends on such shares.

Upon issuance of the 160,000 shares pursuant to the Restricted Stock Plan, an unamortized compensation expense equivalent to the market value of the shares on the date of grant was charged to shareholders' equity and will be amortized over the five year restriction period. The compensation expense taken with respect to the restricted shares during the year ended September 30, 1999, was $355,000.

5.61

SEAGATE TECHNOLOGY, INC. (JUN)

Consolidated Statements of Stockholders' Equity

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Deferred Compensation	Treasury Common Stock	Total
Balance at June 28, 1996	213	$2	$1,133	$1,390	$(1)	$(58)	$ —	$2,466
Comprehensive income								
Net income				658				658
Unrealized gain on marketable securities					1			1
Foreign currency translation								—
Comprehensive income								659
Purchase of treasury stock at cost							(582)	(582)
Sale of stock	4		42	(71)			113	84
Issuance of restricted stock, net of cancellations			7	(7)		(7)	7	—
Amortization of deferred compensation						8		8
Income tax benefit from stock options exercised			52					52
Conversion of debentures to common stock	35	1	669	(24)			143	789
Balance at June 27, 1997	252	3	1,903	1,946	—	(57)	(319)	3,476
Comprehensive income								
Net loss				(530)				(530)
Unrealized gain on marketable securities					1			1
Foreign currency translation					(1)			(1)
Comprehensive income (loss)								(530)
Purchase of treasury stock at cost							(105)	(105)
Sale of stock				(98)			166	68
Issuance of restricted stock, net of cancellations			6	(20)		(6)	20	—
Amortization of deferred compensation						8		8
Income tax benefit from stock options exercised			12					12
Other stock-based compensation			8					8

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Deferred Compensation	Treasury Common Stock	Total
Balance at July 3, 1998	252	3	1,929	1,298	—	(55)	(238)	2,937
Comprehensive income								
Net income				1,176				1,176
Unrealized gain on marketable securities					(6)			(6)
Foreign currency translation					(1)			(1)
Comprehensive income)								1,169
Purchase of treasury stock at cost							(859)	(859)
Sale of stock				(106)			204	98
Issuance of restricted stock, net of cancellations			(2)	(6)		2	6	—
Amortization of deferred compensation						10		10
Income tax benefit from stock options exercised			26					26
Other stock-based compensation			38	(7)			151	182
Balance at July 2, 1999	252	$3	$1,991	$2,355	$(7)	$(43)	$(736)	$3,563

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Stock-Based Benefit Plans (In Part)

Executive Stock Plan—The Company has an Executive Stock Plan under which senior executives of the Company are granted the right to purchase shares of the Company's common stock at $.01 per share. The difference between the fair market value of the shares on the measurement date and the exercise price is recorded as deferred compensation and is charged to operations over the vesting period of five or ten years. The Company has the right to repurchase the restricted stock from an executive upon his or her voluntary or involuntary termination of employment with the Company for any reason at the same price paid by the executive. If an executive voluntarily resigns at or above age 65, the Company may release from the repurchase option, or if his or her employment terminates as a result of death, disability, termination by the Company other than for cause or constructive termination within the two-year period following a change of control, the Company will release from the repurchase option a pro rata number of shares based on the number of months that have passed since the grant date divided by the number of months in the vesting period. The following is a summary of restricted stock activity under the Executive Stock Plan for the three years ended July 2, 1999:

(Shares in thousands)	Restricted Shares Outstanding
Balance June 28, 1996	2,021
Granted	249
Repurchased	(85)
Balance June 27, 1997	2,185
Granted	454
Repurchased	(254)
Balance July 3, 1998	2,385
Granted	145
Repurchased	(216)
Balance July 2, 1999	2,314

At July 2, 1999, 186,000 shares were available for future grants. In addition, the Company has a Restricted Stock Plan which also has a deferred compensation component. Under this plan the deferred compensation is amortized over a period of seven years. There are two employees remaining in the plan and no shares are available for future grant. The aggregate amount charged to operations for amortization of deferred compensation under both plans was $10 million, $8 million and $8 million in 1999, 1998 and 1997, respectively.

Esop

5.62

PHARMACIA & UPJOHN, INC. AND SUBSIDIARIES (DEC)

Consolidated Statements of Shareholders' Equity

(Dollar amounts in millions)	1999	1998	1997
Preferred stock:			
Balance at beginning of year	$ 277	$ 282	$ 287
Redemptions and conversions	(7)	(5)	(5)
Balance at end of year	270	277	282
Common stock:			
Balance at end of year	5	5	5
Capital in excess of par value:			
Balance at beginning of year	1,531	1,579	1,563
Stock option, incentive and dividend reinvestment plan	(13)	(56)	(20)
Offering to the public, net of issuance costs of $2	—	—	30
Retirements, conversions and other	1	8	6
Balance at end of year	1,519	1,531	1,579
Retained earnings:			
Balance at beginning of year	5,334	5,265	5,569
Net earnings	803	631	258
Dividends declared	(555)	(549)	(549)
Dividends on preferred stock (net of tax)	(13)	(13)	(13)
Balance at end of year	5,569	5,334	5,265
ESOP-related accounts:			
Balance at beginning of year	(254)	(260)	(266)
Third-party debt repayment	22	16	11
ESOP expense exceeding cash contributed	(6)	(2)	5
Additional loan	(6)	(5)	(7)
Rollover of interest on ESOP note receivable	(4)	(3)	(3)
Balance at end of year	(248)	(254)	(260)
Treasury stock:			
Balance at beginning of year	(35)	(48)	(8)
Stock options and incentive plans	156	130	54
Purchases of treasury stock	(170)	(117)	(94)
Sales of treasury stock	47	—	—
Balance at end of year	(2)	(35)	(48)
Accumulated other comprehensive income:			
Balance at beginning of year	(1,262)	(1,245)	(837)
Other comprehensive loss	(266)	(17)	(408)
Balance at end of year	(1,528)	(1,262)	(1,245)
Total shareholders' equity	$5,585	$5,596	$5,578
Comprehensive income (net of tax):			
Currency translation adjustments	$ (267)	$52	(443)
Unrealized investment gains (losses)	16	(48)	35
Minimum pension liability adjustments	(15)	(21)	—
Other comprehensive loss	(266)	(17)	(408)
Net earnings	803	631	258
Total comprehensive income (loss)	$ 537	$ 614	$ (150)

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

18. Employee Stock Ownership Plan (ESOP)

The ESOP, created in 1989, is a funding vehicle for the Employee Savings Plan covering essentially all active U.S. employees. As the ESOP Trust makes debt principal and interest payments, a proportionate amount of preferred stock is released for allocation to plan participants. The preferred shares are allocated to participants' accounts based upon their respective savings plan contributions and the dividends earned on their previously allocated preferred shares. As of December 31, 1999, 2,097 preferred shares had been released and allocated; 383 shares were released but unallocated; and 4,212 shares remained unreleased, of which 61 shares are committed to be released. Shares released during 1999, 1998 and 1997 were 421, 391 and 346, respectively.

Under the agreement whereby the Company guaranteed third-party debt of the ESOP Trust, the Company is obligated to provide sufficient cash annually to the Trust to enable it to make required principal and interest payments. The Company satisfies this annual cash flow requirement through payment of dividends on all preferred shares outstanding, loans and cash contributions. The Company has fully and unconditionally guaranteed the ESOP Trust's payment obligations whether at maturity, upon redemption, upon declaration of acceleration, or otherwise. The holders of the debt securities have no recourse against the assets of the ESOP Trust except in the event that the Trust defaults on payments due and the Company also fails to make such payments. In that event, the holders may have recourse against unallocated funds held by the Trust. At December 31, 1999, assets of the ESOP trust consisted primarily of $270 of Pharmacia & Upjohn, Inc., Series A Convertible Perpetual Preferred Stock.

ESOP expense is determined by a formula that apportions debt service to each year of the plan based on shares allocated to participants and deducts dividends paid on all preferred stock held by the trust. ESOP expense represents a fringe benefit and, as such, it attaches to payroll costs that comprise a portion of all functional expense captions in the earnings statement.

Key measures of the ESOP are presented in the table that follows.

(Dollars in millions)	1999	1998	1997
Interest expense of ESOP Trust	$25	$27	$28
Dividend income of ESOP Trust	17	17	18
Company contribution to ESOP Trust	22	18	12
Company ESOP expense (net)	$14	$13	$14

5.63

THE STANLEY WORKS (DEC)

Consolidated Statements of Changes in Shareowners' Equity

(Millions of dollars, except per share amounts)	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	ESOP Debt	Treasury Stock	Shareowners' Equity
Balance December 28, 1996	$230.9	$919.0	$(45.5)	$(234.8)	$ (89.5)	$780.1
Comprehensive income (loss):						
Net loss		(41.9)				
Currency translation adjustment			(39.8)			
Total comprehensive income (loss)						(81.7)
Cash dividends declared—$.77 per share		(68.6)				(68.6)
Issuance of common stock		(13.4)			61.1	47.7
Purchase of common stock					(92.2)	(92.2)
Tax benefit related to stock options		8.7				8.7
ESOP debt				11.0		11.0
ESOP tax benefit		2.8				2.8
Balance January 3, 1998	230.9	806.6	(85.3)	(223.8)	(120.6)	607.8
Comprehensive income (loss):						
Net earnings		137.8				
Currency translation adjustment			2.1			
Minimum pension liability			(1.4)			
Total comprehensive income (loss)						138.5
Cash dividends declared—$.83 per share		(73.9)				(73.9)
Issuance of common stock		(8.5)			33.8	25.3
Purchase of common stock					(44.1)	(44.1)
Tax benefit related to stock options		2.4				2.4
ESOP debt				10.6		10.6
ESOP tax benefit		2.8				2.8
Balance January 2, 1999	230.9	867.2	(84.6)	(213.2)	(130.9)	669.4
Comprehensive income (loss):						
Net earnings		150.0				
Currency translation adjustment			(15.6)			
Minimum pension liability			1.0			
Total comprehensive income (loss)						135.4
Cash dividends declared—$.87 per share		(77.5)				(77.5)
Issuance of common stock		(16.3)			29.4	13.1
Purchase of common stock					(19.5)	(19.5)
Tax benefit related to stock options		0.8				0.8
ESOP debt				11.0		11.0
ESOP tax benefit		2.7				2.7
Balance January 1, 2000	$230.9	$926.9	$(99.2)	$(202.2)	$(121.0)	$735.4

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

K. Employee Benefit Plans (In Part)

Employee Stock Ownership Plan (ESOP)

The Account Value Plan provides opportunities for tax-deferred savings, enabling eligible U.S. employees to acquire a proprietary interest in the Company. Such employees may contribute from 1% to 15% of their salary to the plan. The Company contributes an amount equal to one-half of the first 7% of employee contributions, all of which is invested in the Company's common stock. The amounts in 1999, 1998 and 1997 under this matching arrangement were $7.1 million, $7.9 million and $8.2 million, respectively. In 1998, the investment options for plan participant contributions were enhanced to include a variety of investment funds in addition to the Company's common stock.

In 1998, the ESOP was expanded to include an additional non-contributory benefit for U.S. salaried and non-union hourly employees to replace the pre-existing defined benefit plan. Under the new benefit arrangement, the Company contributes amounts ranging from 2% to 9% of employee compensation based on age, ($13.9 million in 1999 and $9.5 million in 1998). Assets of the new benefit are invested in equity securities and bonds.

Shares of the Company's common stock held by the ESOP were purchased with the proceeds of external borrowings in 1989 and borrowings from the Company in 1991, both of which were refinanced in 1998. The external ESOP borrowings are guaranteed by the Company and are included in long-term debt. Shareowners' equity reflects both the internal and the external borrowing arrangements.

Shares are released to participant accounts based on principal and interest payments of the underlying debt. These shares along with allocated dividends and shares purchased on the open market are assigned to fund share requirements of the employee contributions, employer contributions and the dividends earned on participant account balances.

Net ESOP activity recognized is based on total debt service and share purchase requirements less employee contributions and dividends on ESOP shares. The Company's net ESOP activity resulted in expense of $10.7 million in 1999, and income of $5.1 million and $15.2 million in 1998 and 1997, respectively.

Dividends on ESOP shares, which are charged to shareowners' equity as declared, were $14.7 million in 1999 and $15.2 million in 1998 and 1997. Interest costs incurred by the ESOP on external debt for 1999, 1998 and 1997, were $2.2 million, $21.9 million and $4.0 million, respectively. ESOP shares not yet allocated to participants are treated as outstanding for purposes of computing earnings per share. As of January 1, 2000, the number of ESOP shares allocated to participant accounts was 11,047,336 and the number of unallocated shares was 8,651,054.

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* requires enterprises to present a Statement of Cash Flows which classifies cash receipts and payments by operating, investing, and financing activities. *SFAS No. 95* supersedes *APB Opinion No. 19,* which required a statement summarizing changes in financial position.

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

	1999	1998	1997	1996
Final statement	288	283	310	320
Follows income statement and balance sheet	280	286	261	250
Balance income statement and balance sheet	32	31	29	30
Total Companies	**600**	**600**	**600**	**600**

TITLE

6.05 As indicated in Table 6-2, the survey companies, with a few exceptions, used the title set forth in *SFAS No. 95* to identify a Statement of Cash Flows.

6.06

TABLE 6-2: TITLE

	1999	1998	1997	1996
Cash Flows	578	581	583	577
Cash Flow	22	19	17	23
Total Companies	**600**	**600**	**600**	**600**

CASH FLOWS FROM OPERATING ACTIVITIES

6.07 Paragraphs 21–24 of *SFAS No. 95* define those transactions and events which constitute operating cash receipts and payments. *SFAS No. 95* recommends that the direct method, as defined in paragraph 27, be used to report net cash flow from operating activities. Most of the survey companies used the indirect method (reconciling net income to net cash flow from operating activities) to report net cash flow from operating activities. Regardless of whether the direct or indirect method is used, paragraph 29 of *SFAS No. 95* requires that a reconciliation of net income to net cash flow from operating activities be presented and that interest and income tax payments be disclosed. Two survey companies changed from the direct to indirect method. The companies described such a change as a reclassification.

6.08 Table 6-3 shows the methods used to report cash flows from operating activities. Companies using the direct method usually present the reconciliation of net income to net cash flow from operating activities as a schedule at the bottom of the Statement of Cash Flows or on the page adjacent to the Statement. Companies using the indirect method usually present the reconciliation with the Statement of Cash Flows.

6.09 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.

6.10 Examples of reporting cash flows from operating activities follow.

6.11

TABLE 6-3: METHOD OF REPORTING CASH FLOWS FROM OPERATING ACTIVITIES

	1999	1998	1997	1996
Indirect method	593	593	590	589
Direct method	7	7	10	11
Total Companies	**600**	**600**	**600**	**600**

6.12

TABLE 6-4: INTEREST AND INCOME TAX PAYMENTS

	1999	1998	1997	1996
Interest Payments				
Notes to financial statements	306	323	323	325
Bottom of Statement of Cash Flows	251	251	248	245
Within Statement of Cash Flows	10	8	12	19
Amount not disclosed	33	18	17	11
Total Companies	**600**	**600**	**600**	**600**
Income Tax Payments				
Notes to financial statements	318	333	325	332
Bottom of Statement of Cash Flows	249	249	247	244
Within Statement of Cash Flows	11	13	18	16
Amount not disclosed	22	5	10	8
Total Companies	**600**	**600**	**600**	**600**

Direct Method

6.13

NORTHROP GRUMMAN CORPORATION (DEC)

Consolidated Statements of Cash Flows

($ in millions)	1999	1998	1997
Operating Activities			
Sources of Cash			
Cash received from customers			
Progress payments	$1,691	$1,844	$2,264
Other collections	7,450	6,929	7,050
Interest received	18	11	17
Income tax refunds received	75	26	13
Other cash receipts	7	6	7
Cash provided by operating activities	9,241	8,816	9,351
Uses of Cash			
Cash paid to suppliers and employees	7,715	8,273	8,280
Interest paid	216	219	251
Income taxes paid	85	46	64
Other cash payments	18	34	26
Cash used in operating activities	8,034	8,572	8,621
Net cash provided by operating activities	1,207	244	730
Investing Activities			
Payment for business purchased, net of cash acquired	(232)	(50)	
Additions to property, plant and equipment	(201)	(211)	(238)
Proceeds from sale of property, plant and equipment	40	63	106
Proceeds from sale of affiliates/operations			19
Advances to affiliate		(30)	
Funding of retiree benefit trust		(2)	
Other investing activities	1	(5)	
Net cash used in investing activities	(392)	(235)	(113)
Financing Activities			
Borrowings under lines of credit	22	295	422
Repayment of borrowings under lines of credit	(434)	(55)	(808)
Principal payments of long-term debt/capital leases	(200)	(200)	(200)
Proceeds from issuance of stock	6	36	17
Dividends paid	(111)	(109)	(102)
Other financing activities		5	(6)
Net cash used in financing activities	(717)	(28)	(677)
Increase (decrease) in cash and cash equivalents	98	(19)	(60)
Cash and cash equivalents balance at beginning of year	44	63	123
Cash and cash equivalents balance at end of year	$ 142	$ 44	$ 63

($ in millions)	1999	1998	1997
Reconciliation of Net Income to Net Cash Provided by operating activities:			
Net income	$ 467	$ 194	$407
Adjustments to reconcile net income to net cash provided			
Depreciation	193	207	232
Amortization of intangible assets	196	186	186
Common stock issued to employees	2	88	24
Loss on disposals of property, plant and equipment	21	30	18
Loss (gain) on assets available for sale		15	(8)
Loss on investment		30	
Retiree benefits income	(249)	(194)	(44)
Decrease (increase) in			
Accounts receivable	170	1,212	(81)
Inventoried costs	172	(111)	(147)
Prepaid expenses	45	(18)	2
Increase (decrease) in			
Progress payments	21	(1,280)	66
Accounts payable and accruals	(2)	(115)	91
Provisions for contract losses	(8)	54	(30)
Deferred income taxes	230	112	188
Income taxes payable	58	(16)	(9)
Retiree benefits	(129)	(178)	(180)
Other noncash transactions	20	28	15
Net cash provided by operating activities	$1,207	$ 244	$730
Noncash investing and financing activities:			
Purchase of businesses			
Fair value of assets acquired	$ 328	$ 71	
Cash paid	(232)	(51)	
Stock issued	(30)		
Liabilities assumed	$ 66	$ 20	

6.14

OFFICE DEPOT, INC. AND SUBSIDIARIES (DEC)

Consolidated Statements of Cash Flows

(In thousands)	1999	1998	1997
Cash flows from operating activities:			
Cash received from customers	$10,205,532	$8,928,519	$8,017,406
Cash paid to suppliers	(9,739,616)	(8,119,219)	(7,416,925)
Interest received	31,865	23,972	5,611
Interest paid	(6,472)	(3,625)	(4,166)
Income taxes paid	(118,157)	(151,032)	(140,831)
Net cash provided by operating activities	373,152	678,615	461,095
Cash flows from investing activities:			
Purchases of investment securities	(154,364)	(36,697)	—
Proceeds from maturities or sales of investment securities	114,141	44,260	20,030
Investments in unconsolidated joint ventures	(1,606)	(40,475)	(22,464)
Purchase of remaining ownership interest in joint ventures	(21,629)	(27,680)	—
Capital expenditures	(396,008)	(233,089)	(156,869)
Proceeds from sale of property and equipment	7,922	22,364	4,127
Net cash used in vesting activities	(451,544)	(271,317)	(155,176)
Cash flows from financing activities:			
Proceeds from exercise of stock options and sale of stock under employee stock purchase plans	59,082	64,237	19,959
Repurchase of common stock for treasury	(501,006)	—	—
Proceeds from issuance of long-term debt	42,841	—	—
Payments on long- and short-term borrowings	(6,766)	(2,490)	(151,888)
Net cash (used in) provided by financing activities	(405,849)	61,747	(131,929)
Effect of exchange rate changes on cash and cash equivalents	(1,516)	(4,381)	(1,939)
Net (decrease) increase in cash and cash equivalents	(485,757)	464,664	172,051
Cash and cash equivalents at beginning of period	704,541	239,877	67,826
Cash and cash equivalents at end of period	$ 218,784	$ 704,541	$ 239,877
Reconciliation of net earnings to net cash provided by operating activities:			
Net earnings	$ 257,638	$ 233,196	$ 234,861
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	168,553	140,604	119,748
Provision for losses on inventories and receivables	111,510	81,270	76,919
Net (earnings) losses on equity method investments	(2,041)	15,254	7,842
Accreted interest on zero coupon, convertible subordinated notes	19,534	18,812	18,005
Contributions of common stock to employee benefit and stock purchase plans	5,426	4,501	3,373
Compensation expense for long-term incentive stock grants	479	336	(272)
Deferred income taxes	(430)	(38,244)	9,534
Loss on disposal of property and equipment	14,124	2,023	4,657
Changes in assets and liabilities:			
Increase in receivables	(152,523)	(88,595)	(147,991)
(Increase) decrease in merchandise inventories	(250,003)	106,189	(28,251)
Net increase in prepaid expenses and other assets	(24,862)	(16,792)	(7,870)
Net increase in accounts payable, accrued expenses and deferred credits	225,747	220,061	170,540
Total adjustments	115,514	445,419	226,234
Net cash provided by operating activities	$ 373,152	$ 678,615	$ 461,095

Reconciliation of Net Income to Net Cash Flow From Operating Activities

6.15

AMERICAN HOME PRODUCTS CORPORATION AND SUBSIDIARIES (DEC)

Consolidated Statements of Cash Flows

(In thousands)	1999	1998	1997
Operating activities			
Net income (loss)	$(1,227,121)	$2,474,338	$2,043,123
Adjustments to reconcile net income (loss) to net cash provided from operating activities:			
Litigation charge	4,750,000	—	—
Special charges	277,000	343,600	180,000
Gain on sale of business	—	(592,084)	—
Gains on sales of other assets	(194,798)	(445,485)	(375,925)
Depreciation	386,037	371,057	394,287
Amortization	296,302	293,598	307,738
Deferred income taxes	(1,528,316)	74,472	(220,214)
Changes in working capital, net of businesses acquired or sold:			
Accounts receivable	(91,966)	(601,627)	(329,537)
Inventories	(122,705)	(121,414)	(50,927)
Other current assets	(140,978)	(198,815)	28,143
Trade accounts payable and accrued expenses	(372,113)	(164,648)	(171,666)
Accrued federal and foreign taxes	(157,430)	(4,008)	(80,873)
Other items, net	307,690	85,675	(28,695)
Net cash provided from operating activities	2,181,602	1,514,659	1,695,454
Investing activities			
Purchases of property, plant and equipment	(1,000,314)	(809,774)	(830,351)
Purchases of businesses, net of cash acquired	—	(425,041)	(479,694)
Proceeds from sale of businesses	—	1,770,000	380,000
Proceeds from sales of other assets	323,488	592,034	494,850
Purchases of marketable securities	(784,645)	(350,687)	(468,426)
Proceeds from sales and maturities of marketable securities	383,941	278,290	640,662
Net cash provided from/(used for) investing activities	(1,077,530)	1,054,822	(262,959)
Financing activities			
Net proceeds from/(repayments of) debt	1,639,392	(1,179,657)	(976,926)
Dividends paid	(1,183,621)	(1,143,252)	(1,073,200)
Purchases of treasury stock	(1,058,299)	(414,603)	(11,335)
Exercises of stock options	234,270	403,830	369,561
Termination of interest rate swap agreements	—	(96,655)	—
Net cash used for financing activities	(368,258)	(2,430,337)	(1,691,900)
Effects of exchange rates on cash balances	(25,418)	(8,197)	(11,520)
Increase/(decrease) in cash and cash equivalents	710,396	130,947	(270,925)
Cash and cash equivalents, beginning of year	1,182,319	1,051,372	1,322,297
Cash and cash equivalents, end of year	$ 1,892,715	$1,182,319	$1,051,372

6.16

ARMSTRONG WORLD INDUSTRIES, INC. (DEC)

Consolidated Statements of Cash Flows

(Millions)	1999	1998	1997
Cash flows from operating activities:			
Net earnings (loss)	$ 14.3	$ (9.3)	$185.0
Adjustments to reconcile net earnings (loss) to net cash provided by operating activities:			
Depreciation and amortization	169.2	142.7	132.7
Deferred income taxes	(38.3)	(27.9)	24.2
Equity (earnings) loss from affiliates, net	(16.8)	(13.8)	29.7
Gain on sale of business, net	(1.0)	—	—
Gain on sale of investment in affiliates	—	(12.8)	—
Reorganization charges (reversals)	(1.4)	74.6	—
Reorganization and restructuring payments	(16.9)	(11.2)	(18.6)
Payments for asbestos-related claims, net of recoveries	(114.4)	(74.4)	(41.4)
Charge for asbestos liability	335.4	274.2	—
Changes in operating assets and liabilities net of effects of reorganizations, restructuring, acquisitions and dispositions:			
(Increase) decrease in receivables	(22.1)	3.5	(40.8)
(Increase) decrease in inventories	(9.9)	44.4	(12.8)
(Increase) decrease in other current assets	29.3	(28.2)	10.5
Increase in other noncurrent assets	(54.4)	(112.0)	(69.0)
Increase (decrease) in accounts payable and accrued expenses	86.7	(19.4)	16.6
Increase (decrease) in income taxes payable	(18.5)	(2.7)	11.5
Increase in other long-term liabilities	12.1	26.0	(23.2)
Other, net	(9.1)	(12.9)	(10.4)
Net cash provided by operating activities	344.2	240.8	240.4
Cash flows from investing activities:			
Purchases of property, plant and equipment	(183.6)	(159.7)	(141.7)
Investment in computer software	(11.6)	(24.6)	(18.8)
Proceeds from sales of businesses	88.3	—	—
Proceeds from sale of land and facilities	7.9	2.7	24.3
Acquisitions, net of cash acquired	(3.8)	(1,175.7)	(4.2)
Distributions from equity affiliates	40.8	11.4	6.2
Investment in affiliates	—	147.6	(12.4)
Net cash used for investing activities	(62.0)	(1,198.3)	(146.6)
Cash flows from financing activities:			
Increase (decrease) in short-term debt	(69.7)	24.2	69.3
Issuance of long-term debt	200.0	1,293.9	7.2
Reduction of long-term debt	(332.4)	(278.6)	(17.0)
Cash dividends paid	(76.9)	(75.3)	(70.0)
Purchase of common stock for the treasury, net	(1.3)	(31.8)	(89.2)
Proceeds from exercised stock options	1.2	7.9	7.9
Other, net	(2.8)	(3.0)	(6.8)
Net cash provided by (used for) financing activities	(281.9)	937. 3	(98.6)
Effect of exchange rate changes on cash and cash equivalents	(2.9)	0.5	(2.7)
Net decrease in cash and cash equivalents	$ (2.6)	$ (19.7)	$ (7.5)
Cash and cash equivalents at beginning of year	$ 38.2	$ 57.9	$ 65.4
Cash and cash equivalents at end of year	$ 35.6	$ 38.2	$ 57.9

Interest and Income Tax Payments

6.17

AVON PRODUCTS, INC. (DEC)

Consolidated Statements of Cash Flows

(In millions)	1999	1998	1997
Cash flows from operating activities			
Net income	$302.4	$270.0	$338.8
Adjustments to reconcile income to net cash provided by operating activities:			
Depreciation and amortization	83.0	72.0	72.1
Provision for doubtful accounts	87.5	91.3	80.0
Translation gains	(.9)	(7.2)	(.1)
Deferred income taxes	(20.0)	(13.0)	18.0
Special charges	84.1	88.5	—
Other	9.7	3.9	9.4
Changes in assets and liabilities:			
Accounts receivable	(132.7)	(157.6)	(121.4)
Inventories	(57.8)	(17.2)	(67.5)
Prepaid expenses and other	1.1	(4.0)	6.7
Accounts payable and accrued liabilities	56.3	13.0	42.9
Income and other taxes	27.6	19.5	(56.1)
Noncurrent assets and liabilities	24.3	(34.8)	(8.1)
Net cash provided by operating activities	464.6	324.4	315.5
Cash flows from investing activities			
Capital expenditures	(203.4)	(189.5)	(169.4)
Disposal of assets	11.7	5.8	3.3
Acquisitions of subsidiary stock and other investing activities	(16.5)	1.4	(9.0)
Net cash used by investing activities	(208.2)	(182.3)	(175.1)
Cash flows from financing activities			
Cash dividends	(186.3)	(180.6)	(168.3)
Debt, net (maturities of three months or less)	227.2	(96.1)	(39.8)
Proceeds from short-term debt	90.8	54.7	25.7
Retirement of short-term debt	(69.4)	(34.9)	(49.0)
Proceeds from long-term debt	500.0	100.1	100.0
Retirement of long-term debt	(.2)	(.6)	(.8)
Proceeds from exercise of stock options	23.9	24.0	20.6
Repurchase of common stock	(800.6)	(107.8)	(110.8)
Other financing activities	—	58.1	58.6
Net cash used by financing activities	(214.6)	(183.1)	(163.8)
Effect of exchange rate changes on cash and equivalents	(30.0)	4.7	(19.2)
Net increase (decrease) in cash and equivalents	11.8	(36.3)	(42.6)
Cash and equivalents at beginning of year	105.6	141.9	184.5
Cash and equivalents at end of year	$117.4	$105.6	$141.9
Cash paid for			
Interest	$ 47.1	$ 39.2	$ 36.0
Income taxes, net of refunds received	176.0	188.5	215.8

6.18

COURIER CORPORATION (SEP)

Consolidated Statements of Cash Flows

	1999	1998	1997
Operating activities:			
Net income	$8,376,000	$7,725,000	$4,316,000
Adjustments to reconcile net income to cash provided from operating activities:			
Depreciation and amortization	8,282,000	8,541,000	7,237,000
Deferred income taxes	(456,000)	(499,000)	(812,000)
Change in accounts receivable	(3,447,000)	(2,022,000)	1,671,000
Change in inventory	(1,404,000)	(1,010,000)	(705,000)
Change in accounts payable	2,350,000	(263,000)	(472,000)
Change in accrued taxes	227,000	(26,000)	364,000
Change in other elements of working capital	(245,000)	1,891,000	1,431,000
Other, net	687,000	(1,695,000)	1,051,000
Cash provided from operating activities	14,370,000	12,642,000	14,081,000
Investment activities:			
Business acquisitions	—	(563,000)	(12,701,000)
Capital expenditures	(4,999,000)	(4,147,000)	(6,732,000)
Proceeds from sale of assets	—	4,600,000	—
Cash used for investment activities	(4,999,000)	(110,000)	(19,433,000)
Financing activities:			
Scheduled long-term debt repayments	(312,000)	(387,000)	(466,000)
Other long-term borrowings (repayments)	(5,250,000)	(11,500,000)	7,404,000
Cash dividends	(1,354,000)	(1,205,000)	(969,000)
Stock repurchases	(455,000)	—	(882,000)
Proceeds from stock plans	738,000	1,255,000	259,000
Cash provided from (used for) financing activities	(6,633,000)	(11,837,000)	5,346,000
Increase (decrease) in cash and equivalents	2,738,000	695,000	(6,000)
Cash and equivalents at the beginning of the period	722,000	27,000	33,000
Cash and equivalents at the end of the period	$3,460,000	$ 722,000	$ 27,000
Supplemental cash flow information:			
Interest paid	$ 396,000	$1,243,000	$ 774,000
Income taxes paid (net of receipts)	$3,939,000	$4,498,000	$2,060,000

Discontinued Operations

6.19

DOVER CORPORATION AND SUBSIDIARIES (DEC)

Consolidated Statements of Cash Flows

Increase (decrease) in cash and cash equivalents (in thousands)	1999	1998	1997
Cash flow from operating activities:			
Net earnings	$ 928,992	$ 378,845	$ 405,431
Adjustments to reconcile net earnings to net cash from operating activities:			
Income from discontinued operations	—	(52,448)	(57,084)
Gain on sale of discontinued business, net	(523,938)	—	(23,433)
Depreciation and amortization	183,244	167,687	155,204
Provision for losses on accounts receivable	6,803	6,542	7,248
Net increase (decrease) in LIFO reserve	(859)	(190)	842
Deferred income taxes	(25,595)	(311)	(13,553)
Loss (gain) on sale of property and equipment	(479)	898	(890)
Increase (decrease) in deferred compensation	22,486	4,704	12,892
Acquisition inventory premium write-off	10,534	7,804	9,202
(Gain) loss on sale of businesses and certain assets	(10,256)	(40)	10,870
Other, net	(5,679)	(20,380)	(19,004)
Changes in assets and liabilities (excluding effects of acquisitions and dispositions):			
Decrease (increase) in accounts receivable	(149,631)	74,655	(91,350)
Decrease (increase) in inventories excluding LIFO reserve	(21,036)	(17,263)	(30,573)
Decrease (increase) in prepaid expenses	(8,644)	(11,479)	(4,045)
Decrease (increase) in other assets	(3,366)	117	(4,645)
Increase (decrease) in accounts payable	48,526	(24,685)	18,822
Increase (decrease) in accrued expenses	(22,271)	(150)	34,282
Increase (decrease) in federal and other taxes on income	32,514	(26,181)	9,363
Total adjustments	(467,647)	109,280	14,148
Net cash from operating activities of continuing operations	461,345	488,125	419,579
Cash flows from (used in) investing activities:			
Net sale of marketable securities	—	21,979	1,701
Proceeds from sale of property and equipment	2,637	6,270	6,412
Additions to property, plant and equipment (includes rental equipment: $232 in 1999, $400 in 1998 and $217 in 1997)	(130,344)	(126,130)	(122,299)
Acquisitions (net of cash and cash equivalents: $38,186 in 1999, $7,421 in 1998 and $6,689 in 1997)	(575,011)	(549,762)	(251,754)
Proceeds from sale of businesses	40,096	668	167
Purchase of treasury stock (18,454 shares in 1999, 3,252 shares in 1998 and 3,254 shares in 1997)	(671,670)	(106,304)	(86,267)
Net cash used in investing activities of continuing operations	(1,334,292)	(753,279)	(452,040)
Cash flows from (used in) financing activities:			
Increase (decrease) in notes payable	(135,640)	(8,235)	(55,908)
Payment of long-term debt	(13,379)	(2,724)	(6,782)
Proceeds from long-term debt	1,916	349,115	1,088
Proceeds from exercise of stock options	12,291	19,036	13,022
Proceeds from sale (repurchases) of lease receivables	—	—	(2,672)
Cash dividend to stockholders	(91,808)	(89,189)	(80,347)
Net cash from (used in) financing activities of continuing operations	(226,620)	268,003	(131,599)

Increase (decrease) in cash and cash equivalents (in thousands)	1999	1998	1997
Effect of exchange rate changes on cash	(6,982)	1,986	(3,780)
Cash from discontinued operations	9,599	(11,172)	104,619
Taxes paid on gain from sale of elevator market segment	(21,786)	—	—
Proceeds from sale of elevator market segment	1,160,000	—	—
Net increase (decrease) in cash and cash equivalents	41,264	(6,337)	(63,221)
Cash and cash equivalents at beginning of year	96,774	103,111	166,332
Cash and cash equivalents at end of year	$138,038	$96,774	$103,111
Supplemental information—continuing operations, cash paid during the period for:			
Income taxes	$220,000	$188,196	$175,995
Interest	53,581	75,858	46,463

6.20

GANNETT CO., INC. (DEC)

Consolidated Statements of Cash Flows

(In thousands of dollars)	1999	1998	1997
Cash flows from operating activities			
Net income	$ 957,928	$ 999,913	$ 712,679
Adjustments to reconcile net income to operating cash flows			
Discontinued operations, net of tax	(38,541)	(33,488)	(31,326)
Depreciation	169,460	163,776	152,964
Amortization of intangibles	110,631	89,687	80,741
Deferred income taxes	21,983	40,105	(14,244)
Other, net, including gains on sales	(49,269)	(360,944)	(20,166)
Increase in receivables	(70,014)	(29,732)	(41,684)
(Increase) decrease in inventories	(7,624)	11,054	(6,336)
Decrease (increase) in film broadcast rights	3,359	62	(644)
Decrease in accounts payable	(34,805)	(14,777)	(40,487)
Increase (decrease) in interest and taxes payable	11,555	7,951	(26,336)
Change in other assets and liabilities, net	72,223	96,928	115,896
Net cash flow from operating activities	1,146,886	970,535	881,057
Cash flows from investing activities			
Purchase of property, plant and equipment	(258,443)	(244,425)	(221,251)
Payments for acquisitions, net of cash acquired	(1,496,649)	(369,804)	(355,343)
Change in other investments	(18,561)	(16,244)	(8,099)
Proceeds from sale of certain assets	38,450	665,001	40,859
Collection of long-term receivables	8,178	2,409	5,388
Net cash (used for) provided by investing activities	(1,727,025)	36,937	(538,446)
Cash flows from financing activities			
Proceeds from (payments of) long-term debt	915,865	(470,207)	(144,903)
Dividends paid	(226,274)	(218,853)	(206,557)
Cost of common shares repurchased	(163,228)	(328,956)	
Proceeds from issuance of common stock	33,681	23,953	30,425
Net cash provided by (used for) financing activities	560,044	(994,063)	(321,035)
Effect of currency exchange rate change	68		
(Decrease) increase in cash and cash equivalents	(20,027)	13,409	21,576
Balance of cash and cash equivalents at beginning of year	66,187	52,778	31,202
Balance of cash and cash equivalents at end of year	$ 46,160	$ 66,187	$ 52,778

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3: Statement of Cash Flows

For purposes of this statement, the Company considers its marketable securities, which are readily convertible into cash (with original maturity dates of less than 90 days) and consist of short-term investments in government securities, commercial paper and money market funds, as cash equivalents.

Cash paid in 1999, 1998 and 1997 for income taxes and for interest (net of amounts capitalized) was as follows:

(In thousands of dollars)	1999	1998	1997
Income taxes	$596,873	$626,409	$506,209
Interest	$100,547	$ 84,808	$102,228

Liabilities assumed in connection with 1999 acquisitions totaled approximately $365 million, with $181 million related to Newsquest's outstanding debt obligations.

Liabilities assumed in connection with 1998 and 1997 acquisitions totaled approximately $17 million and $56 million, respectively.

In each January following the years ended 1999, 1998 and 1997, the Company issued 137,168, 161,646 and 149,148 shares of common stock, respectively, in settlement of stock incentive rights whose four-year grant periods ended in December of those years. As a result of issuing those shares, the compensation liabilities for those rights, which equaled $6.3 million, $5.5 million and $6.0 million, respectively, were transferred to shareholders' equity.

Extraordinary Items

6.21

UNISYS CORPORATION (DEC)

Consolidated Statement of Cash Flows

(Millions)	1999	1998	1997
Cash flows from operating activities			
Income (loss) before extraordinary item	$ 522.8	$ 376.4	$ (852.9)
Add (deduct) items to reconcile income (loss) before extraordinary item to net cash provided by operating activities:			
Extraordinary item	(12.1)		
Depreciation	141.8	149.2	159.1
Amortization:			
Marketable software	110.9	112.3	97.2
Goodwill	12.5	8.9	963.9
(Increase) in deferred income taxes, net	(9.9)	(26.7)	(25.2)
(Increase) decrease in receivables, net	(244.5)	(277.3)	24.9
Decrease in inventories	98.0	94.4	80.6
(Decrease) increase in accounts payable and other accrued liabilities	(81.8)	103.1	(233.2)
Increase in estimated income taxes	78.2	148.0	32.9
(Decrease) increase in other liabilities	(2.2)	13.2	(85.6)
(Increase) decrease in other assets	(159.2)	(57.6)	106.6
Other	63.1	(1.7)	102.2
Net cash provided by operating activities	517.6	642.2	370.5
Cash flows from investing activities			
Proceeds from investments	1,033.8	1,991.0	1,662.5
Purchase of investments	(1,013.8)	(2,006.5)	(1,630.0)
Proceeds from sales of properties	47.9	51.1	5.1
Investment in marketable software	(122.8)	(100.3)	(133.5)
Capital additions of properties	(219.6)	(209.1)	(184.0)
Purchases of businesses	(53.9)	(3.9)	(22.2)
Proceeds from marketable securities			(4.8)
Net cash (used for) investing activities	(328.4)	(277.7)	(297.3)
Cash flows from financing activities			
Redemption of preferred stock	(197.0)		(150.0)
Proceeds from issuance of long-term debt	30.3	197.3	
Payments of long-term debt	(164.4)	(749.2)	(.1)
Net (reduction in) proceeds from short-term borrowings	(25.6)	9.6	28.4
Dividends paid on preferred shares	(59.4)	(106.5)	(113.1)
Proceeds from employee stock plans	87.7	79.5	8.6
Costs of debt conversions			(46.1)
Proceeds from issuance of preferred stock			13.1
Other			6.6
Net cash (used for) financing activities	(328.4)	(569.3)	(252.6)
Effect of exchange rate changes on cash and cash equivalents	(13.2)	(3.0)	(24.9)
Net cash used for continuing operations	(152.4)	(207.8)	(204.3)
Net cash used for discontinued operations			(19.1)
Decrease in cash and cash equivalents	(152.4)	(207.8)	(223.4)
Cash and cash equivalents, beginning of year	616.4	824.2	1,047.6
Cash and cash equivalents, end of year	$ 464.0	$ 616.4	$ 824.2

Cumulative Effect of Accounting Change

6.22

CAMPBELL SOUP COMPANY (JUL)

Consolidated Statements of Cash Flows

(Millions)	1999	1998	1997
Cash flows from operating activities:			
Net earnings, excluding discontinued operations	$ 724	$ 678	$ 634
Non-cash charges to net earnings			
Cumulative effect of accounting change	—	11	—
Restructuring charges	36	262	204
Depreciation and amortization	255	261	283
Deferred taxes	78	(21)	(33)
Other, net	5	53	95
Changes in working capital			
Accounts receivable	108	(159)	(37)
Inventories	(58)	(29)	(48)
Other current assets and liabilities	(216)	(154)	(89)
Net cash provided by operating activities	932	902	1,009
Cash flows from investing activities:			
Purchases of plant assets	(297)	(256)	(252)
Sales of plant assets	9	148	41
Businesses acquired	(105)	(478)	(228)
Sales of businesses	103	200	207
Other, net	(32)	(5)	4
Net cash used in investing activities	(322)	(391)	(228)
Cash flows from financing activities:			
Long-term borrowings	323	305	524
Repayments of long-term borrowings	(8)	(36)	(21)
Short-term borrowings	1,537	1,847	1,306
Repayments of short-term borrowings	(1,111)	(2,187)	(779)
Dividends paid	(386)	(367)	(350)
Treasury stock purchases	(1,026)	(669)	(1,696)
Treasury stock issuances	57	102	106
Net cash used in financing activities	(614)	(1,005)	(910)
Net cash provided by discontinued operations	—	511	105
Effect of exchange rate changes on cash	(6)	(18)	13
Net change in cash and cash equivalents	(10)	(1)	(11)
Cash and cash equivalents—beginning of year	16	17	28
Cash and cash equivalents—end of year	$ 6	$ 16	$ 17

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in millions)

22. Statements of Cash Flows

	1999	1998	1997
Interest paid, net of amounts capitalized	$181	$187	$165
Interest received	$ 11	$ 15	$ 7
Income taxes paid	$300	$370	$364

Employee-Related Costs

6.23

BETHLEHEM STEEL CORPORATION (DEC)

Consolidated Statements of Cash Flows

(Dollars in millions)	1999	1998	1997
Operating activities:			
Net income (loss)	$(183.2)	$120.1	$280.7
Adjustments for items not affecting cash from operating activities:			
Depreciation and amortization	257.5	246.5	231.0
Estimated loss (gain) on existing businesses	—	35.0	(135.0)
Deferred income taxes	(39.0)	18.0	53.0
Other—net	0.6	16.1	28.2
Working capital (excluding investing and financing activities):			
Receivables—operating	(65.7)	99.4	11.6
Receivables—net sold	70.0	64.0	(6.0)
Inventories	175.7	(59.0)	115.6
Accounts payable	10.8	(13.1)	(24.5)
Employment costs and other	(24.7)	(40.5)	(3.7)
Cash provided from operations before funding postretirement benefits	202.0	486.5	550.9
Funding postretirement benefits:			
Pension funding more than expense	(5.0)	(65.0)	(270.0)
Retiree healthcare and life insurance benefit payments less than expense	20.0	10.0	—
Cash provided from continuing operating activities	217.0	431.5	280. 9
Cash provided from operating activities of discontinued stainless operations	9.6	22.2	—
Investing activities:			
Capital expenditures	(557.0)	(328.0)	(228.2)
Purchase of Lukens			
Paid to Lukens stockholders, net of cash acquired	—	(327.8)	—
Transaction and other related payments	(6.6)	(41.4)	—
Cash proceeds from asset sales and other	183.6	308.8	191.8
Cash used for investing activities	(380.0)	(388.4)	(36.4)
Financing activities:			
Borrowings	249.7	201.6	1.9
Debt and capital lease payments	(65.1)	(290.4)	(53.4)
Cash dividends paid	(40.4)	(40.4)	(40.4)
Other payments	(29.2)	(50.7)	(36.8)
Cash provided from (used for) financing activities	115.0	(179.9)	(128.7)
Net increase (decrease) in cash and cash equivalents	(38.4)	(114.6)	115.8
Cash and cash equivalents—beginning of period	137.8	252.4	136.6
Cash and cash equivalents—end of period	$ 99.4	$137.8	$252.4
Supplemental cash flow information:			
Interest paid, net of amount capitalized	$ 46.1	$ 50.2	$ 52.6
Income taxes paid (received)—net	0.7	(14.2)	7.6
Capital lease obligations incurred	7.9	—	—

6.24

R.R. DONNELLEY & SONS COMPANY AND SUBSIDIARIES (DEC)

Consolidated Statements of Cash Flows

(In thousands)	1999	1998	1997
Cash flows provided by (used for) operating activities:			
Net income	$308,314	$294,580	$130,631
Loss from discontinued operations, net of tax	3,201	80,067	15,894
Loss on disposal of discontinued operations, net of tax	—	—	60,000
Gain on sale of businesses and investments, net of tax	(77,532)	(101,342)	—
Restructuring and impairment charges, net of tax	—	—	42,421
Depreciation	323,009	322,680	319,730
Amortization	51,373	53,391	51,381
Gain on sale of assets	(6,524)	(13,446)	(16,028)
Net change in operating working capital	(27,915)	68,848	117,386
Net change in other assets and liabilities	41,829	47,935	18,802
Other	19,562	(19,878)	2,021
Net cash provided by operating activities	635,317	732,835	742,238
Cash flows provided by (used for) investing activities:			
Capital expenditures	(275,826)	(225,222)	(360,195)
Other investments including acquisitions, net of cash acquired	(222,066)	(91,184)	(47,526)
Disposition of assets	7,837	26,498	51,276
Disposition of businesses and investments, net of tax	135,664	274,079	—
Net cash used for investing activities	(354,391)	(15,829)	(356,445)
Cash flows provided by (used for) financing activities:			
Net increase (decrease) in borrowings	116,621	(155,545)	(225,967)
Disposition of reacquired common stock	22,591	82,710	45,762
Acquisition of common stock	(372,403)	(539,434)	(82,041)
Cash dividends paid	(111,133)	(114,898)	(114,934)
Net cash used for financing activities	(344,324)	(727,167)	(377,180)
Effect of exchange rate changes on cash and equivalents	(1,460)	(592)	(775)
Net (decrease) increase in cash and equivalents from continuing operations	(64,858)	(10,753)	7,838
Net increase in cash from discontinued operations	40,505	29,165	18,659
Net (decrease) in cash and equivalents	(24,353)	18,412	26,497
Cash and equivalents at beginning of year	66,226	47,814	21,317
Cash and equivalents at end of year	$ 41,873	$ 66,226	$ 47,814

Changes in operating working capital, net of acquisitions and divestitures:	1999	1998	1997
Decrease (increase) in assets:			
Receivables—net	$ (15,860)	$ (27,041)	$103,077
Inventories—net	(1,814)	18,846	(3,496)
Prepaid expenses	7,664	19,674	5,116
Increase (decrease) in liabilities:			
Accounts payable	(7,651)	37,352	6,249
Accrued compensation	(10,274)	30,049	30,347
Other accrued liabilities	20	(10,032)	(23,907)
Net change in operating working capital	$ (27,915)	$ 68,848	$117,386

Restructuring Charge

6.25

NIKE, INC. (MAY)

Consolidated Statement of Cash Flows

(In millions)	1999	1998	1997
Cash provided (used) by operations:			
Net income	$451.4	$399.6	$795.8
Income charges (credits) not affecting cash:			
Depreciation	198.2	184.5	138.0
Non-cash portion of restructuring charge	28.0	59.3	—
Deferred income taxes	37.9	(113.9)	(47.1)
Amortization and other	30.6	49.0	30.3
Changes in certain working capital components:			
Decrease (increase) in inventories	197.3	(58.0)	(416.7)
Decrease (increase) in accounts receivable	134.3	79.7	(485.6)
Decrease (increase) in other current assets and income taxes receivable	53.7	(12.6)	(56.9)
(Decrease) increase in accounts payable, accrued liabilities and income taxes payable	(170.4)	(70.1)	365.3
Cash provided by operations	961.0	517.5	323.1
Cash provided (used) by investing activities:			
Additions to property, plant and equipment	(384.1)	(505.9)	(465.9)
Disposals of property, plant and equipment	27.2	16.8	24.3
Increase in other assets	(60.8)	(87.4)	(43.8)
Increase (decrease) in other liabilities	1.2	(18.5)	(10.8)
Cash used by investing activities	(416.5)	(595.0)	(496.2)
Cash provided (used) by financing activities:			
Additions to long-term debt	—	101.5	300.5
Reductions in long-term debt including current portion	(1.5)	(2.5)	(5.2)
(Decrease) increase in notes payable	(61.0)	(73.0)	92.9
Proceeds from exercise of options	54.4	32.2	26.3
Repurchase of stock	(299.8)	(202.3)	—
Dividends—common and preferred	(136.2)	(127.3)	(100.9)
Cash (used) provided by financing activities	(444.1)	(271.4)	313.6
Effect of exchange rate changes on cash	(10.9)	12.1	(0.2)
Effect of May 1996 cash flow activity for certain subsidiaries	—	—	43.0
Net increase (decrease) in cash and equivalents	89.5	(336.8)	183.3
Cash and equivalents, beginning of year	108.6	445.4	262.1
Cash and equivalents, end of year	$198.1	$108.6	$445.4
Supplemental disclosure of cash flow information:			
Cash paid during the year for:			
Interest	$ 47.1	$ 52.2	$ 44.0
Income taxes	231.9	360.5	543.1

Equity Earnings/(Loss)

6.26

FOSTER WHEELER CORPORATION AND SUBSIDIARIES (DEC)

Consolidated Statement of Cash Flows

(In thousands of dollars)	1999	1998	1997
Cash flows from operating activities			
Net (loss)/earnings	$(143,635)	$ (31,506)	$ 5,624
Adjustments to reconcile net (loss)/earnings to cash flows from operating activities:			
Depreciation and amortization	60,448	59,994	62,010
Noncurrent deferred tax	(84,597)	59,424	(4,553)
Gain on sale of land, building and equipment	(5,824)	(1,525)	(5,583)
Equity earnings, net of dividends	(11,002)	(9,890)	(13,429)
Robbins Resource Recovery Facility charge	214,000	47,014	—
Net gain on sale of subsidiaries	—	—	(49,400)
Other noncash items	6,382	(8,257)	(6,534)
Changes in assets and liabilities, net of effect of divestitures:			
Receivables	(132,264)	(48,440)	(62,072)
Sales of receivables	11,600	38,400	—
Contracts in process and inventories	44,251	(51,979)	(72,533)
Accounts payable and accrued expenses	(15,317)	9,281	44,787
Estimated costs to complete long-term contracts	77,402	(29,681)	58,925
Advance payments by customers	(11,334)	(45,413)	1,251
Income taxes	(18,890)	(16,145)	(22,472)
Other assets and liabilities	3,160	(30,366)	(49,231)
Net cash (used) by operating activities	(5,620)	(59,089)	(113,210)
Cash flows from investing activities			
Capital expenditures	(128,086)	(133,754)	(72,695)
Proceeds from sale of properties	142,569	2,235	12,516
Sales of subsidiaries	—	—	185,601
Decrease/(increase) in investments and advances	1,893	27,351	(100,268)
Decrease in short-term investments	43,923	34,267	34,160
Partnership distribution	(4,385)	(4,256)	(4,800)
Net cash provided/(used) by investing activities	55,914	(74,157)	54,514
Cash flows from financing activities			
Dividends to common stockholders	(21,983)	(34,195)	(33,953)
Repurchase of common stock	(860)	(291)	—
Proceeds from the exercise of stock options	—	51	2,760
(Decrease)/increase in short-term debt	(37,254)	48,429	7,590
Mandatorily redeemable preferred securities of subsidiary trust holding solely junior subordinated deferrable interest debentures	169,178	—	—
Proceeds from long-term debt	56,797	178,022	34,684
Repayment of long-term debt	(209,868)	(48,677)	(34,551)
Net cash (used)/provided by financing activities	(43,990)	143,339	(23,470)
Effect of exchange rate changes on cash and cash equivalents	(16,104)	2,558	(17,566)
(Decrease)/increase in cash and cash equivalents	(9,800)	12,651	(99,732)
Cash and cash equivalents at beginning of year	180,068	167,417	267,149
Cash and cash equivalents at end of year	$170,268	$180,068	$167,417
Cash paid during the year for:			
Interest (net of amount capitalized)	$ 58,799	$ 47,286	$ 40,225
Income taxes	$ 30,526	$ 27,694	$ 30,099

6.27

SCIENCE APPLICATIONS INTERNATIONAL CORPORATION (JAN)

Consolidated Statements of Cash Flows

(In thousands)	2000	1999	1998
Cash flows from operating activities:			
Net income	$619,849	$150,688	$ 84,794
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	187,147	150,949	66,982
Non-cash compensation	72,176	53,566	31,051
Minority interest in income of consolidated subsidiaries	44,200	18,537	10,524
Gain on sale of subsidiary common stock	(698,374)		
Equity in loss (income) of unconsolidated affiliates	6,123	4,185	(1,326)
Net gain on sales of certain business assets	(30,750)	(3,749)	(6,341)
Loss on impaired assets	50,518	13,378	2,878
Loss on disposal of property and equipment	6,960	4,811	3,096
Other non-cash items	1,553	9,480	
Increase (decrease) in cash, excluding effects of acquisitions, resulting from changes in:			
Receivables	(134,637)	(311,119)	(25,159)
Prepaid expenses and other current assets	(67,725)	(29,401)	(3,590)
Progress payments	(1,954)	(9,915)	(465)
Deferred income taxes	(89,550)	(85,045)	(56,772)
Other assets	(15,336)	(47,386)	(45,930)
Accounts payable and accrued liabilities	320,048	330,181	185,111
Accrued payroll and employee benefits	38,520	48,825	10,477
Income taxes payable	81,150	60,417	32,201
Other long-term liabilities	44,314	22,038	63,073
	434,232	380,440	350,604
Cash flows from investing activities:			
Expenditures for property and equipment	(162,057)	(84,994)	(52,450)
Expenditures for land and buildings	(4,050)	(2,818)	(17,633)
Acquisitions of certain business assets, net of cash acquired	(243,272)	(4,884)	(340,165)
Purchases of debt and equity securities available-for-sale	(445,411)	(99,480)	(40,200)
Proceeds from sale of debt and equity securities available-for-sale	118,311		
Proceeds from maturities (purchases) of debt securities held-to-maturity	9,350	(9,350)	
Proceeds from sale of subsidiary common stock	729,000		
Proceeds from sales of certain business assets	64,737	864	47,974
Proceeds from disposal of property and equipment	544	785	5,192
Investments in affiliates	(74,324)	(22,993)	
	(7,172)	(222,870)	(397,282)
Cash flows from financing activities:			
Proceeds from notes payable and issuance of long-term debt	3,467	909	108,993
Payments of notes payable and long-term debt	(859)	(12,793)	(17,943)
Principal payments on capital lease obligations	(44,504)	(30,029)	(8,416)
Net proceeds from subsidiary issuance of common stock	10,106	10,274	63,528
Dividends paid to minority interest shareholders	(9,452)	(7,096)	
Sales of common stock	76,783	200,789	128,775
Repurchases of common stock	(179,837)	(118,846)	(83,526)
	(144,296)	43,208	191,411
Effect of exchange rate changes on cash	(2,470)	(1,139)	(625)
Increase in cash and cash equivalents	280,294	199,639	144,108
Cash and cash equivalents at beginning of year	389,026	189,387	45,279
Cash and cash equivalents at end of year	$ 669,320	$389,026	$ 189,387
Supplemental schedule of non-cash investing and financing activities:			
Shares of common stock exchanged upon exercise of stock options	$ 40,142	$ 26,075	$ 18,551
Capital lease obligations for property and equipment	$ 23,527	$ 56,153	$ 61,258
Fair value of assets acquired in acquisitions	$ 331,544	$ 10,645	$1,246,129
Cash paid in acquisitions	(263,644)	(5,648)	(467,902)
Issuance of common stock in acquisitions	(19,488)	(1,526)	
Liabilities assumed in acquisitions	$ 48,412	$ 3,471	$ 778,227

CASH FLOWS FROM INVESTING ACTIVITIES

6.28 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,* 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

6.29

BALL CORPORATION AND SUBSIDIARIES (DEC)

Consolidated Statements of Cash Flows

(In millions)	1999	1998	1997
Cash flows from operating activities			
Net earnings	$104.2	$ 16.6	$ 58.3
Noncash charges to net earnings:			
Depreciation and amortization	162.9	145.0	117.5
Deferred taxes	34.3	(7.6)	17.1
Headquarters relocation, plant closures, dispositions and other costs	—	60.9	(9.0)
Extraordinary loss from early debt extinguishment	—	19.9	—
Other, net	6.1	(7.2)	2.2
Working capital changes, excluding effects of acquisitions and dispositions:			
Receivables	53.5	93.9	(15.5)
Inventories	(49.1)	27.7	(33.4)
Accounts payable	(5.1)	54.7	(2.1)
Other, net	(0.8)	(16.8)	8.4
Net cash provided by operating activities	306.0	387.1	143.5
Cash flows from investing activities			
Additions to property, plant and equipment	(107.0)	(84.2)	(97.7)
Acquisitions, net of cash acquired	—	(838.4)	(202.7)
Investments in and advances to affiliates	(1.3)	(2.2)	(11.2)
Proceeds from sale of businesses	—	—	31.1
Other, net	15.6	9.7	29.6
Net cash used in investing activities	(92.7)	(915.1)	(250.9)
Cash flows from financing activities			
Long-term borrowings	23.1	1,180.4	2.4
Repayments of long-term borrowings	(161.0)	(357.8)	(76.9)
Debt issuance costs	—	(28.9)	—
Debt prepayment costs	—	(17.5)	—
Change in short-term borrowings	(13.2)	(203.3)	72.0
Common and preferred dividends	(22.5)	(22.7)	(22.9)
Proceeds from issuance of common stock under various employee and shareholder plans	36.8	31.5	21.7
Acquisitions of treasury stock	(72.3)	(34.9)	(32.1)
Other, net	(2.4)	(10.3)	(0.5)
Net cash (used in) provided by financing activities	(211.5)	536.5	(36.3)
Net change in cash and temporary investments	1.8	8.5	(143.7)
Cash and temporary investments—beginning of year	34.0	25.5	169.2
Cash and temporary investments—end of year	$ 35.8	$ 34.0	$ 25.5

6.30

BAXTER INTERNATIONAL INC. (DEC)

Consolidated Statements of Cash Flows

(In millions) (brackets denote cash outflows)	1999	1998	1997
Cash flows from continuing operation:			
Income from continuing operations before cumulative effect of accounting change	$779	$275	$371
Adjustments			
Depreciation and amortization	372	344	318
Deferred income taxes	92	(56)	3
Gain (loss) on asset dispositions	13	(23)	(48)
In-process research and development	—	116	220
Exit and other reorganization costs	—	122	—
Net litigation charge	—	178	—
Other	20	2	8
Changes in balance sheet items			
Accounts receivable	(103)	(153)	(59)
Inventories	17	(79)	(112)
Accounts payable and accrued liabilities	30	165	83
Net litigation payments and other	(243)	(54)	(312)
Cash flows from continuing operations	977	837	472
Cash flows from discontinued operation	106	102	86
Cash flows from operations	1,083	939	558
Cash flows from investing activities			
Capital expenditures	(529)	(461)	(367)
Additions to the pool of equipment leased or rented to customers	(102)	(95)	(87)
Acquisitions (net of cash received) and investments in affiliates	(179)	(319)	(606)
Divestitures and other asset dispositions	75	3	(23)
Cash flows from investing activities	(735)	(872)	(1,083)
Cash flows from financing activities			
Issuances of debt and lease obligations	764	1,143	855
Redemption of debt and lease obligations	(481)	(598)	(465)
Increase (decrease) in debt with maturities of three months or less, net	(552)	(159)	81
Common stock cash dividends	(338)	(331)	(316)
Stock issued under Share Investment Plan	198	—	—
Stock issued under employee benefit plans	148	118	110
Purchases of treasury stock	(184)	—	—
Cash flows from financing activities	(445)	173	265
Effect of currency exchange rate changes on cash and equivalents	(6)	4	(36)
Increase (decrease) in cash and equivalents	(103)	244	(296)
Cash and equivalents at beginning of year	709	465	761
Cash and equivalents at end of year	$606	$709	$465
Supplemental information			
Interest paid, net of portion capitalized	$150	$191	`$174
Income taxes paid	$197	$143	$170

Investments

6.31

CSP INC. AND SUBSIDIARIES (AUG)

Consolidated Statements of Cash Flows

(Amounts in thousands)	1999	1998	1997
Cash flows from operating activities:			
Net income (loss)	$1,259	$1,362	$(721)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	1,245	1,512	1,680
In process research and development	—	—	550
Deferred compensation and retirement plans	210	81	147
Deferred income taxes	397	(852)	(625)
Acquisition costs	—	—	150
Other	87	237	(564)
Changes in current assets and liabilities:			
Decrease in accounts receivable, net	303	923	2,007
(Increase) decrease in inventories	503	(81)	(192)
(Increase) decrease in prepaid expenses	(297)	53	187
Decrease in accounts payable and accrued expenses	(271)	(297)	(549)
Increase (decrease) in income taxes payable	(1,328)	1,375	(120)
Net cash provided by operating activities	2,108	4,313	1,950
Cash flows from investing activities:			
Purchases of available-for-sale securities	(458)	(149)	(137)
Purchases of held-to-maturity securities	(18,637)	(52,160)	(198,652)
Sales of available-for-sale securities	289	91	115
Maturities of held-to-maturity securities	18,093	48,164	199,220
Businesses acquired	—	—	(8,011)
Property, equipment and improvements	(1,106)	(698)	(1,111)
Net cash used in investing activities	(1,819)	(4,752)	(8,576)
Cash flows from financing activities:			
Proceeds from stock options	36	38	183
Proceeds from issuance of shares under employee stock purchase plan	145	—	—
Issuance (purchase) of treasury stock	(258)	7	(34)
Net cash provided by (used in) financing activities	(77)	45	149
Effects of exchange rate on cash	(376)	(37)	(107)
Net decrease in cash	(164)	(431)	(6,584)
Cash and cash equivalents, beginning of year	3,913	4,344	10,928
Cash and cash equivalents, end of year	$3,749	$3,913	$ 4,344
Supplementary cash flow information:			
Cash paid for income taxes, net	$2,750	$ 386	$ 75
Cash paid for interest	$ 54	$ 60	$89
Fair value of assets acquired	—	—	$ 17,913
Less: liabilities assumed	—	—	(7,045)
Cash paid	—	—	$ 10,868
Less: cash acquired	—	—	(2,857)
Net cash paid	—	—	$ 8,011

6.32

NAVISTAR INTERNATIONAL CORPORATION AND CONSOLIDATED SUBSIDIARIES (OCT)

Statement of Cash Flow

(Millions of dollars)	1999	1998	1997
Cash flow from operations			
Net income	$ 544	$ 299	$ 150
Adjustments to reconcile net income to cash provided by operations:			
Depreciation and amortization	174	159	120
Deferred income taxes	185	149	82
Deferred tax asset valuation allowance adjustment	(178)	(45)	—
Postretirement benefits funding less than (in excess of) expense	47	(373)	(128)
Other, net	(31)	(16)	(51)
Change in operating assets and liabilities:			
Receivables	(445)	(192)	(194)
Inventories	(129)	(13)	(25)
Prepaid and other current assets	(24)	(1)	4
Accounts payable	139	192	288
Other liabilities	20	202	137
Cash provided by operations	302	361	383
Cash flow from investment programs			
Purchases of retail notes and lease receivables	(1,442)	(1,263)	(970)
Collections/sales of retail notes and lease receivables	1,282	1,071	1,054
Purchases of marketable securities	(396)	(837)	(512)
Sales or maturities of marketable securities	726	521	557
Capital expenditures	(427)	(302)	(169)
Property and equipment leased to others	(108)	(125)	(42)
Investment in affiliates	(71)	(7)	8
Capitalized interest and other	(15)	(6)	(8)
Cash used in investment programs	(451)	(948)	(82)
Cash flow from financing activities			
Issuance of debt	174	493	211
Principal payments on debt	(135)	(119)	(46)
Net increase (decrease) in notes and debt outstanding under bank revolving credit facility and commercial paper programs	88	348	(285)
Mexican credit facility	22	84	—
Debt and equity issuance costs	(3)	(26)	(7)
Purchases of common stock	(144)	(189)	(23)
Proceeds from reissuance of treasury shares	—	28	—
Redemption of Series G preferred stock	—	(240)	—
Dividends paid	—	(11)	(29)
Cash provided by (used in) financing activities	2	368	(179)
Cash and cash equivalents (decrease) increase during the year	(147)	(219)	122
At beginning of the year	390	609	487
Cash and cash equivalents at end of the year	$ 243	$ 390	$ 609

Finance Receivable

6.33

IKON OFFICE SOLUTIONS, INC. AND SUBSIDIARIES (SEP)

Consolidated Statements of Cash Flows

(In thousands)	1999	1998	1997
Operating activities			
Income (loss) from continuing operations	$ 33,836	$ (83,050)	$ 122,362
Additions (deductions) to reconcile income (loss) from continuing operations to net cash provided by operating activities of continuing operations:			
Depreciation	134,638	140,101	108,037
Amortization	62,226	62,424	48,555
Provisions for losses on accounts receivable	31,765	47,052	25,724
Provision for deferred income taxes	24,971	9,500	92,063
Gain on asset securitization	(26,856)	(5,064)	(2,602)
Write-off of abandoned software and other assets		5,987	25,342
Loss from asset impairment		20,000	
Shareholder litigation settlement	101,106		
Changes in operating assets and liabilities, net of effects from acquisitions and divestitures:			
Decrease (increase) in accounts receivable	43,235	(43,741)	(202,790)
Decrease (increase) in inventories	94,230	20,926	(70,189)
Decrease (increase) in prepaid expenses	26,414	2,333	(19,097)
(Decrease) increase in accounts payable, deferred revenues and accrued expenses	(77,073)	85,531	37,125
Miscellaneous	3,099	7,304	8,986
Net cash provided by operating activities of continuing operations	451,591	269,303	173,516
Net cash provided by operating activities of discontinued operations			24,176
Net cash provided by operating activities	451,591	269,303	197,692
Investing activities			
Cost of companies acquired, net of cash acquired	(30,065)	(82,642)	(155,907)
Expenditures for property and equipment	(103,462)	(119,680)	(118,015)
Expenditures for equipment on operating rental, net	(30,809)	(72,878)	(66,016)
Proceeds from sale of property and equipment	19,347	18,907	26,773
Purchase of miscellaneous assets		(1,000)	(10,678)
Finance receivables—additions	(1,327,366)	(1,509,900)	(1,459,102)
Finance receivables—collections	955,970	871,555	651,025
Proceeds from sale of finance subsidiaries' lease receivables	467,394	229,359	103,401
Repurchase of finance subsidiary's lease receivables	(250,000)		
Net cash used in investing activities of continuing operations	(298,991)	(666,279)	(1,028,519)
Net cash used in investing activities of discontinued operations			(38,058)
Net cash used in investing activities	(298,991)	(666,279)	(1,066,577)
Financing activities			
Proceeds from:			
Issuance of long-term debt	67,105	265,345	35,605
Option exercises and sale of treasury shares	5,117	19,911	43,807
Issuance (repayment) of short-term borrowings, net	(42,212)	(175,895)	75,388
Long-term debt repayments	(24,321)	(42,704)	(328,702)
Finance subsidiaries' debt—issuance	753,146	888,185	932,728
Finance subsidiaries' debt—repayments	(852,885)	(533,091)	(314,000)
Dividends paid	(23,689)	(41,140)	(54,180)
Deposit to restricted cash	(29,625)		
Purchase of treasury shares	(2,813)	(4,013)	(112,192)
Proceeds from discontinued operations			551,834
Net cash (used in) provided by financing activities of continuing operations	(150,177)	376,598	830,288
Net cash provided by financing activities of discontinued operations			13,882
Net cash (used in) provided by financing activities	(150,177)	376,598	844,170
Net increase (decrease) in cash	2,423	(20,378)	(24,715)
Cash at beginning of year	963	21,341	46,056
Cash at end of year	$ 3,386	$ 963	$ 21,341

Purchase Method Business Combinations

6.34

AMCAST INDUSTRIAL CORPORATION (AUG)

Consolidated Statements of Cash Flows

($ thousands)	1999	1998	1997
Operating activities			
Net income	$ 19,317	$ 8,177	$ 12,983
Depreciation and amortization	31,346	32,113	20,463
Non-cash restructuring and inventory write-down	—	12,000	—
Cumulative effect of accounting change	—	8,588	—
Gain on sale of businesses	(9,023)	(12,048)	—
Deferred liabilities	4,634	(1,497)	(801)
Changes in assets and liabilities, net of acquisitions			
Accounts receivable	7,581	(9,667)	(5,203)
Inventories	(5,686)	(9,122)	(4,323)
Other current assets	(1,421)	1,141	(2,920)
Accounts payable	14,445	(11,833)	8,077
Accrued liabilities	2,156	(9,204)	(669)
Other	1,421	932	3,068
Net cash provided by operations	64,770	9,580	30,675
Investing activities			
Additions to property, plant, and equipment	(47,360)	(46,763)	(40,377)
Acquisitions, net of cash acquired	(1,200)	(12,247)	(48,486)
Contributions to joint venture	—	—	(3,226)
Proceeds from sale of businesses	35,604	25,445	—
Other	300	547	135
Net cash used by investing activities	(12,656)	(33,018)	(91,954)
Financing activities			
Additions to long-term debt	36,154	85,871	70,000
Reduction in long-term debt	(66,993)	(30,216)	(1,105)
Short-term borrowings	(21,065)	(29,978)	—
Purchase of treasury stock	(4,594)	—	—
Proceeds from sale leaseback	10,105	—	—
Dividends	(5,109)	(5,154)	(4,922)
Other	36	510	1,501
Net cash (used) provided by financing activities	(51,466)	21,033	65,474
Effect of exchange rate changes on cash	(742)	(181)	—
Net change in cash and cash equivalents	(94)	(2,586)	4,195
Cash and cash equivalents at beginning of year	7,022	9,608	5,413
Cash and cash equivalents at end of year	$ 6,928	$ 7,022	$ 9,608

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

Acquisitions, Divestitures, and Restructuring

On October 16, 1998, the Company sold Superior Valve Company for $35,604 in cash. The transaction resulted in a pre-tax gain of $9,023. The business, acquired by Amcast in 1986, produces specialty valves and related products for the compressed gas and commercial refrigeration markets. Fiscal 1998 sales of approximately $42,000 were included in The Company's Flow Control segment.

Effective March 30, 1998, the Company sold its Rancho Cucamonga, California investment casting operation, Amcast Precision, for $25,445 in cash. The transaction resulted in a pre-tax gain of $12,048. The facility, acquired by Amcast in 1987, produces ferrous and nonferrous castings for the aerospace industry. Fiscal 1997 sales of approximately $19,000 were included in the Engineered Components segment. This was the only Amcast operation involved in the aerospace industry.

On April 9, 1998, the Company acquired Lee Brass Company, a privately-owned company located in Anniston, Alabama. Lee Brass is a major manufacturer of cast brass products for residential, commercial, and industrial plumbing systems. The purchase price was approximately $16,100 consisting of cash payments of $11,700 and debt assumption of $4,400. The acquisition of Lee Brass has been accounted for by the purchase method. Accordingly, the cost of the acquisition was allocated on the basis of the estimated fair market value of the assets acquired, principally inventory and property, plant, and equipment, and liabilities assumed, resulting in goodwill of $7,500. Sales of Lee Brass for the twelve months ended December 31, 1997 were approximately $39,000. The pro forma effect of the acquisition on the results of operations is not presented, as it is not material.

Following the acquisition of Lee Brass, the Company consolidated its two brass foundry operations and ceased production at its Flagg Brass plant located in Stowe, Pennsylvania. The consolidation plan included the transfer of certain product lines to Lee Brass, the closure of the Flagg Brass facility, and the termination of approximately 100 salaried and hourly personnel. In connection with the consolidation plan, during the third quarter of fiscal 1998, the Company recorded a restructuring charge of $5,800 for facility exit costs and a charge of $2,200, included in cost of sales, primarily for a non-cash write-down of inventory to its net realizable value. Key components of the $5,800 restructuring charge were $4,900 for a non-cash write-down of assets to their net realizable value, $500 for severance and other termination benefits, and $400 for other facility closure costs. As of August 31, 1999, all associates had been terminated and all of the severance and most of the facility closure costs had been charged against the liability. During the second quarter of fiscal 1999, the Company wrote off $4,504 of net assets related to the Flagg Brass operation against the previously established long-term reserve. The majority of the assets had been classified as assets held for sale and were included in Other Assets in the Company's Consolidated Statements of Financial Condition. The Company expects that the closure of Flagg Brass will be completed by December 31, 1999. Fiscal 1998 sales of approximately $7,800 were included in the Flow Control segment.

During the third quarter of fiscal 1998, the Company also re-evaluated its reserves related to several iron factories previously closed in the 1980's and early 1990's. As a result, a $4,000 restructuring charge was recorded to cover higher than expected medical benefits, workers compensation expenses, and legal costs for environmental and other matters related to these previously closed facilities.

At the end of fiscal 1997, the Company acquired all of the outstanding stock of Speedline S.p.A. and its subsidiaries (Speedline), a major European manufacturer of light alloy wheels serving the automotive original equipment market. The purchase agreement contains a provision to protect the seller from stock price fluctuations. The price protection provides for the Company to pay the difference between the $26.13 per share value of the stock issued to the seller of Speedline at closing and the market value of any such shares sold during a 180-day period following the second anniversary of the acquisition. The liability, if any, on the part of the Company can only be determined during the relevant 180-day period following the second anniversary of the closing, August 19, 1999. Had the price protection been calculated based on the market value of all shares at August 31, 1999, the price protection liability would have been approximately $4,900.

6.35

MILACRON INC. AND SUBSIDIARIES (DEC)

Consolidated Statements of Cash Flows

(In millions)	1999	1998	1997
Increase (decrease) in cash and cash equivalents			
Operating activities cash flows			
Net earnings	$ 70.1	$ 41.5	$ 80.6
Operating activities providing (using) cash			
Depreciation and amortization	58.3	57.4	53.7
Restructuring costs	16.2	—	—
Gain on divestiture of business	(13.1)	—	—
Loss on sale of discontinued machine tools segments	—	35.2	—
Deferred income taxes	10.1	(6.3)	(14.5)
Working capital changes			
Notes and accounts receivable	(19.0)	10.4	(20.7)
Inventories	(9.9)	(45.5)	(16.3)
Other current assets	(2.6)	.8	(6.1)
Trade accounts payable	(9.2)	(.4)	21.8
Other current liabilities	(4.7)	1.0	6.8
Decrease (increase) in other noncurrent assets	1.7	(6.0)	.1
Increase (decrease) in long-term accrued liabilities	(6.0)	(1.9)	13.2
Other—net	(2.5)	(2.7)	(2.3)
Net cash provided by operating activities	89.4	83.5	116.3
Investing activities cash flows			
Capital expenditures	(47.3)	(81.4)	(79.5)
Net disposals of property, plant and equipment	5.9	2.4	5.7
Acquisitions	(47.0)	(228.0)	(25.9)
Divestitures	49.2	173.7	—
Net cash used by investing activities	(39.2)	(133.3)	(99.7)
Financing activities cash flows			
Dividends paid	(18.1)	(19.0)	(17.0)
Issuance in long-term debt	2.0	25.7	14.4
Repayments of long-term debt	(6.3)	(6.0)	(4.9)
Increase in borrowings under lines of credit	28.3	105.5	3.7
Issuance of common shares	.1	6.0	2.2
Purchase of treasury and other common shares	(22.0)	(40.6)	(14.7)
Net cash provided (used) by financing activities	(16.0)	71.6	(16.3)
Effect of exchange rate fluctuations on cash and cash equivalents	(1.8)	1.4	(2.4)
Increase (decrease) in cash and cash equivalents	32.4	23.2	(2.1)
Cash and cash equivalents at beginning of year	48.9	25.7	27.8
Cash and cash equivalents at end of year	$ 81.3	$ 48.9	$ 25.7

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Acquisitions

In the third quarter of 1997, the Company acquired Minnesota Twist Drill, Inc., a maker of high-speed steel drills, and Data Flute CNC, Inc., a manufacturer of high-performance solid carbide end mills. Each business had annual sales of approximately $10 million as of the respective acquisition dates.

In February, 1998, the Company acquired Wear Technology, which had annual sales of approximately $10 million as of the acquisition date and serves the aftermarket for new and rebuilt twin screws for extrusion systems, and Northern Supply, a regional catalog distribution company offering supplies to plastics processors for injection molding, blow molding and extrusion with annual sales of approximately $5 million as of the acquisition date.

In May, 1998, the Company acquired Autojectors, Inc., a leading U.S. producer of vertical insert injection molding machinery widely used to make medical, electrical and automotive components. Autojectors had annual sales of approximately $20 million as of the acquisition date.

In September, 1998, the Company acquired Master Unit Die Products, Inc., a leading North American manufacturer of quick-change mold bases for the plastics industry. Master Unit Die Products had annual sales of approximately $10 million as of the acquisition date.

Also, in September, 1998 the Company acquired the assets of the plastics machinery division of Johnson Controls, Inc. (Uniloy) for approximately $204 million. Uniloy, which is known for its Uniloy brand of equipment, as well as various other brands, had annual sales of more than $190 million for its fiscal year ended September 30, 1998, and is one of the world's leading providers of blow molding machines, as well as structural foam systems, aftermarket parts, services and molds for blow molding.

On December 30, 1998, the Company acquired Werkzeugfabrik GmbH Königsee (Werkö), a manufacturer of high-speed steel drills and taps. Located in eastern Germany, Werkö had annual sales of approximately $25 million as of the acquisition date.

In July, 1999, the Company acquired Nickerson Machinery Inc., Pliers International Inc., and Plastic Moulding Supplies Ltd. (collectively, Nickerson). With annual sales of $7 million as of the acquisition date, Nickerson sells supplies and equipment for plastic processing through two catalog distribution centers in the U.S. and one in the U.K. The operation in the U.K. also manufactures and refurbishes screws and barrels for small injection molding machines.

In the third quarter of 1999, the Company made three acquisitions in the metalworking technologies segment. In August, the Company acquired Producto Chemical, Inc. (Producto), a U.S. manufacturer of process cleaners, washers, corrosion inhibitors and specially products for metalworking with annual sales approaching $5 million as of the acquisition date. Producto's products will be marketed worldwide through the Company's sales and distribution channels. In September, the Company acquired Oak International, Inc. (Oak), a supplier of metalforming lubricants and process cleaners and a leading supplier of lubricants used in the manufacture of industrial heat exchangers and air conditioners. Headquartered in Michigan, Oak has two manufacturing plants in the U.S. and one in the U.K. and had annual sales approaching $12 million as of the acquisition date. Also in September, the Company acquired the Micro Carbide product line of round, solid-carbide metalworking tools, which includes reamers, step drills and miniature tools. These products are being produced at our Data Flute CNC facility.

All of the acquisitions were accounted for under the purchase method and were financed through the use of available cash and borrowings under lines of credit. The aggregate cost of the acquisitions, including professional fees and other related costs, is expected to total $32.4 million for 1999, and was $246.2 million for 1998 and $27.4 million for 1997. The allocation of the aggregate cost of the acquisitions to the assets acquired and liabilities assumed is presented in the table that follows.

Allocation of Acquisition Cost

(In millions)	1999	1998	1997
Cash and cash equivalents	$ .7	$ 2.2	$ .6
Accounts receivable	4.0	33.9	3.6
Inventories	5.0	66.6	4.0
Other current assets	.3	2.7	.1
Property, plant and equipment	4.5	31.2	7.0
Goodwill	21.6	196.5	14.4
Other noncurrent assets	—	8.5	—
Total assets	36.1	341.6	29.7
Short term borrowings and long-term debt due within one year	.7	7.4	—
Other current liabilities	1.7	76.0	2.1
Long-term accrued liabilities	.5	1.0	.2
Long-term debt	.8	11.0	—
Total liabilities	3.7	95.4	2.3
Total acquisition cost	$32.4	$246.2	$27.4

In the 1998 allocation of acquisition cost, other current liabilities includes a reserve of $5.7 million for the consolidation of Uniloy's European blow molding operations (see Restructuring Costs).

Unaudited pro forma sales and earnings information for 1998 reflecting the Uniloy acquisition is presented in the following table. The amounts included therein assume that the acquisition had taken place at the beginning of the year. The inclusion of the other 1998 acquisitions and the 1999 acquisitions would not have a material effect in the amounts presented for 1998. Pro forma information for 1999 is not presented because the amounts would not vary materially from the comparable amounts reflected in the Company's historical Consolidated Statement of Earnings for that year.

Pro Forma Information (Unaudited)

(In millions, except per-share amounts)	1998
Sales	$1,669.2
Earnings from continuing operations	$ 74.7
Per common share	
Basic	$ 1.91
Diluted	$ 1.90
Net earnings	$ 40.8
Per common share	
Basic	$ 1.04
Diluted	$ 1.03

Investments in Affiliates

6.36

E. I. DU PONT DE NEMOURS AND COMPANY AND CONSOLIDATED SUBSIDIARIES (DEC)

Consolidated Statement of Cash Flows

(Dollars in millions)	1999	1998	1997
Cash and cash equivalents at beginning of year	$1,434	$1,004	$1,066
Cash provided by continuing operations			
Net income	7,690	4,480	2,405
Adjustments to reconcile net income to cash provided by continuing operations:			
Net income from discontinued operations	(7,471)	(3,033)	(973)
Extraordinary charge from early requirement of debt	—	275	—
Depreciation	1,444	1,452	1,361
Amortization of goodwill and other intangible assets	246	108	20
Purchased in-process research and development	2,250	1,443	1,478
Other noncash charges and credits—net	443	(319)	569
Decrease (increase) in operating assets:			
Accounts and notes receivable	(21)	(580)	(783)
Inventories and other operating assets	(384)	(74)	(355)
Increase (decrease) in operating liabilities:			
Accounts payable and other operating liabilities	185	254	(20)
Accrued interest and income taxes	458	126	325
Cash provided by continuing operations	4,840	4,132	4,027
Investment activities of continuing operations			
Purchases of property, plant and equipment	(2,055)	(2,240)	(2,089)
Investment in affiliates	(48)	(63)	(1,920)
Payments for businesses (net of cash acquired)	(5,073)	(3,282)	(1,238)
Proceeds from sales of assets	609	946	558
Net proceeds from sale of interest in petroleum operations	—	4,206	—
Net decrease (increase) in short-term financial instruments	(258)	131	115
Miscellaneous—net	14	124	552
Cash used for investment activities of continuing operations	(6,811)	(178)	(4,022)
Financing activities			
Dividends paid to stockholders	(1,511)	(1,549)	(1,401)
Net increase (decrease) in short-term borrowings	(3,244)	1,574	1,737
Long-term and other borrowings:			
Receipts	8,420	6,335	6,462
Payments	(5,612)	(8,966)	(5,562)
Acquisition of treasury stock	(690)	(704)	(1,747)
Proceeds from exercise of stock options	168	257	116
Increase (decrease) in minority interests	105	—	(56)
Cash used for financing activities	(2,364)	(3,053)	(451)
Net cash flow from discontinued operations	4,475	(568)	483
Effect of exchange rate changes on cash	(108)	97	(99)
Cash and cash equivalents at end of year	$1,466	$1,434	$1,004
Increase (decrease) in cash and cash equivalents	$ 32	$ 430	$ (62)

Hedging Activities

6.37

THE BLACK & DECKER CORPORATION AND SUBSIDIARIES (DEC)

Consolidated Statement of Cash Flows

(Millions of dollars)	1999	1998	1997
Operating activities			
Net earnings (loss)	$300.3	$(754.8)	$227.2
Adjustments to reconcile net earnings (loss) to cash flow from operating activities:			
Gain on sale of businesses	—	(114.5)	—
Non-cash charges and credits:			
Depreciation and amortization	160.0	155.2	214.2
Deferred income taxes (benefit)	(5.8)	67.5	71.7
Goodwill write-off	—	900.0	—
Restructuring charges and exit costs	—	164.7	—
Other	(8.3)	(1.7)	1.5
Changes in selected working capital items (excluding, for 1998, effects of divested businesses):			
Trade receivables	(57.0)	(24.3)	(85.1)
Inventories	(136.1)	26.9	(63.7)
Trade accounts payable	21.9	16.9	2.3
Restructuring spending	(26.7)	(55.6)	(27.4)
Other assets and liabilities	127.2	(14.0)	12.5
Net decrease in receivables sold	—	—	(212.0)
Cash flow from operating activities	375.5	366.3	141.2
Investing activities			
Proceeds from sale of businesses, net of selling expenses	—	653.6	—
Purchase of businesses	(5.2)	—	—
Proceeds from disposal of assets	37.3	20.4	13.4
Capital expenditures	(171.1)	(146.0)	(203.1)
Cash inflow from hedging activities	565.9	343.5	384.8
Cash outflow from hedging activities	(535.5)	(340.1)	(357.9)
Cash flow from investing activities	(108.6)	531.4	(162.8)
Cash flow before financing activities	266.9	897.7	(21.6)
Financing activities			
Net decrease in short-term borrowings	(49.9)	(23.2)	(18.4)
Proceeds from long-term debt (including revolving credit facility)	1,091.9	586.6	667.2
Payments on long-term debt (including revolving credit facility)	(1,160.0)	(1,096.3)	(483.9)
Debt issue costs paid	—	(2.9)	—
Redemption of preferred stock of subsidiary	—	(41.7)	—
Purchase of common stock	(53.3)	(464.3)	—
Issuance of common stock	11.5	31.3	10.1
Cash dividends	(41.8)	(43.8)	(45.4)
Cash flow from financing activities	(201.6)	(1,054.3)	129.6
Effect of exchange rate changes on cash	(5.9)	(2.3)	(3.0)
Increase (decrease) in cash and cash equivalents	59.4	(158.9)	105.0
Cash and cash equivalents at beginning of year	87.9	246.8	141.8
Cash and cash equivalents at end of year	$ 147.3	$ 87.9	$246.8

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (In Part): Summary of Accounting Policies

Derivative Financial Instrument (In Part):

Cash effects of the Corporation's derivative financial instruments are included in the Consolidated Statement of Cash Flows in the periods in which they occur. Except as noted below, the cash effects of the Corporation's interest rate swaps and caps, foreign currency transaction hedges, hedges of foreign currency firm commitments, and hedges of forecasted transactions are included in the Consolidated Statement of Cash flows as cash flow from operating activities. The cash effects of hedges of net investments in subsidiaries located outside of the United States are included in the Consolidated Statement of Cash flows as cash flow from investing activities. The cash effects of the exchange of notional principal amounts on interest rate swaps that swap from fixed United States dollars to fixed or variable foreign currencies are included in the Consolidated Statement of Cash Flows as cash flow from investing activities because such amounts have been designated as hedges of net investments in subsidiaries located outside of the United States.

Restricted Assets

6.38

HECLA MINING COMPANY AND SUBSIDIARIES (DEC)

Consolidated Statements of Cash Flows

(Dollars in thousands)	1999	1998	1997
Operating activities			
Net loss	$(39,990)	$(300)	$(483)
Noncash elements included in net loss			
Depreciation, depletion and amortization	23,738	22,595	21,320
Cumulative effect of change in accounting principle	1,385	—	—
Gain on disposition of properties, plants and equipment	(2,133)	(2,648)	(1,111)
Loss (gain) on investments	96	(1,136)	405
Reduction in carrying value of mining properties	4,577	—	715
Provision for reclamation and closure costs	28,614	581	1,341
Change in assets and liabilities net of effects from purchase of Monarch Resources Investments Limited (MRIL):			
Accounts and notes receivable	(1,691)	(1,474)	(277)
Income tax refund receivable	1,079	(294)	469
Inventories	(317)	(641)	548
Other current and noncurrent assets	(1,324)	(1,747)	868
Accounts payable and accrued expenses	(4,788)	(478)	(4,787)
Accrued payroll and related benefits	1,542	416	(796)
Accrued taxes	1,597	(244)	(411)
Accrued reclamation and closure costs and other noncurrent liabilities	(9,429)	(12,587)	(11,772)
Net cash provided by operating activities	2,956	2,043	6,029
Investing activities			
Purchase of MRIL, net of cash acquired	(9,183)	—	—
Additions to properties, plants and equipment	(13,467)	(22,495)	(24,794)
Proceeds from disposition of properties, plants and equipment	2,476	3,733	1,872
Proceeds from sale of investments	311	1,294	—
Decrease in restricted investments	333	1,595	13,845
Purchase of investments and change in cash surrender value of life insurance, net	54	(734)	(1,233)
Other, net	133	399	1,642
Net cash used by investing activities	(19,343)	(16,208)	(8,668)
Financing activities			
Common stock issued for warrants and stock option plans	277	54	41
Issuance of common stock, net of offering costs	11,865	—	23,355
Dividends on preferred stock	(8,050)	(8,050)	(8,050)
Payments for debt issuance costs	(1,255)	—	—
Borrowings against cash surrender value of life insurance	925	—	—
Borrowings on long-term debt	54,063	44,531	57,601
Repayments on long-term debt	(41,199)	(23,684)	(73,673)
Net cash provided (used) by financing activities	16,626	12,851	(726)
Change in cash and cash equivalents			
Net increase (decrease) in cash and cash equivalents	239	(1,314)	(3,365)
Cash and cash equivalents at beginning of year	2,480	3,794	7,159
Cash and cash equivalents at end of year	$2,719	$2,480	$3,794
Supplemental disclosure of cash flow information			
Cash paid during year for:			
Interest, net of amount capitalized	$4,377	$1,784	$ 912
Income tax payments (refunds), net	$ (847)	$ 439	$ 333

Operating Leases

6.39

DEERE & COMPANY AND CONSOLIDATED SUBSIDIARIES (OCT)

Statement of Consolidated Cash Flows

(In millions of dollars)	1999	1998	1997
Cash flows from operating activities			
Net income	$ 239.2	$1,021.4	$ 960.1
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for doubtful receivables	73.5	57.0	51.0
Provision for depreciation	513.3	418.0	356.6
Undistributed earnings of unconsolidated subsidiaries and affiliates	(3.7)	(9.7)	(.3)
Provision (credit) for deferred income taxes	(162.4)	141.9	(6.9)
Changes in assets and liabilities:			
Receivables	802.3	(724.6)	(175.2)
Inventories	50.7	(192.6)	(255.2)
Accounts payable and accrued expenses	(170.8)	(40.7)	186.3
Insurance and health care claims and reserves	(8.5)	(3.5)	(22.9)
Retirement benefit accruals	215.7	(84.9)	41.0
Other	(114.8)	(165.4)	13.2
Net cash provided by operating activities	1,434.5	416.9	1,156.7
Cash flows from investing activities			
Collections of financing receivables	6,017.1	5,685.3	5,324.1
Proceeds from sales of financing receivables	2,481.6	1,859.9	968.0
Proceeds from maturities and sales of marketable securities	115.4	187.3	226.0
Proceeds from sales of equipment on operating leases	191.3	154.5	101.9
Proceeds from sale of a business	179.1		
Cost of financing receivables acquired	(8,186.2)	(7,521.5)	(6,805.0)
Purchases of marketable securities	(92.9)	(224.9)	(166.7)
Purchases of property and equipment	(315.5)	(434.8)	(484.9)
Cost of operating leases acquired	(833.5)	(752.3)	(540.8)
Acquisitions of businesses	(215.8)	(103.0)	(45.7)
Other	7.6	27.6	39.0
Net cash used for investing activities	(651.8)	(1,121.9)	(1,384.1)
Cash flows from financing activities			
Increase (decrease) in short-term borrowings	(1,650.7)	802.3	524.5
Change in intercompany receivables/payables			
Proceeds from long-term borrowings	2,902.1	2,067.6	1,150.0
Principal payments on long-term borrowings	(1,796.2)	(1,106.4)	(816.8)
Proceeds from issuance of common stock	4.2	22.7	34.8
Repurchases of common stock	(49.0)	(885.9)	(419.1)
Dividends paid	(205.4)	(212.4)	(204.3)
Other	(.1)	(1.2)	(.2)
Net cash provided by (used for) financing activities	(795.1)	686.7	268.9
Effect of exchange rate changes on cash	(1.8)	(2.0)	(3.0)
Net increase (decrease) in cash and cash equivalents	(14.2)	(20.3)	38.5
Cash and cash equivalents at beginning of year	309.7	330.0	291.5
Cash and cash equivalents at end of year	$ 295.5	$ 309.7	$ 330.0

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Cash Flow Information

For purposes of the statement of consolidated cash flows, the Company considers investments with original maturities of three months or less to be cash equivalents. Substantially all of the Company's short-term borrowings mature within three months or less.

Cash payments for interest and income taxes consisted of the following in millions of dollars:

	1999	1998	1997
Interest:			
Equipment operations	$151	$126	$ 83
Financial services	428	414	366
Intercompany eliminations	(15)	(11)	(5)
Consolidated	$564	$529	$444
Income taxes:			
Equipment operations	$135	$449	$522
Financial services	55	80	112
Intercompany eliminations	(43)	(63)	(97)
Consolidated	$147	$466	$537

Capital Expenditures

6.40

BECTON, DICKINSON AND COMPANY (SEP)

Consolidated Statements of Cash Flows

(Thousands of dollars)	1999	1998	1997
Operating activities			
Net income	$275,719	$236,568	$300,074
Adjustments to net income to derive net cash provided by operating activities:			
Depreciation and amortization	258,863	228,749	209,771
Non-cash special charges	57,538	58,445	—
Deferred income taxes	4,575	(32,332)	(29,695)
Purchased in-process research and development	48,800	30,000	14,750
Change in operating assets (excludes impact of acquisitions):			
Trade receivables	(94,371)	(77,649)	(30,014)
Inventories	(131,592)	(54,066)	(24,074)
Prepaid expenses, deferred taxes and other	(24,520)	(42,378)	8,301
Accounts payable, income taxes and other liabilities	17,009	133,500	(11,760)
Other, net	19,771	19,925	5,394
Net cash provided by operating activities	431,792	500,762	442,747
Investing activities			
Capital expenditures	(311,547)	(181,416)	(170,349)
Acquisitions of businesses, net of cash acquired	(374,221)	(536,501)	(200,832)
Proceeds from dispositions of businesses	—	—	24,343
Proceeds (purchases) of short-term investments, net	3,452	(3,197)	2,544
Proceeds from sales of long-term investments	—	26,709	31,307
Purchases of long-term investments	(25,065)	(18,925)	(6,000)
Capitalized internal-use software	(65,036)	(25,605)	—
Other, net	(43,431)	(30,833)	(45,079)
Net cash used for investing activities	(815,848)	(769,768)	(364,066)
Financing activities			
Change in short-term debt	346,772	127,802	(77,687)
Proceeds of long-term debt	197,534	190,639	292,168
Payment of long-term debt	(118,332)	(2,951)	(118,686)
Issuance of common stock	26,803	46,013	29,393
Repurchase of common stock	—	(44,476)	(150,003)
Dividends paid	(88,050)	(75,332)	(67,161)
Net cash provided by (used for) financing activities	364,727	241,695	(91,976)
Effect of exchange rate changes on cash and equivalents	(3,990)	(2,077)	(9,217)
Net decrease in cash and equivalents	(23,319)	(29,388)	(22,512)
Opening cash and equivalents	83,251	112,639	135,151
Closing cash and equivalents	$ 59,932	$ 83,251	$ 112,639

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.

Capital Stock Proceeds/Payments

6.42

HALLIBURTON COMPANY (DEC)

Consolidated Statements of Cash Flows

(Millions of dollars)	1999	1998	1997
Cash flows from operating activities:			
Net income (loss)	$438	$ (15)	$772
Adjustments to reconcile net income (loss) to net cash from operating activities:			
Depreciation and amortization	599	587	564
Provision (benefit) for deferred income taxes	188	(293)	3
Extraordinary gain, net	(159)	—	—
Change in accounting methods, net	19	—	—
Distributions from (advances to) related companies, net of equity in (earnings) or losses	1	(23)	(85)
Accrued special charges	(290)	330	(52)
Other non-cash items	62	356	66
Other changes, net of non-cash items:			
Receivables	143	(280)	(409)
Inventories	65	(66)	(117)
Accounts payable	(97)	(45)	(49)
Other working capital, net	(462)	(143)	40
Other, net	(274)	46	100
Total cash flows from operating activities	233	454	833
Cash flows from investing activities:			
Capital expenditures	(593)	(914)	(880)
Sales of property, plant and equipment	146	100	181
Acquisitions of businesses, net of cash acquired	(13)	(40)	(162)
Dispositions of businesses, net of cash disposed	291	7	38
Other investing activities	10	1	(50)
Total cash flows from investing activities	(159)	(846)	(873)
Cash flows from financing activities:			
Borrowings of long-term debt	—	150	303
Payments on long-term debt	(61)	(27)	(18)
Net borrowings (payments) of short-term debt	433	370	(86)
Payments of dividends to shareholders	(221)	(254)	(250)
Proceeds from exercises of stock options	49	49	71
Payments to reacquire common stock	(10)	(20)	(44)
Other financing activities	(6)	(14)	3
Total cash flows from financing activities	184	254	(21)
Effect of exchange rate changes on cash	5	(5)	(1)
Increase (decrease) in cash and equivalents	263	(143)	(62)
Cash and equivalents at beginning of year	203	346	446
Cash and equivalents at end of year	$466	$203	$384
Supplemental disclosure of cash flow information:			
Cash payments during the period for:			
Interest	$145	$137	$106
Income taxes	98	535	307
Non-cash investing and financing activities:			
Liabilities assumed in acquisitions of businesses	$ 90	$ 5	$337
Liabilities disposed of in dispositions of businesses	111	24	206

6.43

THE WALT DISNEY COMPANY (SEP)

Consolidated Statements of Cash Flows

(In millions)	1999	1998	1997
Net income	$ 1,300	$ 1,850	$ 1,966
Items not requiring cash outlays			
Amortization of film and television costs	2,472	2,514	1,995
Depreciation	851	809	738
Amortization of intangible assets	456	431	439
Gain on sale of Starwave	(345)	—	—
Equity in Infoseek loss	322	—	—
Gain on sale of KCAL	—	—	(135)
Other	80	31	(15)
Changes in			
Receivables	376	(664)	(177)
Inventories	103	(46)	8
Other assets	(165)	73	(441)
Accounts and taxes payable and other accrued liabilities	477	218	608
Film and television costs television broadcast rights	(319)	(447)	(179)
Deferred income taxes	(20)	346	292
	4,288	3,265	3,133
Cash provided by operations	5,588	5,115	5,099
Investing activities			
Film and television costs	(3,020)	(3,335)	(3,089)
Investments in theme parks, resorts and other property	(2,134)	(2,314)	(1,922)
Acquisitions (net of cash acquired)	(319)	(213)	(180)
Proceeds from sale of investments	202	238	31
Purchase of investments	(39)	(13)	(56)
Investment in and loan to E! Entertainment	—	(28)	(321)
Proceeds from disposal of publishing operations	—	—	1,214
Proceeds from disposal of KCAL	—	—	387
	(5,310)	(5,665)	(3,936)
Financing activities			
Change in commercial paper borrowings	(451)	308	(2,088)
Other borrowings	2,306	1,522	2,437
Reduction of borrowings	(2,031)	(1,212)	(1,990)
Repurchases of common stock	(19)	(30)	(633)
Exercise of stock options and other	204	184	180
Dividends	—	(412)	(342)
Proceeds from formation of REITs	—	—	1,312
	9	360	(1,124)
Increase (decrease) in cash and cash equivalents	287	(190)	39
Cash and cash equivalents, beginning of year	127	317	278
Cash and cash equivalents, end of year	$ 414	$ 127	$ 317
Supplemental disclosure of cash flow information:			
Interest paid	$ 575	$ 555	$ 777
Income taxes paid	$ 721	$ 1,107	$ 958

Debt Proceeds/Repayments

6.44

DILLARD'S, INC. (JAN)

Consolidated Statements of Cash Flows

(Amounts in thousands)	2000	1999	1998
Operating activities:			
Net income	$163,729	$135,259	$258,325
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	295,874	241,914	201,410
Deferred income taxes	(13,091)	(118,553)	53,877
Impairment charges	69,708	—	—
Changes in operating assets and liabilities:			
Decrease (increase) in accounts receivable, net	87,647	110,103	(28,178)
Decrease (increase) in merchandise inventories	109,180	87,848	(227,807)
Increase in other current assets	(43,983)	(11,237)	(3,697)
Decrease in other assets	109,549	30,743	13,388
(Decrease) increase in trade accounts payable and accrued expenses, other liabilities and income taxes	(66,349)	166,633	(19,853)
Net cash provided by operating activities	712,264	642,710	247,465
Investing activities:			
Purchase of property and equipment	(247,085)	(248,485)	(509,498)
Acquisition, net of cash acquired and assets held for sale	—	(2,189,815)	—
Net cash used in investing activities	(247,085)	(2,438,300)	(509,498)
Financing activities:			
Principal payments on long-term debt and capital lease obligations	(166,442)	(134,442)	(182,961)
Cash dividends paid	(16,955)	(17,343)	(17,930)
Proceeds from issuance of common stock	13,199	25,183	15,756
Retirement of preferred stock	(440)	—	—
Purchase of treasury stock	(168,221)	(109,683)	(165,491)
Net (decrease) increase in commercial paper	—	(419,136)	290,398
Proceeds from accounts receivable securitization	—	300,000	—
Proceeds from long-term borrowings	—	1,650,000	300,000
Proceeds from guaranteed preferred beneficial interests in the Company's subordinated debentures	—	531,579	—
Net cash (used in) provided by financing activities	(338,859)	1,826,158	239,772
Increase (decrease) in cash and cash equivalents	126,320	30,568	(22,261)
Cash and cash equivalents, beginning of year	72,401	41,833	64,094
Cash and cash equivalents, end of year	$198,721	$ 72,401	$ 41,833

6.45

OMNICOM GROUP INC. AND SUBSIDIARIES (DEC)

Consolidated Statements of Cash Flows

(Dollars in thousands)	1999	1998	1997
Cash flows from operating activities:			
Net income	$362,882	$278,845	$217,300
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization of tangible assets	97,080	84,210	70,928
Amortization of intangible assets	70,823	58,248	39,731
Minority interests	52,947	44,366	32,481
Earnings of affiliates in excess of dividends received	(8,333)	(6,869)	(10,840)
(Increase) decrease in deferred tax benefits	(33,064)	22,520	21,342
Provisions for losses on accounts receivable	14,399	15,586	10,491
Amortization of restricted shares	27,812	21,489	17,311
Increase in accounts receivable	(645,093)	(238,174)	(379,958)
Increase in billable production orders in process	(13,246)	(35,113)	(27,983)
Decrease (increase) in prepaid expenses and other current assets	9,889	(64,044)	(46,795)
Increase in accounts payable	786,071	330,413	560,425
Increase in other accrued liabilities	205,214	88,989	171,200
(Decrease) increase in accrued taxes on income	(793)	(49,887)	13,441
Increase in advances to affiliates	(36,283)	(13,520)	(26,748)
(Increase) decrease in deferred charges and other assets	(2,753)	25,254	(49,605)
Other	13,472	(87,329)	(16,975)
Net cash provided by operating activities	901,024	474,984	595,746
Cash flows from investing activities:			
Capital expenditures	(129,871)	(114,522)	(114,814)
Purchases of equity interests in subsidiaries and affiliates, net of cash acquired	(691,392)	(586,016)	(371,823)
Sales of equity interests in subsidiaries and affiliates	14,380	80,325	6,705
Purchases of investments available-for-sale and other investments	(58,069)	(65,007)	(112,037)
Sales of investments available-for-sale and other investments	96,891	101,735	41,798
Net cash used in investing activities	(768,061)	(583,485)	(550,171)
Cash flows from financing activities:			
Proceeds from issuance of shares	—	171,084	—
Net (repayments) borrowings under lines of credit	(15,748)	12,786	2,130
Proceeds from issuances of debt obligations	83,924	411,605	254,652
Repayment of principal of debt obligations	(75,642)	(134,606)	(81,389)
Shares transactions under employee stock plans	102,715	50,997	27,546
Dividends and loans from (to) affiliates and minority stockholders	93,105	(46,431)	(39,061)
Dividends paid	(103,882)	(88,623)	(72,753)
Purchase of treasury shares	(286,159)	(149,347)	(69,762)
Net cash (used in) provided by financing activities	(201,687)	227,465	21,363
Effect of exchange rate changes on cash and cash equivalents	(3,630)	(35,321)	(30,924)
Net increase in cash and cash equivalents	(72,354)	83,643	36,014
Cash and cash equivalents at beginning of period	648,781	565,138	529,124
Cash and cash equivalents at end of period	$576,427	$648,781	$565,138
Supplemental disclosures:			
Income taxes paid	$235,256	$223,921	$134,763
Interest paid	$ 78,835	$ 60,784	$ 36,590

Exercise of Stock Options

6.46

INGERSOLL-RAND COMPANY (DEC)

Consolidated Statement of Cash Flows

(In millions)	1999	1998	1997
Cash flows from operating activities:			
Income from continuing operations	$544.9	$455.5	$358.6
Adjustments to arrive at net cash provided by operating activities:			
Depreciation and amortization	272.4	263.6	192.2
Gain on sale of businesses	(14.6)	(6.6)	(7.7)
Gain on sale of property, plant and equipment	(3.4)	(8.9)	(3.2)
Minority interests, net of dividends	(0.2)	0.7	3.4
Equity earnings/losses, net of dividends	(3.1)	(6.9)	(10.9)
Deferred income taxes	41.8	6.2	(9.7)
Other items	40.9	26.7	41.8
Changes in assets and liabilities			
(Increase) decrease in:			
Accounts and notes receivable	(57.7)	109.3	0.2
Inventories	56.7	(76.0)	53.0
Other current and noncurrent assets	12.8	21.0	(3.1)
(Decrease) increase in:			
Accounts payable and accruals	(55.6)	86.0	39.6
Other current and noncurrent liabilities	1.6	(11.0)	13.4
Net cash provided by operating activities	836.5	859.6	667.6
Cash flows from investing activities:			
Capital expenditures	(190.5)	(200.9)	(169.8)
Proceeds from sales of property, plant and equipment	30.4	22.9	34.6
Proceeds from business dispositions	84.8	58.0	252.8
Acquisitions, net of cash*	(161.2)	(55.6)	(2,891.3)
Decrease (increase) in marketable securities	1.5	1.8	(0.1)
Cash (invested in) or advances (to) from equity companies	(2.0)	11.9	5.0
Net cash used in investing activities	(237.0)	(161.9)	(2,768.8)
Cash flows from financing activities:			
(Decrease) increase in short-term borrowings	(36.8)	(711.9)	685.6
Debt issuance costs	—	—	(19.1)
Proceeds from long-term debt	21.5	0.2	1,508.6
Payments of long-term debt	(252.2)	(261.2)	(133.8)
Net change in debt	(267.5)	(972.9)	2,041.3
Issuance of equity-linked securities	—	402.5	—
Equity-linked securities issuance costs and fees	—	(12.9)	—
Net proceeds from issuance of equity-linked securities	—	389.6	—
Proceeds from exercise of stock options	70.2	36.2	43.3
Purchase of treasury stock	(205.8)	(106.4)	(33.0)
Dividends paid	(105.3)	(98.3)	(93.6)
Other	63.3	10.0	—
Net cash (used in) provided by financing activities	(445.1)	(741.8)	1,958.0
Net cash provided by discontinued operations	32.8	20.1	58.8
Effect of exchange rate changes on cash and cash equivalents	(7.8)	1.0	5.8
Net increase (decrease) in cash and cash equivalents	179.4	(23.0)	(78.6)
Cash and cash equivalents—beginning of year	43.5	66.5	145.1
Cash and cash equivalents—end of year	$ 222.9	$ 43.5	$ 66.5
*Acquisitions:			
Working capital, other than cash	$ (61.0)	$(13.5)	$ (113.8)
Property, plant and equipment	(13.0)	(14.5)	(186.6)
Intangibles and other assets	(101.4)	(34.9)	(2,739.5)
Long-term debt and other liabilities	14.2	7.3	148.6
Net cash used to acquire businesses	$(161.2)	$(55.6)	$(2,891.3)
Cash paid during the year for:			
Interest, net of amounts capitalized	$ 230.4	$206.1	$ 136.0
Income taxes	217.7	245.4	210.4

Bank Overdrafts

6.47

INTERNATIONAL PAPER COMPANY (DEC)

Consolidated Statement of Cash Flows

(In millions)	1999	1998	1997
Operating activities			
Net earnings (loss)	$ 183	$ 247	$ (80)
Depreciation and amortization	1,520	1,494	1,570
Deferred income tax provision (benefit)	(208)	132	(79)
Payments related to restructuring and legal reserves	(191)	(82)	(103)
Payments related to the Union Camp merger	(172)		
Merger integration costs	255		
Restructuring and other charges	298	145	660
Environmental remediation charge	10		
Provision for legal reserves	30		150
Oil and gas impairment charges		111	
Reversals of reserves no longer required	(36)	(83)	
Gains on sales of businesses		(20)	(170)
Loss on extinguishment of debt	26		
Other, net	45	80	126
Changes in current assets and current liabilities			
Accounts and notes receivable	(361)	152	(142)
Inventories	(121)	51	(149)
Accounts payable and accrued liabilities	449	(113)	(168)
Other	1	(16)	8
Cash provided by operations	1,728	2,098	1,623
Investment activities			
Invested in capital projects	(1,139)	(1,322)	(1,448)
Mergers and acquisitions, net of cash acquired	(54)	(498)	(94)
Proceeds from divestitures	119	523	322
Other	(11)	(51)	37
Cash used for investment activities	(1,085)	(1,348)	(1,183)
Financing activities			
Issuance of common stock	246	115	164
Issuance of preferred securities by subsidiary		1,525	
Issuance of debt	1,023	348	719
Reduction of debt	(1,563)	(2,213)	(860)
Change in bank overdrafts	102	68	29
Dividends paid	(418)	(431)	(427)
Other	(96)	(63)	(31)
Cash used for financing activities	(706)	(651)	(406)
Effect of exchange rate changes on cash	(17)	1	2
Change in cash and temporary investments	(80)	100	36
Cash and temporary investments			
Beginning of the year	533	433	397
End of the year	$ 453	$ 533	$ 433

Forward Stock Purchase Amendment

6.48

MAYTAG CORPORATION (DEC)

Consolidated Statements of Cash Flows

(In thousands)	1999	1998	1997
Operating activities			
Net income	$328,528	$280,610	$180,290
Adjustments to reconcile net income to net cash provided by operating activities:			
Extraordinary item—loss on early retirement of debt		5,900	3,200
Minority interest	7,223	8,275	7,265
Depreciation	133,493	135,519	127,497
Amortization	13,900	13,035	10,666
Deferred income taxes	18,854	3,242	(7,956)
Changes in working capital items exclusive of business acquisitions:			
Accounts receivable	(19,834)	1,502	4,631
Inventories	(17,867)	(28,015)	(5,393)
Other current assets	(13,855)	(13,475)	2,281
Other current liabilities	20,817	90,697	(822)
Pension assets and liabilities	(3,506)	10,121	18,124
Postretirement benefit liability	6,787	6,209	5,952
Other—net	(12,723)	26,258	11,930
Net cash provided by operating activities	461,817	539,878	357,665
Investing activities			
Capital expenditures	(147,306)	(161,251)	(229,561)
Investment in securities	(10,000)		(10,015)
Business acquisitions, net of cash acquired	(3,551)		(148,283)
Total investing activities	(160,857)	(161,251)	(387,859)
Financing activities			
Proceeds from issuance of notes payable	24,845	14,687	60,493
Repayment of notes payable	(4,702)	(20,880)	(3,142)
Proceeds from issuance of long-term debt	66,174	102,922	133,015
Repayment of long-term debt	(144,618)	(75,743)	(124,123)
Debt repurchase premiums		(5,900)	(3,200)
Stock repurchases	(409,500)	(318,139)	(138,051)
Forward stock purchase amendment	(21,298)	(63,782)	
Stock options exercised and other common stock transactions	16,031	22,447	42,452
Put option premiums	44,823	30,196	9,856
Dividends on common stock	(62,355)	(62,613)	(61,724)
Dividends on minority interest	(10,929)	(7,924)	(3,519)
Proceeds from sale of LLC member interest			100,000
Investment by joint venture partner		6,900	18,975
Issuance of mandatorily redeemable preferred capital securities	200,000		
Total financing activities	(301,529)	(377,829)	31,032
Effect of exchange rates on cash	742	(147)	(390)
Increase in cash and cash equivalents	173	651	448
Cash and cash equivalents at beginning of year	28,642	27,991	27,543
Cash and cash equivalents at end of year	$ 28,815	$ 28,642	$ 27,991

Tax Benefit Related to Stock Options Exercised

6.49

FEDDERS CORPORATION (AUG)

Consolidated Statements of Cash Flows

(Amounts in thousands)	1999	1998	1997
Operating activities:			
Net income	$ 20,724	$ 2,992	$ 18,764
Adjustments to reconcile net income to net cash from operating activities:			
Depreciation and amortization	10,279	9,263	9,935
Deferred income taxes	5,803	(4,296)	504
Restructuring charge—fixed asset write-down	—	5,590	—
Changes in operating assets and liabilities:			
Accounts receivable	2,811	(5,460)	(1,085)
Inventories	1,115	10,626	(9,441)
Other current assets	3,399	6,263	(5,551)
Other assets	1,860	(7,281)	(335)
Income taxes payable	(1,357)	4,379	(5,364)
Accounts payable	8,085	15,178	(5,923)
Accrued expenses	503	1,269	(6,973)
Other long-term liabilities	(1,175)	704	(3,288)
Other—net	(105)	(403)	(548)
Net cash provided by (used in) operations	51,942	38,824	(9,305)
Investing activities:			
Purchase of Trion, Inc.	(39,400)	—	—
Additions to property, plant and equipment	(9,378)	(8,497)	(9,236)
Disposal of property, plant and equipment	—	1,847	428
Investment in joint venture	—	(3,347)	—
Net cash used in investing activities	(48,778)	(9,997)	(8,808)
Financing activities:			
Net proceeds from issuance of 9⅜% senior subordinated notes	47,652	—	96,025
Repayment and redemption of 8½% convertible subordinated debentures	—	—	(22,806)
Repayments of long-term debt	(2,685)	(1,903)	(1,992)
Proceeds from stock options exercised	254	5,289	1,727
Tax benefit related to stock options exercised	47	3,825	479
Net proceeds from (repayment of) Fedders Xinle financing	1,447	(2,517)	(168)
Repayment of Trion, Inc. debt	(6,300)	—	—
Cash dividends	(3,841)	(3,520)	(5,605)
Repurchases of capital stock	(13,215)	(49,408)	(29,449)
Net cash provided by (used in) financing activities	23,359	(48,234)	38,211
Net increase (decrease) in cash and cash equivalents	26,523	(19,407)	20,098
Cash and cash equivalents at beginning of year	90,986	110,393	90,295
Cash and cash equivalents at end of year	$117,509	$90,986	$110,393
Supplemental disclosure:			
Net interest paid	$ 12,283	$10,654	$ 3,406
Net income taxes (refunded) paid	6,218	(2,788)	14,090
Non-cash investing and financing activity:			
Exchange of 6,754,000 shares of convertible preferred stock for Class A stock on a 1 for 1.022 basis	$ —	$ 6,904	$ —

Dividends Paid

6.50

PHILIP MORRIS COMPANIES INC. (DEC)

Consolidated Statements of Cash Flows

(In millions of dollars)	1999	1998	1997
Cash provided by (used in) operating activities			
Net earnings—Consumer products	$ 7,534	$ 5,255	$ 6,152
—Financial services	141	117	158
Net earnings	7,675	5,372	6,310
Adjustments to reconcile net earnings to operating cash flows:			
Consumer products			
Depreciation and amortization	1,702	1,690	1,629
Deferred income tax (benefit) provision	(156)	11	(188)
Gain on sale of Brazilian ice cream businesses			(774)
Gains on sales of other businesses	(62)		(196)
Cash effects of changes, net of the effects from acquired and divested companies:			
Receivables, net	95	(352)	(168)
Inventories	(39)	(192)	(531)
Accounts payable	122	(150)	37
Income taxes	401	565	48
Accrued liabilities and other current assets	1,343	254	1,356
Other	(17)	671	653
Financial services			
Deferred income tax provision	300	265	257
Gain on sale of a business			(103)
Other	11	(14)	10
Net cash provided by operating activities	11,375	8,120	8,340
Cash provided by (used in) investing activities			
Consumer products			
Capital expenditures	$(1,749)	$(1,804)	$(1,874)
Purchase of businesses, net of acquired cash	(522)	(17)	(630)
Proceeds from sales of businesses	175	16	1,784
Other	37	(154)	42
Financial services			
Investments in finance assets	(682)	(736)	(652)
Proceeds from finance assets	59	141	287
Proceeds from sale of a business			424
Net cash used in investing activities	(2,682)	(2,554)	(619)
Cash provided by (used in) financing activities			
Consumer products			
Net issuance (repayment) of short-term borrowings	435	61	(1,482)
Long-term debt proceeds	1,339	2,065	2,893
Long-term debt repaid	(1,843)	(1,616)	(1,987)
Financial services			
Net repayment of short-term borrowings			(173)
Long-term debt proceeds	500		174
Long-term debt repaid	(200)	(178)	(387)
Repurchase of common stock	(3,329)	(307)	(805)
Dividends paid	(4,338)	(3,984)	(3,885)
Issuance of common stock	74	265	205
Other	(135)	(200)	(74)
Net cash used in financing activities	(7,497)	(3,894)	(5,521)
Effect of exchange rate changes on cash and cash equivalents	(177)	127	(158)
Cash and cash equivalents:			
Increase	1,019	1,799	2,042
Balance at beginning of year	4,081	2,282	240
Balance at end of year	$ 5,100	$ 4,081	$ 2,282
Cash paid: interest—Consumer products	$ 1,086	$ 1,141	$ 1,219
—Financial services	$ 75	$ 79	$ 79
Income taxes	$ 4,308	$ 2,644	$ 3,794

Distribution to Minority Partners

6.51

ARROW ELECTRONICS, INC. (DEC)

Consolidated Statement of Cash Flows

(In thousands)	1999	1998	1997
Cash flows from operating activities			
Net income	$124,153	$145,828	$163,656
Adjustments to reconcile net income to net cash provided by (used for) operations			
Minority interest in earnings	5,264	11,469	13,112
Depreciation and amortization	78,635	55,101	47,057
Equity in (earnings) loss of affiliated companies	1,107	(937)	(781)
Deferred income taxes	(11,318)	19,661	(9,814)
Integration charge	24,560		21,600
Realignment charge			37,900
Change in assets and liabilities, net of effects of acquired businesses			
Accounts receivable	(242,370)	(38,792)	(219,488)
Inventories	(15,568)	(33,490)	(94,144)
Prepaid expenses and other assets	(236)	10,785	(8,048)
Accounts payable	(8,735)	(17,049)	36,784
Accrued expenses	20,412	(88,808)	(4,917)
Other	(9,395)	(20,164)	2,913
Net cash provided by (used for) operating activities	(33,491)	43,604	(14,170)
Cash flows from investing activities			
Acquisition of property, plant and equipment	(84,249)	(59,006)	(29,335)
Cash consideration paid for acquired businesses	(428,969)	(67,521)	(364,499)
Investments in affiliates	(30,127)	(3,078)	(16,973)
Net cash used for investing activities	(543,345)	(129,605)	(410,807)
Cash flows from financing activities			
Change in short-term borrowings	(29,010)	(4,850)	55,018
Change in credit facilities	224,683	(223,127)	122,830
Proceeds from short-term debt	119,814		
Proceeds from long-term debt	298,103	445,665	392,844
Repayment of long-term debt	(97,833)	(25,411)	(338)
Proceeds from exercise of stock options	1,282	7,504	20,209
Distributions to minority partners	(37,852)	(18,227)	(17,464)
Purchases of common stock	(100)	(50,129)	(151,010)
Net cash provided by financing activities	479,087	131,425	422,089
Effect of exchange rate changes on cash	(16,290)	(3,964)	(20,847)
Net increase (decrease) in cash and short-term investments	(114,039)	41,460	(23,735)
Cash and short-term investments at beginning of year	158,924	112,665	136,400
Cash and short-term investments of acquired affiliate		4,799	
Cash and short-term investments at end of year	$ 44,885	$158,924	$112,665
Supplemental disclosures of cash flow information			
Cash paid during the year for			
Income taxes	$ 47,145	$ 88,718	$121,251
Interest	105,239	81,500	52,265

Proceeds From Foreign Exchange Contracts

6.52

TRANSTECHNOLOGY CORPORATION (MAR)

Statements of Consolidated Cash Flows

(In thousands)	1999	1998	1997
Cash flows from operating activities:			
Net income	$ 13,809	$ 11,067	$ 8,788
Adjustments to reconcile net income to net cash provided by operating activities:			
Extraordinary charge for refinancing of debt	781	—	—
Gain on sale of marketable securities	(1,082)	—	—
Depreciation and amortization	10,802	9,054	7,406
Provision for losses on accounts and notes receivable	803	537	139
(Gain) loss on sale or disposal of fixed assets and discontinued businesses	(28)	1,087	64
Changes in assets and liabilities—excluding the effects of acquisitions and dispositions:			
Decrease (increase) in accounts receivable	1,073	(2,732)	(620)
Decrease (increase) in inventories	2,266	(2,685)	191
Decrease (increase) in other assets	1,888	(3,330)	(191)
(Decrease) increase in accounts payable	(2,604)	1,770	(3,650)
(Decrease) increase in accrued compensation	(3,603)	2,989	553
Increase (decrease) in income taxes payable	686	(1,300)	242
(Decrease) increase in other liabilities	(6,115)	2,751	1,385
Net cash provided by operating activities	18,676	19,208	14,307
Cash flows from investing activities:			
Business acquisitions	(43,901)	(34,774)	(3,602)
Capital expenditures	(14,759)	(8,745)	(5,477)
Proceeds from sale of fixed assets and discontinued businesses	502	2,144	2,705
Proceeds from sale of marketable securities	2,024	—	—
Decrease in notes and other receivables	3,128	1,954	1,119
Net cash used in investing activities	(53,006)	(39,421)	(5,255)
Cash flows from financing activities:			
Proceeds from long-term borrowings	159,089	68,400	40,105
Payments on long-term debt	(119,942)	(78,336)	(45,273)
Proceeds from issuance of stock under stock option plan	1,157	2,213	365
Stock offering proceeds	—	26,908	—
Proceeds from foreign exchange contracts	—	2,036	—
Treasury stock purchases	(4,926)	—	(1,625)
Dividends paid	(1,625)	(1,467)	(1,318)
Net cash provided by (used in) financing activities	33,753	19,754	(7,746)
Effect of exchange rate changes on cash	(128)	(121)	(128)
(Decrease) increase in cash and cash equivalents	(705)	(580)	1,178
Cash and cash equivalents at beginning of year	2,960	3,540	2,362
Cash and cash equivalents at end of year	$ 2,255	$ 2,960	$ 3,540
Supplemental information:			
Interest payments	$ 7,130	$ 7,647	$ 6,708
Income tax payments	$ 5,177	$ 5,988	$ 3,810

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Accounting Principles

Financial Instruments

The Company does not hold or issue financial instruments for trading purposes. Amounts to be paid or received under interest rate swap agreements are recognized as increases or reductions in interest expense in the periods in which they accrue. The Company enters into off-balance-sheet forward foreign exchange instruments in order to hedge certain financing and investment transactions denominated in foreign currencies and purchase commitments and certain foreign currency denominated long-term debt. Gains and losses on the investing and financing transactions are included in other income—net. Gains and losses on the foreign currency purchase commitment transactions are included in the cost of the underlying purchases.

FOREIGN CURRENCY CASH FLOWS

6.53 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. An example of reporting foreign currency cash flows follows.

6.54

FORD MOTOR COMPANY AND SUBSIDIARIES (DEC)

Consolidated Statement of Cash Flows

	1999		1998		1997	
(In millions)	Automotive	Financial Services	Automotive	Financial Services	Automotive	Financial Services
Cash and cash equivalents at January 1	$ 3,685	$ 1,151	$ 6,316	$ 1,618	$ 3,578	$ 3,689
Cash flows from operating activities (Note 17)	17,271	12,540	9,622	13,478	13,984	13,650
Cash flows from investing activities						
Capital expenditures	(7,945)	(590)	(8,113)	(504)	(8,142)	(575)
Purchase of leased assets	—	—	(110)	—	(332)	—
Acquisitions of other companies (Note 16)	(6,342)	(144)	—	(344)	—	(40)
Acquisitions of receivables and lease investments	—	(80,422)	—	(78,863)	—	(117,895)
Collections of receivables and lease investments	—	46,646	—	49,303	—	86,842
Net acquisitions of daily rental vehicles	—	(1,739)	—	(1,790)	—	(958)
Purchase of securities	(3,609)	(900)	(758)	(2,102)	(43)	(3,067)
Sales and maturities of securities	2,352	1,100	590	2,271	13	3,520
Proceeds from sales of receivables and lease investments	—	9,931	—	8,413	—	5,197
Net investing activity with financial services	1,329	—	642	—	258	—
Other	(68)	119	(468)	(463)	(285)	(569)
Net cash used in investing activities	(14,283)	(25,999)	(8,217)	(24,079)	(8,531)	(27,545)
Cash flows from financing activities						
Cash dividends	(2,290)	—	(5,348)	—	(2,020)	—
Issuance of common stock	336	—	157	—	310	—
Issuance of common stock of a subsidiary (Note 16)	—	—	—	—	—	453
Purchase of Ford treasury stock	(707)	—	(669)	—	(15)	—
Preferred stock—series B repurchase, series A redemption	—	—	(420)	—	—	—
Changes in short-term debt	64	5,547	497	7,475	(430)	6,210
Proceeds from issuance of other debt	3,428	37,184	2,403	21,776	1,100	22,923
Principal payments on other debt	(1,182)	(28,672)	(1,434)	(16,797)	(668)	(18,215)
Net financing activity with automotive	—	(1,329)	—	(642)	—	(258)
Spin-off of The Associates cash	—	—	—	(508)	—	—
Other	(254)	88	(472)	(12)	16	(206)
Net cash (used in)/provided by financing activities	(605)	12,818	(5,286)	11,292	(1,707)	10,907
Effect of exchange rate changes on cash	(69)	(279)	(54)	146	(119)	28
Net transactions with automotive/financial services	(1,357)	1,357	1,304	(1,304)	(889)	889
Net (decrease) increase in cash and cash equivalents	957	437	(2,631)	(467)	2,738	(2,071)
Cash and cash equivalents at December 31	$ 4,642	$ 1,588	$ 3,685	$ 1,151	$ 6,316	$ 1,618

Notes

Note 17: Cash flows

The reconciliation of net income to cash flows from operating activities is as follows (in millions):

	1999		1998		1997	
(In millions)	Automotive	Financial Services	Automotive	Financial Services	Automotive	Financial Services
Net income	$ 5,721	$ 1,516	$4,752	$17,319	$ 4,714	$ 2,206
Adjustments to reconcile net income to cash flows from operating activities:						
Depreciation and amortization	5,895	9,298	5,844	8,624	6,020	7,764
Losses/(earnings) of affiliated companies in excess of dividends remitted	(37)	25	82	(2)	127	(1)
Provision for credit and insurance losses	—	1,465	—	1,798	—	3,230
Foreign currency adjustments	316	—	(208)	—	(27)	—
Net (purchases)/sales of trading securities	2,316	(157)	(5,434)	(205)	(2,307)	67
Provision for deferred income taxes	278	1,565	421	1,307	908	(102)
Gain on spin-off of The Associates (note 16)	—	—	—	(15,955)	—	—
Gain on sale of Common Stock of a subsidiary (note 16)	—	—	—	—	—	(269)
Changes in assets and liabilities:						
Decrease/(increase) in accounts receivable and other current assets	(1,107)	(331)	1,027	(1,189)	(179)	256
(Increase)/decrease in inventory	893	—	(254)	—	1,234	—
Increase/(decrease) in accounts payable and accrued and other liabilities	2,648	(1,213)	2,915	890	3,772	(240)
Other	348	372	477	891	(278)	739
Cash flows from operating activities	$17,271	$12,540	$9,622	$13,478	$13,984	$13,650

The Company considers all highly liquid investments purchased with a maturity of three months or less, including short-term time deposits and government, agency and corporate obligations, to be cash equivalents. Automotive sector cash equivalents at December 31, 1999 and 1998 were $3.1 billion and $3.4 billion, respectively; Financial Services sector cash equivalents at December 31, 1999 and 1998 were $1.1 billion and $500 million, respectively. Cash flows resulting from futures contracts, forward contracts and options that are accounted for as hedges of identifiable transactions are classified in the same category as the item being hedged. Purchases, sales and maturities of trading securities are included in cash flows from operating activities. Purchases, sales and maturities of available-for-sale and held-to-maturity securities are included in cash flows from investing activities.

Cash paid for interest and income taxes was as follows (in millions):

	1999	1998	1997
Interest	$8,524	$9,120	$10,430
Income taxes	1,125	1,764	1,289

6.55

FORTUNE BRANDS, INC. AND SUBSIDIARIES (DEC)

Consolidated Statement of Cash Flows

(In millions)	1999	1998	1997
Operating activities			
Net income (loss)	$(890.6)	$263.1	$ 98.5
Income from discontinued operations	—	—	(65.1)
Write-down of goodwill	1,126.0	—	—
Restructuring charges	136.8	—	209.1
Extraordinary items	—	30.5	8.1
Depreciation and amortization	230.5	251.1	242.7
(Increase) decrease in accounts receivable	(24.4)	(38.0)	29.8
Decrease (increase) in inventories	34.7	(89.7)	31.9
Increase in other assets	(57.2)	(20.6)	(4.5)
(Decrease) increase in accrued taxes	(6.5)	38.6	(27.8)
Decrease in accounts payable, accrued expenses and other liabilities	(68.6)	(63.1)	(16.0)
Increase (decrease) in deferred income taxes	1.2	44.0	(74.8)
Other operating activities, net	6.5	(11.7)	(5.6)
Net cash provided from continuing operating activities	488.4	404.2	426.3
Investing activities			
Additions to property, plant and equipment	(240.5)	(251.9)	(196.9)
Acquisitions, net of cash acquired	(132.3)	(271.8)	(84.6)
Proceeds from the disposition of property, plant and equipment	23.2	6.5	5.5
Proceeds from the disposition of operations, net of cash	—	17.0	48.0
Other investing activities, net	0.4	(2.6)	0.4
Net cash used by investing activities	(349.2)	(502.8)	(227.6)
Financing activities			
Increase (decrease) in short-term debt, net	316.5	92.8	(506.4)
Issuance of long-term debt	226.3	624.1	18.6
Repayment of long-term debt	(182.6)	(376.0)	(756.0)
Dividends to stockholders	(149.6)	(147.4)	(243.4)
Cash purchases of common stock for treasury	(397.7)	(112.0)	(90.0)
Proceeds received from exercise of stock options	80.4	56.6	99.4
Other financing activities, net	(0.6)	(47.9)	(17.1)
Net cash (used) provided by financing activities	(107.3)	90.2	(1,494.9)
Effect of foreign exchange rate changes on cash	(0.3)	(5.5)	(6.4)
Cash provided by discontinued operations	—	—	1,321.9
Net increase (decrease) in cash and cash equivalents	$ 31.6	$ (13.9)	$ 19.3
Cash and cash equivalents at beginning of year	$ 40.3	$ 54.2	$ 34.9
Cash and cash equivalents at end of year	$ 71.9	$ 40.3	$ 54.2
Cash paid during the year for			
Interest, net of capitalized amount	$ 114.7	$107.9	$ 126.1
Income taxes	$ 171.3	$124.1	$ 300.6

6.56

ULTRAMAR DIAMOND SHAMROCK CORPORATION (DEC)

Consolidated Statements of Cash Flows

(In millions)	1999	1998	1997
Cash flows from operating activities:			
Net income (loss)	$ 173.2	$ (78.1)	$154.8
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	240.8	237.4	200.1
Provision for losses on receivables	9.2	12.7	14.9
Write-down of property, plant and equipment and goodwill	131.4	82.1	—
Equity income from joint ventures	(14.6)	(7.4)	(3.1)
Gain on sale of property, plant and equipment	(116.0)	(2.0)	(11.4)
Deferred income tax provision (benefit)	72.4	(9.0)	104.8
Other, net	3.6	4.4	3.4
Changes in operating assets and liabilities, net of acquisition:			
Decrease (increase) in accounts and notes receivable	(79.2)	82.1	25.6
Decrease in inventories	87.4	89.1	46.5
Decrease in prepaid expenses and other current assets	13.1	20.2	6.9
Increase (decrease) in accounts payable and other current liabilities	56.0	(81.7)	(221.5)
Decrease (increase) in other long-term assets	18.2	(2.4)	(28.8)
Decrease in other long-term liabilities	(58.8)	(0.1)	(56.7)
Net cash provided by operating activities	536.7	347.3	235.5
Cash flows from investing activities:			
Capital expenditures	(184.9)	(171.1)	(267.9)
Acquisition of Total, net of cash acquired	—	—	(402.4)
Deferred refinery maintenance turnaround costs	(33.9)	(37.8)	(25.6)
Expenditures for investments	—	—	(11.9)
Proceeds from sales of property, plant and equipment	289.4	81.8	93.8
Net cash provided by (used in) investing activities	70.6	(127.1)	(614.0)
Cash flows from financing activities:			
Net change in commercial paper and working capital borrowings	(371.4)	96.6	(189.2)
Proceeds from long-term debt borrowings	—	—	415.9
Repayment of long-term debt	(231.4)	(37.8)	(68.6)
Proceeds from issuance of common stock	3.5	7.3	5.5
Issuance of Company obligated preferred stock of subsidiary	—	—	200.0
Shares purchased under common stock buyback program	—	(100.0)	—
Payment of cash dividends	(95.3)	(98.5)	(89.8)
Other, net	—	—	(2.2)
Net cash provided by (used in) financing activities	(694.6)	(132.4)	271.6
Effect of exchange rate changes on cash	4.0	(3.7)	1.0
Net increase (decrease) in cash and cash equivalents	(83.3)	84.1	(105.9)
Cash and cash equivalents at beginning of year	176.1	92.0	197.9
Cash and cash equivalents at end of year	$ 92.8	$ 176.1	$ 92.0

NONCASH ACTIVITIES

6.57 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.

6.58

HERCULES INCORPORATED (DEC)

Consolidated Statement of Cash Flow

(Dollars in millions)	1999	1998	1997
Cash flow from operating activities:			
Net income	$ 168	$ 9	$319
Adjustments to reconcile net income to net cash provided from operations:			
Depreciation	144	86	73
Amortization	106	22	3
Write-off in-process research and development	—	130	—
Nonoperating gain on disposals	(23)	(23)	(398)
Noncash charges (credits)	(13)	38	92
Other	—	(6)	15
Accruals and deferrals of cash receipts and payments:			
Affiliates' earnings in excess of dividends received	(1)	(6)	(25)
Accounts receivable	(69)	26	(41)
Inventories	(7)	(14)	(6)
Accounts payable and accrued expenses	(27)	(72)	137
Noncurrent assets and liabilities	2	(9)	18
Net cash provided by operations	280	181	187
Cash flow from investing activities:			
Capital expenditures	(196)	(157)	(119)
Proceeds of investment and fixed asset disposals	50	600	295
Acquisitions, net of cash acquired	(10)	(3,109)	—
Other, net	(37)	(25)	(34)
Net cash (used in) provided by investing activities	(193)	(2,691)	142
Cash flow from financing activities:			
Long-term debt proceeds	279	3,111	343
Long-term debt repayments	(1,360)	(247)	(130)
Change in short-term debt	22	(228)	(35)
Payment of debt issuance costs and underwriting fees	(19)	(66)	—
Proceeds from issuance of subsidiary trusts' preferred securities	792	200	—
Proceeds from issuance of warrants	90	—	—
Common stock issued	182	10	38
Common stock reacquired	(3)	(114)	(458)
Proceeds from issuance of subsidiary preferred stock	12	—	—
Dividends paid	(83)	(104)	(98)
Net cash (used in) provided by financing activities	(88)	2,562	(340)
Effect of exchange rate changes on cash	(4)	(1)	(2)
Net increase (decrease) in cash and cash equivalents	(5)	51	(13)
Cash and cash equivalents at beginning of year	68	17	30
Cash and cash equivalents at end of year	$63	$68	$17
Supplemental disclosures of cash flow information:			
Cash paid during the year for:			
Interest (net of amount capitalized)	$ 184	$ 100	$ 37
Distributions on trust preferred securities	36	—	—
Income taxes paid, net	79	117	152
Noncash investing and financing activities:			
Conversion of notes and debentures	2	8	31
ESOP and incentive plan stock issuances	8	196	15
Accounts payable for common stock acquisitions	—	—	5
Investment in long-term notes	—	—	504
Accounts receivable from sale of investment/asset disposals	—	—	8
Assumed debt of acquired businesses	—	307	—

6.59

W.W. GRAINGER, INC., AND SUBSIDIARIES (DEC)

Consolidated Statements of Cash Flows

(In thousands of dollars)	1999	1998	1997
Cash flows from operating activities:			
Net earnings	$180,731	$238,504	$231,833
Provision for losses on accounts receivable	13,585	10,310	9,984
Depreciation and amortization:			
Property, buildings, and equipment	72,446	58,256	63,257
Intangibles and goodwill	15,941	15,964	16,394
Capitalized software	9,840	4,645	1,556
Change in operating assets and liabilities:			
(Increase) in accounts receivable	(111,994)	(18,230)	(31,866)
(Increase) decrease in inventories	(135,764)	(14,599)	74,793
(Increase) decrease in prepaid expenses	(6,437)	(2,828)	2,849
(Increase) decrease in deferred income taxes	(5,310)	(7,910)	2,153
Increase in trade accounts payable	47,212	5,288	2,171
(Decrease) increase in other current liabilities	(22,067)	40,678	48,125
(Decrease) increase in current income taxes payable	(32,834)	(1,682)	7,098
Increase in accrued employment related benefit costs	2,933	2,578	3,275
Other—net	1,465	1,386	1,288
Net cash provided by operating activities	29,747	332,360	432,910
Cash flows from investing activities:			
Additions to property, buildings and equipment	(114,056)	(130,186)	(108,252)
Proceeds from sale of property, buildings, and equipment—net	4,387	4,315	3,066
Expenditures for capitalized software	(26,473)	(36,983)	(122)
Purchases of available-for-sale securities	(18,500)	(5,000)	—
Other—net	5,200	(8,488)	1,682
Net cash (used in) investing activities	(149,442)	(176,342)	(103,626)
Cash flows from financing activities:			
Net increase (decrease) in short-term debt	208,776	85,100	(132,315)
Proceeds from long-term debt	—	—	126,127
Long-term debt payments	(93)	(1,079)	(1,997)
Stock options exercised	1,223	443	2,239
Tax benefit of stock incentive plan	3,424	4,107	3,759
Purchase of treasury stock—net	(15,306)	(193,959)	(346,822)
Cash dividends paid	(58,817)	(56,683)	(53,934)
Net cash provided by (used in) financing activities	139,207	(162,071)	(402,943)
Net increase (decrease) in cash and cash equivalents	19,512	(6,053)	(73,659)
Cash and cash equivalents at beginning of year	43,171	49,224	122,883
Cash and cash equivalents at end of year	$ 62,683	$ 43,171	$ 49,224
Supplemental cash flow information			
Cash payments for interest	$ 16,305	$ 5,027	$ 5,773
Cash payment for taxes	157,561	165,668	143,471
Noncash investing activities:			
Increase in fair value of securities available-for-sale	$130,703	$ —	$ —
Income tax effect related to increase in fair value	(52,020)	—	—

SUPPLEMENTAL DISCLOSURES

6.60 As stated in paragraphs 106–121 of *SFAS No. 95*, two alternatives are permitted for reporting net cash flow from operating activities. The direct method shows as its principal components operating cash receipts and payments, the sum of which is net cash flow from operating activities. The indirect method begins with net income and reconciles it to net cash flow from operating activities. Therefore, the indirect method does not disclose gross amounts of operating cash receipts and payments.

6.61 To provide information regarding the gross amounts of at least certain operating cash flows, *SFAS No. 95* requires enterprises to disclose amounts of interest and income taxes paid. With this and other required information provided, users may approximate operating cash receipts and payments. Examples of supplemental disclosures follow.

6.62

ABBOTT LABORATORIES AND SUBSIDIARIES (DEC)

Consolidated Statement of Cash Flows

(Dollars in thousands)	1999	1998	1997
Cash flow from (used in) operating activities:			
Net earnings	$ 2,445,759	$2,334,353	$ 2,079,101
Adjustments to reconcile net earnings to net cash from operating activities:			
Depreciation and amortization	828,006	786,380	729,143
Exchange (gains) losses, net	(10,011)	(14,176)	31,005
Investing and financing (gains) losses, net	93,723	90,798	113,999
Trade receivables	(176,347)	(147,489)	(222,189)
Inventories	(147,778)	(112,692)	(99,400)
Prepaid expenses and other assets	(542,306)	(191,249)	(446,489)
Trade accounts payable and other liabilities	299,048	179,653	485,618
Income taxes payable	147,427	(145,379)	(10,700)
Net cash from operating activities	2,937,521	2,780,199	2,660,088
Cash flow from (used in) investing activities:			
Acquisition of certain assets of Glaxo Wellcome Inc.'s U.S. anesthesia business in 1999, International Murex in 1998 and Sanofi's parental products businesses in 1997, net of cash acquired	(217,000)	(249,177)	(200,475)
Acquisitions of property, equipment and other businesses	(987,098)	(993,555)	(1,009,096)
Purchases of investment securities	(175,694)	(343,453)	(91,273)
Proceeds from sales of investment securities	169,356	96,757	67,726
Other	12,187	18,034	(8,209)
Net cash used in investing activities	(1,198,249)	(1,471,394)	(1,241,327)
Cash flow from (used in) financing activities:			
Proceeds from (repayments of) commercial paper, net	(864,000)	42,000	402,000
Proceeds from issuance of long-term debt	—	400,000	—
Other borrowing transactions, net	6,286	(59,640)	15,294
Purchases of common shares	—	(876,264)	(1,054,512)
Proceeds from issuance of common shares	329,490	—	19,417
Proceeds from stock options exercised	104,693	152,399	138,392
Dividends paid	(1,003,295)	(891,661)	(809,554)
Net cash used in financing activities	(1,426,826)	(1,233,166)	(1,288,963)
Effect of exchange rate changes on cash and cash equivalents	(19,587)	(143)	(2,782)
Net increase in cash and cash equivalents	292,859	75,496	127,016
Cash and cash equivalents, beginning of year	315,238	239,742	112,726
Cash and cash equivalents, end of year	$ 608,097	$ 315,238	$ 239,742
Supplemental cash flow information:			
Income taxes paid	$ 882,957	$1,060,479	$ 922,242
Interest paid	145,055	153,891	132,689

6.63

TOKHEIM CORPORATION (NOV)

Consolidated Statement of Cash Flows

(Amounts in thousands)	1999	1998	1997
Cash flows from operating activities:			
Net earnings (loss)	$(42,786)	$(27,668)	$ 2,094
Adjustments to reconcile net earnings (loss) to net cash provided by operating activities:			
Write-off of in-process research and development	—	5,879	—
Extraordinary loss on debt extinguishment	6,249	23,924	1,886
Depreciation and amortization	28,739	14,794	11,176
Payment in kind interest	5,020	—	—
Gain on sale of property, plant, and equipment	(1,253)	(36)	(408)
Deferred income taxes	(28)	(431)	(139)
Changes in assets and liabilities (net of effects of the acquisitions in 1998):			
Receivables, net	(11,935)	(21,439)	4,254
Inventories	21,473	4,327	5,975
Other current assets	4,922	3,185	(2,001)
Accounts payable	(3,570)	7,691	5,116
Accrued expenses	(14,404)	6,370	(3,395)
Other non-current assets	(4,348)	(1,658)	(1,944)
Other	(1,805)	(5,148)	(1,412)
Net cash provided from (used in) operating activities	(13,726)	9,790	21,202
Cash flows from investing activities:			
Acquisitions, net of cash acquired	—	(110,641)	—
Property, plant, and equipment additions	(17,909)	(14,548)	(11,154)
Proceeds from sale of property, plant and equipment	5,315	775	760
Net cash used in investing activities	(12,594)	(124,414)	(10,394)
Cash flows from financing activities:			
Proceeds from senior notes	—	22,500	—
Redemption of senior notes	(22,500)	—	—
Proceeds from 11.375% senior subordinated notes	209,647	—	—
Redemption of seller senior subordinated notes	(170,000)	(90,000)	(10,000)
Increase (decrease) in other debt	8,060	(4,267)	(3,747)
Net increase in notes payable, banks	22,139	158,769	1,770
Net increase (decrease) in cash overdraft	(1,132)	3,571	1,874
Debt issuance costs	(13,102)	(16,157)	—
Proceeds from issuance of common stock	22	74,057	1,706
Equity issuance costs	—	(4,858)	—
Treasury stock, net	163	(719)	(496)
Premiums paid on debt extinguishment	(555)	(15,743)	(1,390)
Preferred stock dividends	(1,515)	(1,484)	(1,512)
Net cash provided from (used in) financing activities	31,227	125,669	(11,795)
Effect of translation adjustments on cash	(17,271)	9,318	(2,389)
Increase (decrease) in cash	(12,364)	20,363	(3,376)
Cash and cash equivalents:			
Beginning of year	26,801	6,438	9,814
End of year	$ 14,437	$ 26,801	$ 6,438

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

1 (In Part): Summary of Significant Accounting Policies

Cash Flows

For purposes of the Statement of Cash Flows, the Company considers all highly liquid investments purchased with an initial maturity of 90 days or less to be cash equivalents.

Supplemental disclosures of cash flow information:

	1999	1998	1997
Cash paid during the year for interest	$37,574	$15,930	$15,204
Cash paid during the year for income taxes	418	1,194	921
Senior subordinated seller notes issued in connection with the RPS acquisition	—	170,000	—
Junior notes issued in connection with the RPS acquisition	5,020[1]	40,000	—
Liabilities assumed in the acquisitions including accrued merger and acquisition costs	—	101,830	—

[1] Represents non-cash interest added to principal during 1999.

CASH AND CASH EQUIVALENTS

6.64 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.

6.65

TABLE 6-5: CASH AND CASH EQUIVALENTS

	1999	1998	1997	1996
Cash and cash equivalents	485	468	465	449
Cash and equivalents	35	43	42	44
Cash	46	53	58	58
Cash and short-term investments	14	14	15	21
Cash and short-term cash investments	4	5	4	3
Cash and temporary cash investments	5	7	4	5
Cash and temporary investments	3	2	3	5
Cash and marketable securities	1	2	3	3
Other descriptive captions	7	6	6	12
Total Companies	**600**	**600**	**600**	**600**

6.66

AMERICAN HOME PRODUCTS CORPORATION AND SUBSIDIARIES (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Cash Equivalents, for purposes of reporting cash flows, consist primarily of certificates of deposit, time deposits and other short-term, highly liquid securities with original maturities of three months or less and are stated at cost, which approximates fair value. The carrying value of cash equivalents approximates fair value due to the short-term, highly liquid nature of cash equivalents.

6.67

AMPHENOL CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Cash and Short-Term Cash Investments

Cash and short-term cash investments consist of cash and liquid investments with an original maturity of less than three months.

6.68

APPLIED INDUSTRIAL TECHNOLOGIES, INC. AND SUBSIDIARIES (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Business and Accounting Policies

Cash and Temporary Investments

The Company considers all temporary investments with maturities of three months or less to be cash equivalents for purposes of the statements of consolidated cash flows.

6.69

CK WITCO CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Accounting Policies (In Part)

Statements of Cash Flows

Cash includes bank term deposits of three months or less. Cash payments during the fiscal years ended 1999, 1998 and 1997 included interest payments of $89.6 million, $79.5 million and $90.8 million and income tax payments of $67 million, $33.5 million and $28.3 million, respectively.

6.70

COCA-COLA ENTERPRISES INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Significant Accounting Policies

Cash Investments

Cash investments include all highly liquid cash investments purchased with original maturity dates less than three months. The fair value of cash and cash investments approximates the amounts shown in the financial statements.

6.71

HUBBELL INCORPORATED (DEC)

STATEMENT OF ACCOUNTING POLICIES (In Part)

Cash and Temporary Cash Investments

Temporary cash investments consist of liquid investments with maturities of three months or less when purchased. The carrying value of cash and temporary cash investments approximates fair value because of their short maturities.

6.72

NOBLE AFFILIATES, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Statement of Cash Flows

For purposes of reporting cash flows, cash and short-term investments include cash on hand and investments purchased with original maturities of three months or less.

6.73

ROHM AND HAAS COMPANY AND SUBSIDIARIES (DEC)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (In Part)

Cash and Cash Equivalents

Cash and cash equivalents include cash, time deposits and readily marketable securities with original maturities of three months or less.

6.74

OFFICEMAX, INC. (JAN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Cash and Equivalents

Cash and equivalents includes short-term investments with original maturities of 90 days or less.

6.75

WESTVACO CORPORATION AND CONSOLIDATED SUBSIDIARY COMPANIES (OCT)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (In Part)

Marketable Securities

For financial statement purposes, highly liquid securities purchased three months or less from maturity are considered to be cash equivalents.

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 No. 58,* as amended by *SAS Nos. 64, 79,* and *85,* 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

	1999	1998	1997	1996
Follows financial statements and notes	319	357	356	367
Precedes financial statements and notes	259	228	222	216
Between financial statements and notes	16	7	9	8
Other	6	8	13	9
Total Companies	**600**	**600**	**600**	**600**

TITLE

7.04 Paragraph 8a of *Statement on Auditing Standards 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 599 survey companies included the words *independent* and *report.* 302 titles identified the auditors as auditors, 163 as accountants, 115 as public accountants, and 18 as certified public accountants.

ADDRESSEE

7.06 Paragraph 9 of *Statement on Auditing Standards No. 58* states:

> The report may be addressed to the company whose financial statements are being audited or to its board of directors or stockholders. A report on the financial statements of an unincorporated entity should be addressed as circumstances dictate, for example, to the partners, to the general partner, or to the proprietor. Occasionally, an auditor is retained to audit the financial statements of a company that is not his client; in such a case, the report 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

	1999	1998	1997	1996
Board of Directors and Stockholders	471	469	489	480
Stockholders	47	49	50	52
Board of Directors	42	45	42	45
Company	35	31	15	14
Other or no addressee	5	6	4	9
Total Companies	**600**	**600**	**600**	**600**

AUDITORS' STANDARD REPORT

7.09 Paragraph 8 of *Statement on Auditing Standards No. 58* presents examples of auditors' standard reports for single-year financial statements and for comparative two year financial statements. The examples presented in paragraph 8 of *SAS No. 58* follow:

INDEPENDENT AUDITORS' REPORT

> We have audited the accompanying balance sheet of X Company as of December 31, 19XX, and the related statements of income, retained earnings, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.
>
> We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
>
> In our opinion, the financial statements referred to above present fairly, in all material respects, the

financial position of X Company as of [at] December 31, 19XX, and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting principles.

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying balance sheets of X Company as of December 31, 19X2 and 19X1, and the related statements of income, retained earnings, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of X Company as of [at] December 31, 19X2 and 19X1, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

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.

7.11 As permitted by *Statement of Financial Accounting Standards No. 130*, 91 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

The Board of Directors and Stockholders
Amerada Hess Corporation

We have audited the accompanying consolidated balance sheet of Amerada Hess Corporation and consolidated subsidiaries as of December 31, 1999 and 1998 and the related consolidated statements of income, retained earnings, cash flows, changes in common stock and capital in excess of par value and comprehensive income for each of the three years in the period ended December 31, 1999. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with 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 Amerada Hess Corporation and consolidated subsidiaries at December 31, 1999 and 1998 and the consolidated results of their operations and their consolidated cash flows for each of the three years in the period ended December 31, 1999, in conformity with accounting principles generally accepted in the United States.

Statement of Operations and Comprehensive Income

7.13

REPORT OF INDEPENDENT ACCOUNTANTS

To the Stockholders of Arden Group, Inc.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations and comprehensive income, of stockholders' equity and of cash flows present fairly, in all material respects, the financial position of Arden Group, Inc. and its subsidiary at January 1, 2000 and January 2 1999, and the consolidated results of their operations and comprehensive income, and their cash flows for each of the three fiscal years in the period ended January 1, 2000, in conformity with accounting principles generally accepted in the United States. 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 which 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

Statement of Changes in Shareholders' Equity

7.14

REPORT OF INDEPENDENT ACCOUNTANTS

To the Shareholders and Board of Directors of
Anheuser-Busch Companies, Inc.

We have audited the accompanying consolidated balance sheet of Anheuser-Busch Companies, Inc. and its subsidiaries as of December 31, 1999 and 1998, and the related consolidated statements of income, changes in shareholders equity and cash flows for each of the three years in the period ended December 31, 1999. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. 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 an disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements audited by us present fairly, in all material respects, the financial position of Anheuser-Bush Companies, Inc. and its subsidiaries at December 31, 1999 and 1998, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1999, in conformity with accounting principles generally accepted in the United States.

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, Section 543 of *Statement on Auditing Standards No. 1* provides guidance to the principal auditor. Paragraph 7 of Section 543 states:

> When the principal auditor decides that he will make reference to the audit of the other auditor, his report should indicate clearly, in both the 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 *Statement on Auditing Standards No. 58* reaffirm the requirements of Section 543. Paragraph 13 presents an example of an auditors' report referring to the report of other auditors.

7.17 The auditors' report for 41 survey companies made reference to the report of other auditors. Examples of such reports follow.

7.18

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Shareowners of
AT&T Corp.:

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, changes in shareowners' equity and cash flows present fairly, in all material respects, the financial position of AT&T Corp. and its subsidiaries (AT&T) at December 31, 1999 and 1998, and the results of their operations and their cash flows for each of the three years ended December 31, 1999, in conformity with accounting principles generally accepted in the United States. These financial statements are the responsibility of AT&T'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 Liberty Media Group, an equity method investee, which was acquired by AT&T on March 9, 1999. AT&T's financial statements include an investment of $38,460 million as of December 31, 1999, and an equity method loss of $2,022 million, for the year ended December 31, 1999. 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 Liberty Media Group, as of and for the year ended December 31, 1999, 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, 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 the opinion expressed above.

7.19

REPORT OF INDEPENDENT ACCOUNTANTS

To the Shareholders of Exxon Mobil Corporation

In our opinion, based on our audits and the report of other auditors, the consolidated financial statements appearing on pages F14 through F32 present fairly, in all material respects, the financial position of Exxon Mobil Corporation and its subsidiary companies at December 31, 1999 and 1998, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1999, in conformity with accounting principles generally accepted in the United States. These financial statements are the responsibility of the corporation's management; our responsibility is to express an opinion on these financial statements based on our audits. The consolidated financial statements give retroactive effect to the merger of Mobil Corporation on November 30, 1999 in a transaction accounted for as a pooling of interests, as described in note 3 to the consolidated financial statements. We did not audit the financial statements of Mobil Corporation, which statements reflect total assets of $42,754 million at December 31, 1998, and total revenues of $53,531 million and $65,906 million for the years ended December 31, 1998 and 1997, respectively. 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 Mobil Corporation, 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, 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 the other auditors provide a reasonable basis for the opinion expressed above.

As discussed note 2 to the consolidated financial statements, the corporation changed its method of accounting for the cost of start-up activities in 1998.

7.20

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To General Dynamics Corporation

We have audited the accompanying Consolidated Balance Sheet of General Dynamics Corporation (a Delaware corporation) and subsidies as of December 31, 1999 and 1998, and the related Consolidated Statements of Earnings, Shareholders' Equity and Cash Flows for each of the three years in the period ended December 31, 1999. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of Gulfstream Aerospace Corporation for the years ended December 31, 1998 and 1997, a company acquired during 1999 in a transaction accounted for as pooling of interests, as discussed in Note B. Such statements are included in the consolidated financial statements of General Dynamics Corporation and reflect total assets and total revenues of 26 percent and 33 percent in 1998, respectively, and total revenues of 32 percent in 1997, of the related consolidated totals. These statements were audited by other auditors whose report has been furnished to us for 1998 and 1997, and our opinion, insofar as it relates to amounts included for Gulfstream Aerospace Corporation, is based solely on the report of the other auditors.

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 audit and the report of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of General Dynamics Corporation and subsidiaries as of December 31, 1999 and 1998, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1999, in conformity with accounting principles generally accepted in the United States.

7.21

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Shareholders and Board of Directors of Halliburton Company

We have audited the accompanying balance sheets of Halliburton Company (a Delaware corporation) and subsidiary companies as of December 31, 1999 and 1998, and the related consolidated statements of income, cash flows, and shareholders' equity for each of the three years in the period ended December 31, 1999. We did not audit the related consolidated statements of income, cash flows and shareholders' equity of Dresser Industries, Inc., a company acquired during 1998 in a transaction accounted for as a pooling of interests, as of December 31, 1997, as discussed in Note 2. Such statements are included in the consolidated financial statements of Halliburton Company and reflect total revenue of 46% for the year ended December 31, 1997, of the related consolidated total. These statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to amounts included for Dresser Industries, Inc. is based solely upon the report of the other auditors. These financial statements are the responsibility of 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, based upon our audits and the report of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Halliburton Company and subsidiary companies as of December 31, 1999 and 1998, and the results of its operations and its cash flows for each of the three years ended December 31, 1999, in conformity with generally accepted accounting principles in the United States.

7.22

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Pennzoil-Quaker State Company

We have audited the accompanying consolidated balance sheet of Pennzoil-Quaker State Company (a Delaware Corporation) and subsidiaries, as of December 31, 1999 and 1998, and the related consolidated statements of operations and comprehensive income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 1999. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of Excel Paralubes (a 50%-owned equity investee of Pennzoil-Quaker State Company), the investment in which is reflected in the accompanying financial statements using the equity method of accounting. The Company's equity interest in the earnings (loss) of Excel Paralubes was $7.3 million, $14.7 million and ($2.8) million for the years ended December 31, 1999, 1998 and 1997, respectively. The summarized financial data for Excel Paralubes contained in Note 5 are derived from the financial statements of Excel Paralubes. The financial statements of Excel Paralubes were audited by other auditors whose report has been furnished to us and our opinion, insofar as it relates to the amounts and disclosures included for Excel Paralubes, is based solely on the report of the other auditors.

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 and the report of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of Pennzoil-Quaker State Company and subsidiaries as of December 31, 1999 and 1998, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1999, in conformity with accounting principles generally accepted in the United States.

UNCERTAINTIES

7.23 Effective for auditors' reports issued or reissued on or after February 29, 1996, *Statement on Auditing Standards No. 79* amends *SAS No. 58* to eliminate the requirement for an uncertainties explanatory paragraph for uncertainties as defined in paragraphs 29–32 of amended *SAS No. 58. SAS No. 79* does not apply to going concern situations for which *SAS No. 59*, as amended by *SAS No. 64*, and *SAS No. 85* provides guidance.

7.24 Table 7-3 summarizes the nature of uncertainties for which an explanatory paragraph was included in an auditors' report. An example of explanatory language for a going concern situation follows.

7.25

TABLE 7-3: UNCERTAINTIES

	1999	1998	1997	1996
Litigation	—	—	—	1
Going concern	7	5	2	1
Total Uncertainties	7	5	2	2
Total Companies	7	5	2	2

7.26

REPORT OF INDEPENDENT ACCOUNTANTS

To the Directors and Shareholders of
Harnischfeger Industries, Inc.

In our opinion, the Consolidated Financial Statements appearing in the accompanying index present fairly, in all material respects, the financial position of Harnischfeger Industries, Inc. and its subsidiaries (the "Company") at October 31, 1999 and 1998, and the results of their operations and their cash flows for each of the three years in the period ended October 31, 1999, in conformity with accounting principles generally accepted in the United States. 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, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

The accompanying Consolidated Financial Statements have been prepared assuming the Company will continue as a going concern. As discussed in Note 2—Significant Policies in Notes to Consolidated Financial Statements, the Company has incurred substantial losses from operations and has experienced liquidity issues resulting in the filing for Chapter 11 Bankruptcy protection on June 7, 1999, which raises substantial doubt about its ability to continue as a going concern. The Consolidated Financial Statements do not include any adjustments that might result from the outcome of this uncertainty.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 (In Part): Significant Accounting Policies

Basis of Presentation

The accompanying Consolidated Financial Statements have been prepared on a going concern basis which contemplate continuity of operations, realization of assets, and liquidation of liabilities in the ordinary course of business and do not reflect adjustments that might result if the Debtors are unable to continue as going concerns. As a result of the Debtors' Chapter 11 filings, such matters are subject to significant uncertainty. The Debtors intend to file a plan or reorganization with the Bankruptcy Court. Continuing on a going concern basis is dependent upon, among other things, the Debtors' formulation of an acceptable plan of reorganization, the success of future business operations, and the generation of sufficient cash from operations and financing sources to meet the Debtors' obligations. Other than recording the estimated loss on the disposal of the Beloit discontinued operations, the Consolidated Financial Statements do not reflect: (a) the realizable value of assets on a liquidation basis or their availability to satisfy liabilities; (b) aggregate prepetition liability amounts that may be allowed for claims or contingencies, or their status or priority; (c) the effect of any changes to the Debtor's capital structure or in the Debtors' business operations as the result of an approved plan of reorganization; or (d) adjustments to the carrying value of assets (including goodwill and other intangibles) or liability amounts that may be necessary as the result of actions by the Bankruptcy Court.

The Company's financial statements as of October 31, 1999 have been presented in conformity with the AICPA's Statement of Position 90-7, "Financial Reporting By Entities In Reorganization Under the Bankruptcy Code," issued November 19, 1990 ("SOP 90-7"). The statement requires a segregation of liabilities subject to compromise by the Bankruptcy Court as of the bankruptcy filing date and identification of all transactions and events that are directly associated with the reorganization of the Company.

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 *Statement on Auditing Standards No. 58*, as amended by *SAS No. 79.* Of the 52 references to lack of consistency, 26 relate to changes made in years prior to 1999. Examples of references to lack of consistency follow.

7.28

TABLE 7-4: LACK OF CONSISTENCY

	1999	1998	1997	1996
Start up costs	15	14	2	—
Business process reengineering costs	8	18	16	—
Internal use software costs	6	5	—	—
Inventories	6	5	4	8
Revenue recognition	3	N/C*	N/C*	N/C*
Business combinations	2	N/C*	N/C*	N/C*
Pensions	2	N/C*	N/C*	N/C*
Impairment of long-lived assets	1	9	43	51
Postemployment benefits	—	—	10	39
Investments (SFAS No. 115)	—	—	5	19
Postretirement benefits	1	—	1	19
Income taxes	—	—	—	24
Other—described	8	20	22	29
Total References	**52**	**71**	**103**	**189**
Total Companies	**48**	**62**	**95**	**139**

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

Start-Up Costs

7.29

REPORT OF INDEPENDENT AUDITORS

Board of Directors and Stockholders
Lockheed Martin Corporation

We have audited the accompanying consolidated balance sheet of Lockheed Martin Corporation as of December 31, 1999 and 1998, and the related consolidated statements of earnings, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 1999. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with 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 Lockheed Martin Corporation at December 31, 1999 and 1998, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 1999, in conformity with accounting principles generally accepted in the United States.

As discussed in Note 1 of the Notes to Consolidated Statements, in 1999 the Corporation adopted the provisions of the American Institute of Certified Public Accountants' Statement of Position No. 98-5, "Reporting on the Costs of Start-Up Activities."

NOTES OF CONSOLIDATED FINANCIAL STATEMENTS

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

New Accounting Pronouncements Adopted (In Part)

Effective January 1, 1999, the Corporation adopted the American Institute of Certified Public Accountants' (AICPA) Statement of Position (SOP) No. 98-5, "Reporting on the Costs of Start-Up Activities." This SOP requires that, at the effective date of adoption, costs of start-up activities previously capitalized be expensed and reported as a cumulative effect of a change in accounting principle, and further requires that such costs subsequent to adoption be expensed as incurred. The adoption of SOP No. 98-5 resulted in the recognition of a cumulative effect adjustment which reduced net earnings for the year ended December 31, 1999 by $355 million, or $.93 per diluted share. The cumulative effect adjustment was recorded net of income tax benefits of $227 million, and was primarily composed of approximately $560 million of costs which were included in inventories as of December 31, 1998.

Business Process Reengineering Costs

7.30

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders
Bestfoods

We have audited the accompanying consolidated balance sheets of Bestfoods and Subsidiaries as of December 31, 1999 and 1998, and the related consolidated statements of income, stockholder's equity and cash flows for each of the years in the three-year period ended December 31, 1999. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Bestfoods and Subsidiaries as of December 31, 1999 and 1998, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1999, in conformity with generally accepted accounting principles.

As discussed in the notes to the consolidated financial statements, in 1998 the Company changed its method of accounting for start-up activities and in 1997 its method of accounting for business process reengineering costs.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Changes in Accounting Principles (In Part)

In November 1997, the Emerging Issues Task Force (EITF) issued Issue No. 97-13, "Accounting for Business Process Reengineering Costs," which requires that certain costs related to reengineering business processes either done separately or in conjunction with an information technology project be expensed rather than capitalized. This requirement was effective in the fourth quarter of 1997 and required that any unamortized balance of previously capitalized costs be expensed and treated as a change in accounting principle. Accordingly, the Company recorded a cumulative effect of a change in accounting principle in 1997 of $20 million before taxes, $13 million after taxes, or $.04 per diluted common share. Approximately $3 million after tax pertained to the Company's discontinued corn refining operations with the remaining $10 million after tax relating to the consumer foods business.

Software Costs

7.31

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Shareowners of
Eastman Chemical Company

In our opinion, the accompanying consolidated financial statements appearing on pages 25 through 54 present fairly, in all material respects, the financial position of Eastman Chemical Company and its subsidiaries at December 31, 1999 and 1998, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1999 in conformity with accounting principles generally accepted in the United States. 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, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

As discussed in Note 1 to the consolidated financial statements, on January 1, 1999, the Company adopted AICPA Statement of Position 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use."

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Significant Accounting Policies

Computer Software Costs

On January 1, 1999, the Company adopted AICPA Statement of Position 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use," which requires the capitalization of certain costs, including internal payroll costs, incurred in connection with the development or acquisition of software for internal use. Capitalized software costs will be amortized on a straight-line basis over three years, the expected useful life of such assets, beginning when the software project is substantially complete and placed in service. The adoption of this standard resulted in capitalization in 1999 of $24 million, of which $2 million was amortized, for certain internal-use software costs which otherwise would have been expensed. The impact on 1999 net earnings was approximately $14.7 million or $0.19 per diluted share. No restatement of prior year results was required.

Inventories

7.32

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated balance sheets of Lowe's Companies, Inc. and subsidiaries as of January 28, 2000 and January 29, 1999, and the related consolidated statement of earnings, shareholders' equity, and cash flows for each of the three fiscal years in the period ended January 28, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. The consolidated financial statements give retroactive effect to the 1999 merger of the Company and Eagle Hardware & Garden, Inc., which has been accounted for as a pooling of interests as described in Note 2 to the consolidated financial statements. We did not audit the balance sheet of Eagle Hardware & Garden, Inc. as of January 29, 1999, or the related statements of earnings, shareholders' equity, and cash flows of Eagle Hardware & Garden, Inc. for each of the fiscal years ended January 29, 1999 and January 30, 1998, which statements reflect total assets of $719.8 million as of January 29, 1999, and total revenues of $1,085.7 million and $971.5 million for each of the fiscal years ended January 29, 1999 and January 30, 1998, respectively. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Eagle Hardware & Garden, Inc. for fiscal years 1998 and 1997, 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, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Lowe's Companies, Inc. and subsidiaries at January 28, 2000 and January 29, 1999, and the results of their operations and their cash flows for each of the three fiscal years in the period ended January 28, 2000 in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the consolidated financial statements, effective for the year ended January 28, 2000, the Company has given retroactive effect to the change in its method of accounting for a substantial portion of its inventories from the LIFO (last-in, first-out) method to the FIFO (first-in, first-out) method.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Merchandise Inventory

Inventory is stated at the lower of cost or market. In an effort to provide a better measure of operating results and to increase comparability with other companies in the retail home improvement industry, cost is determined using the first-in, first-out (FIFO) method. The cost of inventory also includes certain costs associated with the preparation of inventory for resale.

The Company changed its method of accounting for substantially all of its inventories from the Last-In-First-Out (LIFO) method to the First-In-First-Out (FIFO) method effective for the fiscal year ended January 28, 2000. The Company has been experiencing reduced costs in most product categories resulting from a combination of better buying, increased imports and logistics efficiencies. Therefore, management believes the FIFO method provides a better measurement of operating results. The change will also aid in financial statement comparability within the retail home improvement industry segment.

Prior period consolidated financial statements have been restated for the retroactive effect of the change in accounting method. A LIFO adjustment was not required during 1999 because the calculated effect was minimal; therefore there was no effect on current year earnings. The effect of this change on the Company's net earnings and retained earnings for the years ended January 29, 1999 and January 30, 1998 was a decrease of $18.4 million ($.05 per share diluted) and $4.4 million ($.01 per share diluted), respectively.

Revenue Recognition

7.33

INDEPENDENT AUDITORS' REPORT

The Shareholders of
The Reynolds and Reynolds Company

We have audited the accompanying consolidated balance sheets of The Reynolds and Reynolds Company and its subsidiaries as of September 30, 1999 and 1998 and the related statements of consolidated income, shareholders' equity and comprehensive income and cash flows for each of the three years in the period ended September 30, 1999. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of The Reynolds and Reynolds Company and its subsidiaries at September 30, 1999 and 1998, and the results of their operations and their cash flows for each of the three years in the period ended September 30, 1999, in conformity with generally accepted accounting principles.

As discussed in Note 1 to the Consolidated Financial Statements, the Company changed its method of accounting for software revenue recognition effective October 1, 1998.

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

1 (In Part): Summary of Significant Accounting Policies

Revenue Recognition (In Part)

Accounting Change

In October 1997, the American Institute of Certified Public Accountants issued Statement of Position (SOP) 97-2, "Software Revenue Recognition," which superseded SOP 91-1, "Software Revenue Recognition." SOP 97-2 provides guidance on applying generally accepted accounting principles recognizing revenue on software transactions. The Company adopted this pronouncement effective October 1, 1998. The adoption of this pronouncement reduced the Automotive Group computer systems products revenues $17,936, gross profit $11,205, operating income $10,624 and net income $6,204 or $.08 per diluted share during the six months ended March 31, 1999. The Company completed the transition period for the adoption of SOP 97-2 as of March 31, 1999, and there was no impact on third or fourth quarter's operating results.

Business Combinations

7.34

REPORT OF INDEPENDENT ACCOUNTANTS

The Board of Directors
Lone Star Industries, Inc.

We have audited the accompanying consolidated balance sheet of Lone Star Industries, Inc. and subsidiaries as of December 31, 1999 and the related consolidated statements of operations, changes in common shareholders' equity and cash flows for the period from October 1, 1999 to December 31,1999 (Successor period) and the period from January 1, 1999 to September 30, 1999 (Predecessor period) and the financial statement schedule for the year ended December 31, 1999 listed in the accompanying index. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Lone Star Industries, Inc. and subsidiaries as of December 31, 1999, and the results of their operations and their cash flows for the period from October 1, 1999 to December 31, 1999 and the period from January 1, 1999 to September 30, 1999 in conformity with generally accepted accounting principles. Also, in our opinion, the related financial statement schedule for the year ended December 31, 1999, 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 2 to the consolidated financial statements, effective October 1, 1999, the majority of the Company's outstanding common stock was acquired in a business combination accounted for as a purchase. As a result of the acquisition, the consolidated financial information for the periods after the acquisition is presented on a different cost basis than that for the periods before the acquisition and, therefore, is not comparable.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Acquisition of Lone Star

On October 6, 1999, Level Acquisition Corporation ("Level"), a Delaware Corporation and an indirect wholly-owned subsidiary of Dyckerhoff Aktiengesellschaft ("Dyckerhoff" or "Dyckerhoff AG"), a corporation formed under the laws of the Federal Republic of Germany, closed its previously announced tender offer for (1) all of the issued and outstanding shares of $1.00 par value common stock of the Company, together with the associated rights to purchase common stock issued pursuant to the Rights Agreement for $50 per share in cash, and (2) all of the outstanding warrants to purchase common stock, each of which represented the right to purchase two shares of common stock, for $81.25 per warrant in cash. On October 8, 1999, pursuant to an Agreement and Plan of Merger dated September 2, 1999, Level merged with and into the Company with the Company surviving as an indirect wholly-owned subsidiary of Dyckerhoff. The common shares issued and outstanding immediately prior to the effective time of the merger which were not tendered for purchase were converted, subject to any appraisal rights, into the right to receive $50 per share in cash, without interest. The warrants issued and outstanding which were not tendered pursuant to the offer, will remain outstanding.

The purchase and subsequent merger were accounted for as a purchase transaction effective as of October 1, 1999, in accordance with Accounting Principles Board Opinion No. 16, "Business Combinations." Accordingly, the consolidated financial statements for the periods subsequent to October 1, 1999 reflect the purchase price, including transaction costs, allocated to tangible and intangible assets acquired and liabilities assumed, based on their estimated fair values as of October 1, 1999. See Notes 25 and 26 for purchase accounting adjustments, opening balance sheet and pro forma operating results information.

Pensions

7.35

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 and shareholders' equity and cash flows present fairly, in all material respects, the financial position of Agway Inc. and Consolidated Subsidiaries at June 30, 1999 and 1998, and the results of their operations and their cash flows for each of the three years in the period ended June 30, 1999, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

The 1998 financial statements have been restated to correct for the accounting effect of the irregularities as described in Note 17

As discussed in Note 13, the Company changed its accounting for pensions in 1998.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Thousands of dollars)

13 (In Part): Retirement Benefits

Effective for 1999, Agway adopted SFAS No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits." The provisions of SFAS No. 132 revised employers' disclosures about pension and other postretirement benefit plans. The statement does not change the measurement or recognition of these plans. The 1998 disclosures were restated for comparative purposes, as required by the statement.

Pension Plan

The Employees' Retirement Plan of Agway Inc., is a non-contributory defined benefit pension plan covering the majority of employees of Agway Inc. The plan's benefit formulae through June 30, 1998, based payment to retired employees generally upon years of credited service and a percentage of qualifying compensation during the final years of employment. Effective July 1, 1998, the plan's benefit formulae base payment on a pension equity formula and also include incentive compensation as pensionable earnings for all employees. Generally, pension costs are funded annually at no less than the amount required by law and no more than the maximum allowed by federal income tax guidelines. The vested benefit obligation is based on the actuarial present value of the benefits that the employee would be entitled to at the expected retirement date.

The majority of the plan's investments consist of U.S. government and agency securities, U.S. corporate bonds, U.S. and foreign equities, equity and bond funds and temporary investments (short-term investments in demand notes and money market funds). At June 30, 1999 and 1998, retirement plan assets included Agway debt securities and preferred stock with estimated fair values of $18,600 and $10,000, respectively.

The Employees' Retirement Plan of Agway Inc. has assets that exceed the benefit obligation. The following table sets forth the plan's funded status and amounts recognized in Agway's consolidated financial statements at June 30 as a net pension asset:

	1999	*1998*
Change in Benefit Obligation		
Benefit obligation at beginning of year	$332,719	$301,769
Service cost (with interest)	9,835	5,373
Interest cost	23,948	22,547
Amendments	24,772	0
Special termination benefits	0	626
Actuarial (loss) gain	(11,042)	25,771
Benefits paid	(34,315)	(23,367)
Benefit obligation at end of year	$345,917	$332,719
Change in Plan Assets		
Fair value of plan assets at beginning of year	$582,988	$538,433
Actual return on plan assets	30,302	67,922
Benefits paid	(34,315)	(23,367)
Fair value of plan assets at end of year	$578,975	$582,988
Funded status	$233,058	$250,269
Unrecognized prior service cost	31,621	11,415
Unrecognized net gain	(61,814)	(75,482)
Unrecognized net transition obligation	(4,705)	(9,410)
Net pension asset	$198,160	$176,792
Components of Net Pension Income		
Service cost (with interest)	$ 9,835	$ 5,373
Interest cost	23,948	22,547
Expected return on plan assets	(53,682)	(54,078)
Amortization of:		
Transition of obligation	(4,705)	(4,705)
Prior service cost	4,566	2,314
Actuarial gains and losses	(1,330)	(3,360)
Net pension income	$ (21,368)	$ (31,909)
Weighted-Average Assumptions as of June 30		
Discount rate	7.50%	7.00%
Expected return on plan assets	9.50%	10.25%
Rate of compensation increase	5.00%	5.00%

Effective July 1, 1998, Agway amended its pension plan to include a pension equity formula, as well as to recognize incentive compensation as pensionable compensation for all employees. This amendment increased the benefit obligation and unrecognized prior service cost by approximately $24,800. The net pension income for 1999 and in future years is reduced as a result of this amendment.

Effective July 1, 1997, Agway changed its method of determining the market-related value of the retirement plan assets under SFAS No. 87, "Accounting for Pensions," from a calculated value (one that recognized changes in fair market value of assets over a number of years) to a fair market value method, which is considered a preferable method to that previously applied. The cumulative effect of this change in accounting principle in 1998, net of tax of $16,500, was $28,956.

Pro forma amounts (unaudited), assuming the new accounting method was applied during all periods presented, are shown with a comparison to actual results:

	Year Ended June 30	
	Restated 1998	1997
Earnings from operations:		
As reported	$12,189	$10,670
Pro forma	$12,189	$18,410
Net earnings:		
As reported	$41,145	$10,670
Pro forma	$12,189	$18,410

Impairment of Long-Lived Assets

7.36

INDEPENDENT AUDITORS' REPORT

Stockholders of Baker Hughes Incorporated:

We have audited the accompanying consolidated statements of financial position of Baker Hughes Incorporated and its subsidiaries as of December 31, 1999 and 1998, and the related consolidated statements of operations, stockholders' equity and cash flows for the years ended December 31, 1999 and 1998, the three month period ended December 31, 1997 and the year ended September 30, 1997. Our audits also included the financial statement schedule II, valuation and qualifying accounts. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Baker Hughes Incorporated and its subsidiaries at December 31, 1999 and 1998, and the results of their operations and their cash flows for the years ended December 31, 1999 and 1998, the three month period ended December 31, 1997 and the year ended September 30, 1997 in conformity with generally accepted accounting principles. Also, in our opinion, such financial statement schedule II, 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 changed its method of accounting for impairment of long-lived assets to be disposed of effective October 1, 1996 to conform with Statement of Financial Accounting Standards No. 121.

As described in Note 19, the accompanying consolidated statement of financial position as of December 31, 1998 and the related consolidated statement of operations, stockholders' equity, and cash flows for the year ended December 31, 1998, the three month period ended December 31, 1997, and the year ended September 30, 1997 have been restated.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Impairment of Assets

The Company adopted Statement of Financial Accounting Standards ("SFAS") No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of*, effective October 1, 1996. The statement sets forth guidance as to when to recognize an impairment of long-lived assets, including goodwill, and how to measure such an impairment. The methodology set fort in SFAS No. 121 is not significantly different from the Company's prior policy and, therefore, the adoption of SFAS No. 121 did not have a significant impact on the consolidated financial statements as it relates to impairment of long-lived assets used in operations. The accounting for long-lived assets to be disposed of requires these assets to be carried at the lower of cost or fair market value as determined by a discounted cash flow analysis, rather than the lower of cost or net realizable value, the method that was previously used by the Company. The Company recognized a charge to income of $12.1 million ($.04 per share-diluted), net of a tax benefit of $6.0 million, in 1997 as the cumulative effect of a change in accounting principle.

At December 31, 1999, the Company had long-lived assets held for disposal of approximately 50 real properties with a carrying value of $37.5 million, ranging in size from a few hundred square feet to 200,000 square feet and located primarily in the United States. This portfolio of real property includes land and offices, manufacturing, repair and warehouse space in various locations where oilfield activity takes place. The makeup of the portfolio changes over time as properties are sold and as properties that are surplus to operation's needs are added. Baker Hughes employs two full-time real estate professionals whose responsibilities include the marketing, leasing, management and sale of these facilities. The methodology used in determining the fair market value of the properties includes comparison to recent sales and listing of similarly situated facilities and discussions with real estate brokers and agents concerning expectations about current and future real property prices and rental rates.

Amortization of Unrecognized Pension and Postretirement Gains and Losses

7.37

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
AK Steel Holding Corporation

We have audited the accompanying consolidated balance sheets of AK Steel Holding Corporation and Subsidiaries as of December 31, 1998 and 1999, and the related consolidated statements of income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 1999. 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, such consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 1998 and 1999, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1999 in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 8 to the consolidated financial statements, in 1998 the Company changed its method of amortizing unrecognized net gains and losses related to its obligations for pensions and other postretirement benefits.

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

8. Pension and Other Postretirement Benefit Plans

The Company provides noncontributory pension benefits to most employees and provides various health care and life insurance benefits to most retirees. At December 31, 1999, pension funding credits of $400.5 were available to offset future minimum funding requirements under the Employee Retirement Income Security Act of 1974. Although most retiree health and life insurance benefits are funded as claims are paid, the Company has established a health care trust as a means of prefunding a portion of these benefits.

Effective January 1, 1998, the Company conformed the AK Steel and Armco methods of amortizing unrecognized net gains and losses related to obligations for pensions and other postretirement benefits and conformed the measurement dates for actuarial valuations. In 1998, the Company recognized net of tax income of $133.9, or $1.33 per share ($1.24 on a diluted basis), as a cumulative effect of this accounting change. At the time it originally adopted the standards governing the accounting for pensions and other postretirement benefits, the Company chose to use the minimum amortization method, whereby unrecognized net gains and losses, to the extent they exceeded 10% of the larger of the benefit obligations or plan assets (the "corridor"), were amortized over the average remaining service life of active participants (approximately 15 years). Under the new accounting method, the Company recognizes into income, as a fourth quarter adjustment, any unrecognized net gains and losses that exceed the 10% corridor, and amortizes amounts inside the corridor over the average remaining service life of active participants. Adoption of the new method increased 1998 income from continuing operations by approximately $11.2, or $0.11 per share ($0.10 per diluted share), and decreased 1999 income from continuing operations by approximately $7.0, or $0.07 per share.

	Pension Benefits 1998	Pension Benefits 1999	Other Benefits 1998	Other Benefits 1999
Change in benefits obligation:				
Benefit obligation at beginning of year	$3,371.1	$3,482.2	$ 1,419.3	$1,461.9
Service cost	33.2	35.9	9.8	9.5
Interest cost	232.2	228.8	99.0	96.7
Plan participants' contributions	—	—	9.0	10.3
Actuarial loss/(gain)	137.7	(280.5)	54.1	(59.7)
Amendments	15.0	45.1	(18.0)	—
Benefits paid	(307.0)	(293.7)	(111.3)	(111.2)
Curtailments	—	4.6	—	2.3
Settlements	—	6.1	—	—
Special termination benefits	—	1.3	—	2.2
Benefit obligations at end of year	$3,482.2	$3,229.8	$ 1,461.9	$1,412.0
Change in plan assets:				
Fair value of plan assets at beginning of year	$3,528.8	$ 3,478.8	$ 187.0	$ 172.9
Actual return on plan assets	254.2	333.4	14.0	21.2
Employer contributions	2.8	15.9	74.2	74.7
Plan participants' contributions	—	—	9.0	10.3
Settlements	—	(12.9)	—	—
Benefits paid	(307.0)	(293.7)	(111.3)	(111.2)
Fair value of plan assets at end of year	$3,478.8	$ 3,521.5	$ 172.9	$ 167.9
Funded status	$ (3.4)	$ 291.7	$ (1,289.0)	$(1,244.1)
Unrecognized net actuarial loss/(gain)	26.4	(288.3)	(43.6)	(107.8)
Unrecognized prior service cost	68.2	104.4	(117.2)	(102.7)
Unrecognized initial net benefit obligation	21.0	14.6	—	—
Net amount recognized	$ 112.2	$ 122.4	$ (1,449.8)	$(1,454.6)
Amounts recognized in the consolidated balance sheets consist of:				
Prepaid benefit cost	$ 106.5	$ 122.4	$ —	$ —
Accrued benefit liability	(1.5)	(4.9)	(1,449.8)	(1,454.6)
Intangible asset	4.6	3.5	—	—
Accumulated other comprehensive income	2.6	1.4	—	—
Net amount recognized	$ 112.2	$ 122.4	$ (1,449.8)	$(1,454.6)

During the periods prior to the merger, Armco and AK Steel used different assumptions in the preparation of this information. Weighted average assumptions at year end for the consolidated Company are as follows:

	Pension Benefits 1997	Pension Benefits 1998	Pension Benefits 1999	Other Benefits 1997	Other Benefits 1998	Other Benefits 1999
Discount rate	7.20%	6.85%	7.75%	7.30%	6.85%	7.75%
Expected return on plan assets	9.25%	8.75%	9.50%	9.25%	8.75%	9.50%
Rate of compensation increase	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%

For measurement purposes, health care costs are assumed to increase 4.75% during 2000 and all future years for pre-65 benefits and post-65 benefits.

The components of net periodic benefit costs for the years 1997, 1998 and 1999, excluding the cumulative effect of a change in accounting method recorded in 1998, are as follows:

	Pension Benefits 1997	Pension Benefits 1998	Pension Benefits 1999	Other Benefits 1997	Other Benefits 1998	Other Benefits 1999
Components of net periodic benefit cost:						
Service cost	$ 29.0	$ 33.2	$ 35.9	$ 8.9	$ 9.8	$ 9.5
Interest cost	240.7	232.2	228.8	107.0	99.0	96.7
Expected return on plan assets	(285.3)	(313.4)	(299.0)	(11.0)	(14.9)	(14.3)
Amortization of prior service cost	7.5	7.8	8.8	(11.2)	(12.9)	(14.4)
Recognized net actuarial loss/(gain)	(1.4)	(9.5)	3.2	(7.6)	(7.7)	(3.4)
Settlement curtailment loss/(gain)	0.4	—	13.8	—	—	(0.7)
Amortization of unrecognized net obligation	6.3	6.3	6.4	—	—	—
Net periodic benefit cost (income)	$ (2.8)	$ (43.4)	$ (2.1)	$ 86.1	$ 73.3	$ 73.4

The projected benefit obligation, accumulated benefit obligation and fair value of plan assets for pension plans with an accumulated benefit obligation in excess of plan assets were $41.5, $31.4 and $1.3, respectively, for 1998 and $33.5, $26.2 and $1.3, respectively, for 1999.

Assumed health care cost trend rates have a significant effect on the amounts reported for health care plans. A one-percentage-point change in the assumed health care cost trend rates would have the following effects:

	One-Percentage-Point Increase	One-Percentage-Point Decrease
Effect on total service cost and interest cost components	$ 11.4	$ (10.3)
Effect on postretirement benefit obligation	$126.3	$(111.3)

In addition to defined benefit pension plans, most employees are eligible to participate in various defined contribution plans. Total expense related to these plans was $10.4 in 1997, $11.6 in 1998 and $11.5 in 1999.

Cash Equivalents

7.38

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Stockholders of
Dell Computer Corporation

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of Dell Computer Corporation and its subsidiaries at January 28, 2000 and January 29, 1999, and the results of their operations and their cash flows for each of the three fiscal years in the period ended January 28, 2000, in conformity with generally accepted accounting principles. In addition, in our opinion, the financial statement schedule listed in the accompanying index, presents fairly, in all material respects, the information required to be set forth therein when read in conjunction with the 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 generally accepted auditing standards, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

As discussed in Note 1 to the consolidated financial statements, in fiscal year 2000 the Company changed its policy for determining which items are treated as cash equivalents.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Cash and Cash Equivalents

During fiscal year 2000, the Company changed the method of classifying cash equivalents and has restated prior year balances to reflect the change. All highly liquid investments with original maturities of three months or less at date of purchase are carried at cost and considered to be cash equivalents. These investments were previously classified as marketable securities. All other investments not considered to be a cash equivalent are now separately categorized as investments.

Membership Fee Income

7.39

REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Shareholders
Wal-Mart Stores, Inc.

We have audited the accompanying consolidated balance sheets of Wal-Mart Stores, Inc. as of January 31, 2000 and 1999, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended January 31, 2000. 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 Wal-Mart Stores, Inc. and Subsidiaries at January 31, 2000 and 1999, and the consolidated results of their operations and their cash flows for each of the three years in the period ended January 31, 2000, in conformity with accounting principles generally accepted in the United States.

As explained in Note 1 to the consolidated financial statements, the Company changed its method of accounting for membership fee income from a cash basis to a deferred basis whereby membership fee income is recognized ratably over the twelve-month life of the membership.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Accounting Principle Change

In fiscal 2000, the Company changed its method of accounting for SAM's membership fee revenue both domestically and internationally. Previously, the Company had recognized membership fee revenues when received. Under the new accounting method, the Company recognizes membership fee revenues over the term of the membership, which is 12 months. The Company recorded a non-cash charge of $198 million (after reduction for income taxes of $119 million), or $.04 per share, to reflect the cumulative effect of the accounting change as of the beginning of the fiscal year. The effect of this change on the year ended January 31, 2000, before the cumulative effect of the accounting change was to decrease net income $12 million, or almost $.01 per share. If the new accounting method had been in effect in fiscal 1999 and 1998, net income would have been $4,393 million, or $.98 per basic or dilutive share and $3,517 million, or $.78 per basic or dilutive share, respectively.

The following table provides unearned revenues, membership fees received from members and the amount of revenues recognized in earnings for each of the fiscal years ended 1998, 1999 and 2000 as if the accounting change had been in effect for each of those years (in millions):

Deferred revenue January 31, 1997	$244
Membership fees received	494
Membership revenue recognized	(480)
Deferred revenue January 31, 1998	258
Membership fees received	600
Membership revenue recognized	(541)
Deferred revenue January 31, 1999	317
Membership fees received	646
Membership revenue recognized	(626)
Deferred revenue January 31, 2000	$337

The Company's deferred revenue is included in accrued liabilities in the January 31, 2000 consolidated balance sheet. The Company's analysis of historical membership fee refunds indicates that such refunds have been de minimis. Accordingly, no reserve has been established for membership fee refunds at January 31, 2000.

Derivatives and Hedging Activities

7.40

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Shareholders of
Tribune Company

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, of cash flows and of shareholders' equity present fairly, in all material respects, the financial position of Tribune Company and its subsidiaries at December 26, 1999 and December 27, 1998, and the results of their operations and their cash flows for each of the three years in the period ended December 26, 1999, in conformity with accounting principles generally accepted in the United States. 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, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

As discussed in Note 1 to the consolidated financial statements, in 1999 the Company changed its method of accounting for derivative instruments and hedging activities.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1: Summary of Significant Accounting Policies

Investments

The Company records its investments in debt and equity securities at their fair value, except for debt securities that the Company intends to hold to maturity and equity securities that are accounted for under the equity method or that are issued by private companies. In 1999, the Company reclassified 16.0 million shares of AOL common stock and 5.5 million shares of Mattel common stock from available-for-sale to trading securities in connection with the adoption of Statement of Financial Accounting Standards ("FAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities." See further discussion in "Adoption of New Accounting Pronouncement" below. Changes in the difference between cost and fair value of the 16.0 million AOL shares and 5.5 million Mattel shares is recorded in the statement of income beginning in the second quarter of 1999. All other investments recorded at fair value have been classified as available-for-sale, and accordingly, the difference between cost and fair value, net of related tax effects, for all other investments is recorded in the accumulated other comprehensive income component of shareholders' equity. The cost of securities sold is determined on an average cost basis.

EMPHASIS OF A MATTER

7.41 Paragraph 19 of *Statement on Auditing Standards No. 58*, as amended by *SAS No. 79*, states:

> 19. In any report on financial statements, the auditor may emphasize a matter regarding the financial statements. Such explanatory information should be presented in a separate paragraph of the auditors' report. Phrases such as "with the foregoing (following) explanation" should not be used in the opinion paragraph if an emphasis paragraph is included in the auditors' report. Emphasis paragraphs are never required; they may be added solely at the auditors' discretion. Examples of matters the auditor may wish to emphasize are—
>
> - That the entity is a component of a larger business enterprise.
> - That the entity has had significant transactions with related parties.
> - Unusually important subsequent events.
> - Accounting matters, other than those involving a change or changes in accounting principles, affecting the comparability of the financial statements with those of the preceding period.

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

The Board of Directors
Lone Star Industries, Inc.

We have audited the accompanying consolidated balance sheet of Lone Star Industries, Inc. and subsidiaries as of December 31, 1999 and related consolidated statements of operations, changes in common shareholders' equity and cash flows for the period from October 1, 1999 to December 31, 1999 (Successor period) and the period from January 1, 1999 to September 30, 1999 (Predecessor period) and the financial statement schedule for the year ended December 31, 1999 listed in the accompanying index. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Lone Star Industries, Inc. and subsidiaries as of December 31, 1999, and the results of their operations and their cash flows for the period from October 1, 1999 to December 31, 1999 and the period from January 1, 1999 to September 30, 1999 in conformity with generally accepted accounting principles. Also, in our opinion, the related financial statement schedule for the year ended December 31, 1999, 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 2 to the consolidated financial statements, effective October 1, 1999, the majority of the Company's outstanding common stock was acquired in a business combination accounted for as a purchase. As a result of the acquisition, the consolidated financial information for the periods after the acquisition is presented on a different cost basis than that for the periods before the acquisition and, therefore, is not comparable.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Acquisition of Lone Star

On October 6, 1999, Level Acquisition Corporation ("Level"), a Delaware Corporation and an indirect wholly-owned subsidiary of Dyckerhoff Aktiengesellschaft ("Dyckerhoff" or "Dyckerhoff AG"), a corporation formed under the laws of the Federal Republic of Germany, closed its previously announced tender offer for (1) all of the issued and outstanding shares of $1.00 par value common stock of the Company, together with the associated rights to purchase common stock issued pursuant to the Rights Agreement for $50 per share in cash, and (2) all of the outstanding warrants to purchase common stock, each of which represented the right to purchase two shares of common stock, for $81.25 per warrant in cash. On October 8, 1999, pursuant to an Agreement and Plan of Merger dated September 2, 1999, Level merged with and into the Company with the Company surviving as an indirect wholly-owned subsidiary of Dyckerhoff. The common shares issued and outstanding immediately prior to the effective time of the merger which were not tendered for purchase were converted, subject to any appraisal rights, into the right to receive $50 per share in cash, without interest. The warrants issued and outstanding which were not tendered pursuant to the offer, will remain outstanding.

The purchase and subsequent merger were accounted for as a purchase transaction effective as of October 1, 1999, in accordance with Accounting Principles Board Opinion No. 16, "Business Combinations." Accordingly, the consolidated financial statements for the periods subsequent to October 1, 1999 reflect the purchase price, including transaction costs, allocated to tangible and intangible assets acquired and liabilities assumed, based on their estimated fair values as of October 1, 1999. See Notes 25 and 26 for purchase accounting adjustments, opening balance sheet and pro forma operating results information.

7.44

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders of
Ogden Corporation

We have audited the accompanying consolidated balance sheets of Ogden Corporation and subsidiaries (the "Company") as of December 31, 1999 and 1998, and the related consolidated statements of shareholders' equity, consolidated income and comprehensive income, and cash flows for each of the three years in the period ended December 31, 1999. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Company at December 31, 1999 and 1998, and the results of their operations and cash flows for each of the three years in the period ended December 31, 1999 in conformity with generally accepted accounting principles.

As more fully described in Notes 2, 12 and 20 to the financial statements, the Company has adopted plans to discontinue its Entertainment and Aviation business segments and dispose of certain other non-core assets, utilize the proceeds to pay down debt, and focus solely on its Energy business.

As discussed in Note 1 to the financial statements, the Company changed its method of accounting for the costs of start-up activities in 1999.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Discontinued Operations

As a result of the adoption of the plan to discontinue the operations of the Entertainment and Aviation businesses, the Company's financial statement presentation has changed. Information for two units previously reported under the segment headings "Energy" and "Other" is now reported as Continuing Operations and will continue to be reported under those headings. Results previously reported for "Entertainment" and "Aviation" are now reported as Discontinued Operations.

Management expects the process of selling the discontinued operations to be substantially completed in the third quarter of 2000 and will involve the sale of various individual and groups of entities or operations. Based upon a number of assumptions and judgments, management believes that these dispositions will, in the aggregate after costs of disposition, be at book value or greater. Therefore, results from discontinued operations will be recognized currently and gains or losses on disposal of portions of the discontinued operations will be deferred until substantially all assets of the discontinued operations have been sold.

Revenues and income (loss) from discontinued operations (expressed in thousands of dollars) were as follows:

	1999	1998	1997
Revenues	$807,430	$795,879	$791,354
Operating income (loss)	$ (35,183)	$ 87,203	$ 64,079
Income (loss) before income taxes and minority interests	$ (40,169)	$ 90,172	$ 70,453
Income taxes	6	40,240	31,385
Minority interests	1,676	210	182
Income (loss) from discontinued operations	$ (41,851)	$ 49,722	$ 38,886

Net assets of discontinued operations (expressed in thousands of dollars) were as follows:

	December 31	
	1999	1998
Current assets	$221,200	$226,953
Property, plant and equipment—net	375,211	251,402
Other assets	336,700	253,409
Notes payable and current portion of long-term debt	(51,081)	(53,347)
Other current liabilities	(142,327)	(121,152)
Long-term debt	(108,681)	(42,693)
Other liabilities	(62,876)	(58,846)
Net assets of discontinued operations	$568,146	$455,726

12. Credit Agreements

At December 31, 1999, the Company had an unused revolving credit line of $150,000,000 under its principal revolving credit facility at various borrowing rates including prime, the Eurodollar rate plus .225% and certificate of deposit rates plus .35%. Ogden is not required to maintain compensating balances; however, Ogden pays a facility fee of 1/8 of 1% on its principal revolving credit line, which expires July 1, 2002. The Company agreed with its revolving credit lenders at year-end to not make further draws under its principal revolving credit facility in consideration of obtaining certain waivers of financial covenants contained in that document. In addition, the Company and all of its credit providers (including its revolving credit lenders and certain other banks that have similar covenants in their respective facilities) agreed to amend certain covenants relating to limits on indebtedness as a percentage of its capitalization, interest coverage as a function of income from continuing operations and its minimum Shareholders' Equity, all through the end of July 2000, and to permit the sales of the Aviation and Entertainment segments provided certain minimum prices are obtained. Consequently, all the Company's credit providers have agreed to permit the Company to sell its Aviation and Entertainment businesses and retain the first $100,000,000 in cash proceeds to fund operations and to extend the waivers of the financial covenants through the end of July 2000. Moreover, the revolving credit lenders have agreed to provide the Company with access to $50,000,000 of credit on a secured basis, in addition to the outstanding $50,000,000 which is unsecured. The rate on the $50,000,000 secured facility has been set at either the Eurodollar rate plus 3% or the prime rate plus 1%. In addition, the Company will pay a 2% fee for the secured facility, which matures on July 31, 2000.

The Company expects to obtain a new facility on or before July 31, 2000, more tailored to its Energy business. The Company continues to have discussions concerning possible new credit facilities and/or obtaining equity for such purpose.

20. Special Charges

In September 1999, the Company's Board of Directors approved a plan to dispose of its Aviation and Entertainment businesses and close its New York headquarters, and in December 1999 approved a plan to exit other noncore businesses so that Ogden can focus its resources on its Energy business.

As a result of these decisions, the Company has incurred various expenses which have been recognized in its continuing and discontinued operations. These expenses include severance costs mainly for its New York City employees of $41,500,000; contract termination costs of its former Chairman and Chief Executive Officer of $17,500,000; the write-down to estimated net realizable value of other noncore businesses of $36,200,000 based upon the estimated proceeds from the sale of such businesses; and the accelerated amortization of a new data processing system of $2,300,000 based upon a revised useful life of 15 months starting October 1, 1999. Such expenses also include the costs to abandon expansion plans of its Entertainment business totaling $17,800,000, which includes the forfeiture of the nonrefundable deposit and related costs totaling $10,500,000 in connection with the termination of the proposed acquisition of Volume Services America (VSA). In addition, charges totaling $13,200,000 were recorded to recognize losses prior to the decision to discontinue the Entertainment business relating to the sale of assets and to the write-down of unamortized contract acquisition costs at two venues.

In addition, Datacom, a subsidiary of Ogden which primarily manufactures products for its major customer Genicom Corporation (Genicom), recorded write-downs of its inventories and accounts receivable from Genicom of $10,500,000, primarily as a result of Genicom's poor financial position in 1999 evidenced by Genicom's announcement of its violation of its credit facilities in the third quarter and its subsequent filing for protection from creditors under the provisions of Chapter 11 of the Bankruptcy Code on March 10, 2000. As of December 31, 1999, Datacom had net inventory in connection with the Genicom contract of approximately $8,000,000, commitments to purchase parts for use in the assembly of inventory for sale to Genicom of approximately $8,000,000, and accounts receivable net of allowances of approximately $7,500,000. Since Datacom is a principal supplier of goods to Genicom, the Company is in conversation with the credit institutions and others about continuing to ship products to Genicom and the related payment terms. The Company believes that it will be successful in resuming its business relationship with Genicom and will realize the net carrying value of its accounts receivable and inventory on hand at December 31, 1999.

7.45

REPORT OF INDEPENDENT ACCOUNTANTS

To The Board of Directors and Shareholders of
Saucony, Inc.

In our opinion, based on our audits and the report of the other auditors, the accompanying consolidated financial statements listed in the index appearing under Item 14(a)(1) present fairly, in all material respects, the financial position of Saucony, Inc. and its subsidiaries at December 31, 1999 and January 1, 1999 and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1999, in conformity with generally accepted accounting principles generally accepted in the United States. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 14(a)(2) presents fairly, in all material aspects, 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 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 did not audit the financial statements of Saucony SP Pty. Ltd., for the year ended January 2, 1998, which statements reflect total revenues of eleven percent of consolidated revenues for the year ended January 2, 1998. 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 Saucony SP Pty. Ltd. (before adjustments to U.S. GAAP), is based solely on the report of the other auditors. We also audited the translation of the financial statements of Saucony SP Pty. Ltd., in Australian dollars to U.S. dollars as well as other adjustments required to ensure that the financial statements are in accordance with U.S. GAAP for the year ended January 2, 1998. We believe that our audits and the report of the other auditors provide a reasonable basis for the opinion expressed above.

DEPARTURES FROM UNQUALIFIED OPINIONS

7.46 *Statement on Auditing Standards No. 58* does not require auditors to express qualified opinions as to the effects of uncertainties or as to lack of consistency. Under *SAS No. 58*, departures from unqualified opinions include opinions qualified because of a scope limitation or a departure from generally accepted accounting principles, adverse opinions, and disclaimers of opinion. Paragraphs 20–63 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

7.47 Paragraphs 65–74 of *Statement on Auditing Standards No. 58*, as amended by *SAS No. 79*, discuss Reports on Comparative Financial Statements. None of the auditors' reports for the survey companies expressed an opinion on prior year financial statements that differed from the opinion originally expressed. Sixteen auditors' reports indicated that a change in auditors had occurred in either the current year or one of the two preceding years. Examples of such reports follow.

Predecessor Auditors' Report Not Presented

7.48

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Shareholders and Board of Directors of
SPX Corporation

We have audited the accompanying consolidated balance sheets of SPX Corporation (a Delaware corporation) and Subsidiaries as of December 31, 1999 and 1998, and the related statements of income and comprehensive income, shareholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of EGS, the investment in which is reflected in the accompanying financial statements using the equity method of accounting (see Note 10) as of and for the year ended September 30, 1998. The statements of EGS, as of and for the year ended September 30, 1998, were audited by other auditors whose report has been furnished to us and our opinion, insofar as it relates to the amounts included for EGS for 1998, is based solely on the report of the other auditors. The financial statements of the company for the year ended December 31, 1997 were audited by other auditors whose report dated January 23, 1998 (updated for certain matters as to which the date is February 15, 1999) included an explanatory paragraph with respect to the change in the company's method of accounting for business process reengineering costs.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of SPX Corporation and Subsidiaries as of December 31, 1999 and 1998, and the results of their operations and their cash flows for the years then ended, in conformity with generally accepted accounting principles.

Predecessor Auditors' Report Reissued

7.49

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders of Albertson's, Inc.

We have audited the accompanying consolidated balance sheets of Albertson's, Inc., and subsidiaries as of February 3, 2000 and January 28, 1999, and the related consolidated statements of earnings, stockholders' equity, and cash flows for each of the three years in the period ended February 3, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements based on our audits. The consolidated financial statements give retroactive effect to the merger of Albertson's, Inc. and American Stores Company, which has been accounted for as a pooling of interests as described in the Basis of Presentation Note to the consolidated financial statements. We did not audit the balance sheet of American Stores Company as of January 28, 1999, or the related statements of earnings, stockholders' equity, and cash flows for each of the two years in the period ended January 28, 1999, which statements reflect total assets of approximately $8.9 billion as of January 28, 1999, and net earnings of approximately $234 million and $280 million for the years ended January 28, 1999 and January 29, 1998, respectively. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for American Stores Company for 1998 and 1997, 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, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Albertson's, Inc., and subsidiaries at February 3, 2000 and January 28, 1999, and the results of their operations and their cash flows for each of the three years in the period ended February 3, 2000, in conformity with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITORS' REPORT

Shareholders and Board of Directors of
American Stores Company

We have audited the accompanying consolidated balance sheet of American Stores Company and subsidiaries as of January 30, 1999 and the related consolidated statements of earnings, shareholders' equity and cash flows for the years ended January 30, 1999 and January 31, 1998 (not presented herein). 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 American Stores Company and subsidiaries at January 30, 1999 and the consolidated results of their operations and their cash flows for the years ended January 30, 1999 and January 31, 1998 in conformity with accounting principles generally accepted in the United States.

OPINION EXPRESSED ON SUPPLEMENTARY FINANCIAL INFORMATION

7.50 Table 7-5 shows that occasionally the auditors' reports issued in connection with the financial statements of the survey companies express an opinion on supplementary financial information to the basic financial statements.

7.51

TABLE 7-5: OPINION EXPRESSED ON SUPPLEMENTARY FINANCIAL INFORMATION

	Number of Companies			
	1999	1998	1997	1996
Financial statement schedules	41	27	26	24
Other	—	1	1	1

7.52

INDEPENDENT AUDITORS' REPORT

To the Stockholders and Board of Directors
ABM Industries Incorporated

We have audited the accompanying consolidated balance sheets of ABM Industries Incorporated and subsidiaries as of October 31, 1998 and 1999, and the related consolidated statements of income, stockholders' equity and comprehensive income, and cash flows for each of the years in the three-year period ended October 31, 1999. In connection with our audits of the consolidated financial statements, we also have audited the related financial statement schedule II. These consolidated financial statements and the financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and the financial statement schedule based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of ABM Industries Incorporated and subsidiaries as of October 31, 1998 and 1999, and the results of their operations and their cash flows for each of the years in the three-year period ended October 31, 1999, in conformity with generally accepted accounting principles. Also in our opinion, the related financial statement schedule II, 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.

7.53

INDEPENDENT ACCOUNTANTS' REPORT

To the Board of Directors and Shareholders of
Atlantic Richfield Company

In our opinion, the consolidated financial statements listed in the accompanying index appearing on pages 30, 34, 35 and 40 present fairly, in all material respects, the financial position of Atlantic Richfield Company and its subsidiaries at December 31, 1999 and 1998, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1999, in conformity with accounting principles generally accepted in the United States. In addition, in our opinion, the financial statement schedule listed in the accompanying index appearing on page 98 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 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 expressed above.

DATING OF REPORT

7.54 Section 530 of *Statement on Auditing Standards No. 1* discusses dating of the independent auditors' report. Paragraphs 1 and 5 of Section 530 state:

1. Generally, the date of completion of the 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 his report when a subsequent event disclosed in the financial statements occurs after completion of his field work but before issuance of his report. He may use "dual dating," for example, "February 16, 19XX, except for Note X, as to which the date is March 1, 19XX," or he may date his report as of the later date. In the former instance, his responsibility for events occurring subsequent to the completion of his 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 his report and, accordingly, the procedures outlined in Section 560.12 generally should be extended to that date.

7.55 Auditors' reports for 53 survey companies used dual dating. Examples of dual dating follow.

7.56

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Shareholders of Briggs & Stratton Corporation

We have audited the accompanying consolidated balance sheets of Briggs & Stratton Corporation (a Wisconsin Corporation) and subsidiaries as of June 27, 1999 and June 28, 1998, and the related consolidated statements of income, shareholders' investment and cash flows for each of the three years in the period ended June 27, 1999. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Briggs & Stratton Corporation and subsidiaries as of June 27, 1999 and June 28, 1998, and the results of their operations and their cash flows for each of the three years in the period ended June 27, 1999, in conformity with generally accepted accounting principles.

July 29, 1999 (except with respect to Note 14, as to which the date is August 23, 1999).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

14. Subsequent Event—Disposition of Foundry Assets:

Effective August 23, 1999, the Company contributed certain assets related to its foundry operations to a third party. In exchange for this contribution, the Company received $23.6 million of cash and preferred stock with a face value of $45 million. The provisions of the preferred stock include a 15% cumulative dividend and is convertible into at least 31% of the common stock of the third party. The disposition will result in a gain.

7.57

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders
CK Witco Corporation

We have audited the accompanying consolidated balance sheets of CK Witco Corporation and subsidiaries (the Company) as of December 31, 1999 and December 26, 1998, and the related consolidated statements of operations, stockholders' equity (deficit) and cash flows for each of the years in the three-year period ended December 31, 1999. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 1999 and December 26, 1998, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1999, in conformity with generally accepted accounting principles.

January 31, 2000, except for the private placement information described in the note captioned "Credit Facilities" as to which the date is March 7, 2000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Indebtedness (In Part)

Credit Facilities

On October 28, 1999, the Company entered into a $600 million 364-day senior unsecured revolving credit facility (with an option to renew for an additional year) and a $400 million five-year senior unsecured credit facility with a syndicate of lenders. Borrowings on these facilities are at various rate options to be determined on the date of borrowing. In addition, the Company must pay a facility fee on the aggregate amount of the 364-day and the five-year credit facilities (currently these rates are .15% and .20%, respectively). The Company is also required to pay a utilization fee on the outstanding balance of each of the credit facilities, if such balances are in excess of 33% of the available credit (currently the rate is .25% for both facilities). At December 31, 1999, borrowings under the 364-day and the five-year credit facilities were $280 million and $400 million, respectively, with weighted average interest rates of 7.16% and 6.86%.

The Company has classified the 364-day credit facility as long-term based on its ability and intent to refinance this facility with an offering of new long-term notes. On March 7, 2000, $600 million of 8.5% Senior Notes due 2005 and $25 million of floating rate Senior Notes due 2001 were issued via a private placement.

The Company also has access to short-term uncommitted facilities based on current money market rates. At December 31, 1999, borrowings under these short-term uncommitted facilities were $75.3 million, with a weighted average interest rate of 6.72%. The Company also has arrangements with various banks for lines of credit for its international subsidiaries aggregating $19.9 million, of which $2.8 million was outstanding at December 31, 1999.

7.58

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders
CMI Corporation

We have audited the consolidated financial statements of CMI Corporation and subsidiaries (the Company) as listed in the accompanying index. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of CMI Corporation and subsidiaries as of December 31, 1999 and 1998, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1999, in conformity with generally accepted accounting principles.

March 8, 2000, except as to the last paragraph of note 3 and the first paragraph of note 14, which are as of March 30, 2000.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Certain debt agreements contain restrictions on working capital, net worth (minimum of approximately $53.7 million at December 31, 1999), and other restrictive covenants. For the year ended December 31, 1999, the Company was not in compliance with one debt covenant related to the $30 million unsecured senior notes and one debt covenant related to the revolving line of credit. Both covenants are determined quarterly based on the trailing four quarters ending on each determination date. The Company has obtained waivers from the lenders as of December 31, 1999 waiving noncompliance through March 31, 2000 and expects to meet the covenants at future determination dates.

(14) (In Part): Litigation

As previously disclosed, on November 22, 1995, a Chicago law firm, previously engaged by the Company in connection with prior patent litigation, filed suit against the Company seeking to recover approximately $1.4 million of legal fees and costs alleged to be owing by the Company, together with pre-judgement and post-judgement interest and other costs. In March 2000 this case was settled. The effects of the settlement are reflected in the Company's financial statements at December 31, 1999.

7.59

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Shareholders and the Board of Directors of
Consolidated Papers, Inc.

We have audited the accompanying consolidated balance sheets of Consolidated Papers, Inc. (a Wisconsin corporation) and subsidiaries as of December 31, 1999, 1998 and 1997, and the related consolidated statements of income, shareholders' investment and cash flows for each of the years in the three-year period ended December 31, 1999. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion of these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Consolidated Papers, Inc. and subsidiaries as of December 31, 1999, 1998 and 1997, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 1999, in conformity with generally accepted accounting principles.

January 14, 2000 (except with respect to the matter discussed in Note 13, as to which the date is February 22, 2000).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 13: Subsequent Event

On February 22, 2000, the Company and Stora Enso Oyj executed a definitive agreement for Stora Enso to acquire Consolidated Papers, Inc. for approximately $4.8 billion. Under the terms of the agreement, all of the issued and outstanding shares of Consolidated Papers will be converted, at the election of the holder, into cash or Stora Enso ADRs (American Depositary Receipts representing an interest in underlying Series R shares of Stora Enso), or a combination of cash and ADRs, with a targeted value of $44.00 per Consolidated Papers share. The transaction has been unanimously approved by the boards of directors of both companies. The consummation of the sale, which is subject to regulatory approval and the approval of the shareholders of both companies, is expected to occur in August 2000.

7.60

REPORT OF INDEPENDENT ACCOUNTANTS

To the Shareholders and the Board of Directors of
The Dun & Bradstreet Corporation

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, shareholders' equity and cash flows present fairly, in all material respects, the financial position of The Dun & Bradstreet Corporation and Subsidiaries at December 31, 1999 and 1998, and the results of their operations and their cash flows for the years ended December 31, 1999, 1998 and 1997, in conformity with accounting principles generally accepted in the United States. 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, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

As discussed in Note 1 to the consolidated financial statements, the Company changed certain revenue recognition accounting policies in 1997.

February 2, 2000, except as to Note 16 which is as of February 16, 2000.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 16: Reorganization Plan

On December 15, 1999, the Company announced that it will pursue the separation of Moody's and the D&B operating company into two independent, publicly traded companies. On February 16, 2000, the Company announced that the separation would be accomplished by spinning off, through a tax-free distribution to shareholders (the "2000 Distribution"), a subsidiary corporation comprising the business of the D&B operating company. The 2000 Distribution is subject to final approval by the Company's Board of Directors and obtaining a favorable ruling from the Internal Revenue Service with respect to the tax-free treatment of the distribution. After the 2000 Distribution, the business of the Company will consist entirely of the business conducted by Moody's, and the D&B operating company business will comprise the business of a new publicly traded company that will succeed to the name "The Dun & Bradstreet Corporation." The Company expects to complete the reorganization by the end of the third quarter of 2000.

7.61

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors and Stockholders of
Jones Apparel Group, Inc.

We have audited the accompanying consolidated balance sheets of Jones Apparel Group, Inc. and subsidiaries as of December 31, 1999 and 1998, and the related consolidated statements of income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 1999. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the 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 opinions.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Jones Apparel Group, Inc. and subsidiaries as of December 31, 1999 and 1998, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1999, in conformity with generally accepted accounting principles.

February 4, 2000, except as to "Subsequent Events" which is as of March 14, 2000.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Subsequent Events

On March 6, 2000, the Company announced that it had entered into settlement agreements with the Attorneys General of the 50 States, the District of Columbia, Puerto Rico, the Virgin Islands, American Samoa, the Northern Mariana Islands and Guam, and with the Federal Trade Commission ("FTC"), resolving allegations that Nine West engaged in violations of the antitrust laws by coercing retailers to adhere to resale prices of its products (see "Commitments and Contingencies"). Both agreements are without any admission of liability on the part of Nine West.

The settlement with the States, which resolves ongoing investigations and a lawsuit filed on March 6, 2000, consists of a consent decree which specifies the manner in which Nine West may implement its resale pricing policies with its retailer customers, along with a payment of $34.0 million which will be used to benefit consumers. The settlement requires court approval and, if approved by the court, should effectively resolve the pending federal and state class actions that cover the same claims. The $34.0 million payment will be recorded as additional goodwill.

In a separate settlement, Nine West has agreed to a consent order with the FTC which also specifies the manner in which Nine West may implement its resale pricing policies with its retailer customers. This consent order, which resolves an ongoing FTC investigation, is subject to final FTC approval after a comment period.

As of March 14, 2000, all of the stockholder class action lawsuits challenging Nine West's entry into the merger agreement with the Company were dismissed without prejudice.

7.62

INDEPENDENT AUDITORS' REPORT

Board of Directors and Stockholders of
The New York Times Company

We have audited the accompanying consolidated balance sheets of The New York Times Company as of December 26, 1999 and December 27, 1998, and the related consolidated statements of income, stockholders' equity and cash flows for each of the three years in the period ended December 26, 1999. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of The New York Times Company as of December 26, 1999 and December 27, 1998, and the results of their operations and their cash flows for each of the three years in the period ended December 26, 1999, in conformity with generally accepted accounting principles.

January 28, 2000
(February 17, 2000 as to Note 18)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

18. Subsequent Events

On January 7, 2000, the Company acquired certain assets and liabilities of a newspaper, the Worcester Telegram & Gazette, in Worcester, Mass., for approximately $295.0 million in cash. The cost of this acquisition was funded through the Company's commercial paper and medium-term note program. The Company is currently in the process of determining the allocation of the purchase price. The Worcester Telegram & Gazette had total revenues and operating profit of $76.7 million and $16.8 million for 1999 and total assets were $243.2 million as of December 31, 1999.

Total debt, including commercial paper and capital leases, as of January 28, 2000, increased to $931.2 million. Total additional borrowings available under all financing arrangements decreased to $272.0 million as of January 28, 2000. These changes from December 26, 1999, resulted primarily from the acquisition of the Worcester Telegram & Gazette.

On January 20, 2000, the Board of Directors of the Company authorized, subject to shareholder approval, the issuance of Class C Stock. On January 28, 2000, the Company filed a registration statement with the SEC on Form S-3 (the "Form S-3") related to a proposed initial public offering of Class C Stock, which is intended to track the performance of the Company's Internet business division, Times Company Digital (the "TCD group").

Upon completion of the issuance of Class C Stock, the holders of Class C Stock will vote with the holders of Class A Common Stock on all matters on which the Class A holders vote.

After shareholder approval and the completion of the proposed stock offering, the Company intends to separate for financial reporting purposes the TCD group and the "NYT group" (the Company excluding the TCD group except for a retained interest in the TCD group) (See Note 19). The NYT group includes all of the other business segments: Newspaper, Broadcast and Magazines, except for the businesses that comprise the TCD group. The NYT group also includes a retained interest in the TCD group which is currently 100%. This retained interest will decline to reflect the issuance of Class C Stock to the public. The Company currently provides financial data on its Internet operations which are included in the Newspaper Group (the "Internet Operations"). The Internet Operations principally include all Internet-related operations of the Company. However, the operating results of Internet Operations are not indicative of the operating results of TCD group's operations. The TCD group includes NYTimes.com, NYToday.com, Boston.com, WineToday.com, GolfDigest.com and Abuzz.com. The Internet Operations include various Internet operations of The Regionals and exclude GolfDigest.com.

On February 17, 2000, the Company made a decision to offer for sale the Santa Barbara News-Press in Santa Barbara, Calif., Daily World in Opelousas, La., Daily News in Palatka, Fla., Lake City Reporter in Lake City, Fla., The News-Sun in Sebring/Avon Park, Fla., The News-Leader in Fernandina Beach, Fla., and Marco Island Eagle in Marco Island, Fla. The net assets of these newspapers have been included in the caption "Assets held for sale" in the Company's Consolidated Balance Sheets as of December 26, 1999, at their carrying value. The sale is expected to be completed by December 31, 2000. The results of operations for these newspapers are not material to the Company.

7.63

INDEPENDENT AUDITORS' REPORT

Board of Directors and Stockholders
Tesoro Petroleum Corporation

We have audited the accompanying consolidated balance sheets of Tesoro Petroleum Corporation and subsidiaries as of December 31, 1999 and 1998, and the related statements of consolidated operations, stockholders' equity and cash flows for each of the three years in the period ended December 31, 1999. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with 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 Tesoro Petroleum Corporation and subsidiaries at December 31, 1999 and 1998, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1999 in conformity with accounting principles generally accepted in the United States of America.

February 7, 2000
(March 13, 2000 as to Note F and March 2, 2000 as to Note M)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note F: Capitalization

Long-term debt and other obligations at December 31, 1999 and 1998 consisted of the following (in millions):

	1999	1998
Credit facilities:		
Revolver	$ —	$ 61.2
Tranche A Term Loan	—	50.0
Tranche B Term Loan	80.9	99.5
9% senior subordinated notes (net of discount of $2.9 in 1999 and $3.1 in 1998)	297.1	296.9
BHP note (net of discount of $22.4 in 1999 and $31.8 in 1998)	24.0	18.2
Liability to Department of Energy	6.6	7.9
Other, primarily capital leases	9.0	10.2
	417.6	543.9
Less current maturities	27.4	12.5
Long-term debt, less current maturities	$390.2	$531.4

At December 31, 1999, aggregate maturities of outstanding long-term debt and other obligations, including the BHP Note and Tranche B Term Loan, for each of the five years following December 31, 1999 were as follows: 2000—$27.4 million; 2001—$4.7 million; 2002—$4.7 million; 2003—$2.1 million; and 2004—$78.3 million. The Company prepaid the $24.0 million BHP Note on March 1, 2000 and the remaining $80.9 million balance of the Tranche B Term Loan on March 13, 2000. After giving effect to these prepayments, aggregate maturities of long-term debt thereafter will be as follows: 2000—$2.4 million; 2001—$3.7 million; 2002—$3.7 million; 2003—$1.1 million; and 2004—$1.4 million.

Credit Facility

On July 2, 1998, and in connection with the Notes Offering (defined below) and the Washington Acquisition, the Company entered into a senior credit facility ("Senior Credit Facility") in the amount of $500 million. The Senior Credit Facility was comprised of term loan facilities aggregating $200 million (the "Tranche A Term Loans" and the "Tranche B Term Loan"), and a $300 million revolving credit and letter of credit facility ("Revolver"). In January 1999, the final $50 million under the Tranche A Term Loans was borrowed and used to reduce borrowings under the Revolver. In April 1999, the Company reduced commitments under the Revolver from $300 million to $175 million, reducing commitment fees. The Company used a portion of the proceeds from the sale of its exploration and production operations (see Note D) to prepay all of the remaining $79.8 million in Tranche A Term Loans and reduce the Tranche B Term Loan by $17.6 million in December 1999. At year-end, the Company had outstanding borrowings of $80.9 million under the Tranche B Term Loan and no borrowings under the Revolver. Subsequent to year-end 1999, the Company concluded that available cash was not required for other corporate purposes, and on March 13, 2000, the Company prepaid the remaining $80.9 million balance on the Tranche B Term Loan. Based on current needs, the remaining capacity of $175 million under the Revolver, together with internally-generated cash flows and existing cash, is expected to be sufficient to fund capital expenditures and working capital requirements. Outstanding letters of credit totaled $3.4 million and unused availability under the Senior Credit Facility was approximately $171.6 million at December 31, 1999.

The Revolver, which terminates on July 2, 2001, bears interest, at the Company's election, at either the Base Rate (as defined in the Senior Credit Facility) plus a margin ranging from 0.00% to 0.625% or the Eurodollar Rate (as defined in the Senior Credit Facility) plus a margin ranging from 1.125% to 2.125%. At December 31, 1999, the interest rate on borrowings under the Senior Credit Facility was 9.0%.

The Senior Credit Facility requires the Company to maintain specified levels of consolidated leverage and interest coverage and contains other covenants and restrictions customary in credit arrangements of this kind. The Company was in compliance with these covenants at December 31, 1999. The terms of the Senior Credit Facility allow for payment of cash dividends on the Company's Common Stock not to exceed an aggregate of $10 million in any year and also allow for payment of required dividends on its 7.25% Mandatorily Convertible Preferred Stock. The Senior Credit Facility is guaranteed by substantially all of the Company's active direct and indirect subsidiaries ("Guarantors") and is secured by substantially all of the domestic assets of the Company and each of the Guarantors.

In conjunction with closing the Hawaii Acquisition (see Note E) in May 1998, Tesoro refinanced substantially all of its then-existing indebtedness and recorded an extraordinary loss on early extinguishment of debt of $7.0 million pretax ($4.4 million aftertax, or $0.15 per basic and diluted share) for the refinancing during the second quarter of 1998.

Senior Subordinated Notes

On July 2, 1998, concurrently with the syndication of the Senior Credit Facility, the Company issued $300 million aggregate principal amount of 9% senior subordinated notes due 2008 through a private offering ("Notes Offering"). Each $1,000 principal amount of its unregistered and outstanding senior subordinated notes due 2008 was exchanged for $1,000 principal amount of the Company's registered 9% Senior Subordinated Notes due 2008, Series B ("Senior Subordinated Notes") in September 1998. The Senior Subordinated Notes have a ten-year maturity without sinking fund requirements and are subject to optional redemption by the Company after five years at declining premiums. The indenture ("Indenture") for the Senior Subordinated Notes contains covenants and restrictions which are customary for notes of this nature. The restrictions under the Indenture are less restrictive than those in the Senior Credit Facility. To the extent the Company's fixed charge coverage ratio, as defined in the Indenture, allows for the incurrence of additional indebtedness, the Company will be allowed to pay cash dividends on Common Stock and repurchase shares of Common Stock. The effective interest rate on the Senior Subordinated Notes is 9.16%, after giving effect to the discount at the date of issue.

Common Stock and Preferred Stock

In May 1998, the Company filed a universal shelf registration statement ("Shelf Registration") for $600 million of debt or equity securities for acquisitions or general corporate purposes. The Company offered Premium Income Equity Securities ("PIES") and Common Stock (collectively, the "Equity Offerings" and together with the Notes Offering, the "Offerings") from the Shelf Registration to provide partial funding for the Acquisitions discussed in Note E. In July 1998, the Company issued 10,350,000 PIES, representing fractional interests in the Company's 7.25% Mandatorily Convertible Preferred Stock ("Preferred Stock"), with gross proceeds of approximately $165 million, and 5,750,000 shares of Common Stock, with gross proceeds of $91.6 million. Holders of PIES are entitled to receive a cash dividend. The PIES will automatically convert into shares of Common Stock on July 1, 2001, at a rate based upon a formula dependent upon the market price of Common Stock. Before July 1, 2001, each PIES is convertible, at the option of the holder thereof, into 0.8455 shares of Common Stock, subject to adjustment in certain events, such as Common Stock splits and stock dividends.

In February 2000, the Company's Board of Directors authorized the repurchase of up to 3 million shares of Tesoro Common Stock, which represents approximately 9% of the 32.4 million shares then outstanding. Under the program, the Company will repurchase Tesoro Common Stock from time to time in the open market and through privately negotiated transactions. Purchases will depend on price, market conditions and other factors and will be made primarily from internally-generated cash flow. The stock may be used to meet employee benefit plan requirements and other corporate purposes. Under a similar program, in 1997 the Company repurchased 236,800 shares of Common Stock for approximately $3.7 million.

For information relating to stock-based compensation and Common Stock reserved for exercise of options and conversion of Preferred Stock, see Note L.

BHP Note

In connection with the Hawaii acquisition (Note E), Tesoro issued an unsecured, non-interest bearing, promissory note ("BHP Note") for the purchase in the amount of $50 million, payable in five equal annual installments of $10 million each, beginning in 2009. The BHP Note provided for early payments based on earnings from the Hawaii Acquisition, as specified in the BHP Note. Based on 1998 earnings from the Hawaii Acquisition, an early principal payment of $3.6 million was made on the BHP Note in 1999. The present value of the BHP Note, discounted at 10% and including the effect of the early principal payment, was recorded as part of the purchase price of the Hawaii Acquisition. The carrying value of the note, approximately $24 million at December 31, 1999, approximated its estimated present value and was paid to BHP on March 1, 2000, in complete satisfaction of the BHP Note.

Department of Energy

A Consent Order entered into by the Company with the Department of Energy ("DOE") in 1989 settled all issues relating to the Company's compliance with federal petroleum price and allocation regulations from 1973 through decontrol in 1981. At December 31, 1999, the Company's remaining obligation is to pay the DOE $6.6 million, plus interest at 6%, over the next three years.

Capital Leases

Capital leases are primarily for tugs and barges used in transportation of petroleum products within Hawaii. At December 31, 1999 and 1998, the cost of capital leases included in fixed assets was $10.4 million gross (accumulated amortization of $2.0 million and $9.3 million gross (accumulated amortization of $0.9 million), respectively. Capital lease obligations included in long-term debt totaled $8.7 million and $9.8 million at December 31, 1999 and 1998, respectively.

Note M: Commitments and Contingencies

Operating Leases

The Company has various noncancellable operating leases related to buildings, equipment, property and other facilities. These long-term leases have remaining primary terms generally up to ten years, with terms of certain rights-of-way extending up to 31 years, and generally contain multiple renewal options. Future minimum annual lease payments as of December 31, 1999, for operating leases having initial or remaining noncancellable lease terms in excess of one year, excluding marine charters, were as follows (in millions):

2000	$ 15.9
2001	14.8
2002	13.5
2003	13.4
2004	13.2
Remainder	141.8
Total Minimum Lease Payments	$212.6

In addition to the long-term lease commitments above, the Company charters two double-bottomed vessels, the Chesapeake Trader and the Potomac Trader, to transport crude oil and refined products. The Chesapeake Trader and the Potomac Trader are chartered under five-year agreements expiring in May 2000 and September 2000, respectively. At December 31, 1999, future minimum lease payments remaining for these two vessels totaled approximately $17 million through their term expirations in 2000. The Company also enters into various month-to-month and other short-term rentals of vessels to transport refined products from the Company's refineries to markets. Total marine charter expense was $37 million in 1999 and $34 million in each of 1998 and 1997. During 1999, the Company received $4.5 million in revenues from the sub-charter of vessels to third parties.

In 1999, the Company entered into a charter for a double-hull tanker to be used for transporting crude oil and refined products which will replace the Chesapeake Trader. Under the terms of the new charter, Tesoro will receive one of the new Lightship Class tankers. The new charter, which has a three-year primary term beginning in May 2000 and two one-year options, will require minimum annual lease payments of approximately $10 million, saving the Company approximately $6 million annually. At December 31, 1999, total future minimum annual payments (which include operating costs) for long-term marine charters totaled $23 million in 2000, $10 million in 2001, $10 million in 2002 and $3 million in 2003, reflecting the replacement of the Chesapeake Trader in May 2000 and the term expiration of the Potomac Trader in September 2000. The Company also leases tugs and barges for its Hawaii operations under capital leases (see Note F) whereby the Company pays operating costs, such as personnel, repairs, maintenance and drydocking costs, estimated to total $8 million in 2000.

Total rental expense for short-term and long-term leases, excluding marine charters, amounted to approximately $27 million, $20 million and $11 million for 1999, 1998 and 1997, respectively.

In January 2000, the Company entered into an agreement with Wal-Mart Stores, Inc., in which Wal-Mart has agreed to offer no less than 40 sites at Wal-Mart stores in eleven states in the western U.S. at which the Company can build and operate retail gasoline stations. Under the agreement, each site will be subject to a lease with a ten-year primary term and an option, exercisable at the Company's discretion, to extend a site for two additional terms of five years each. On March 2, 2000, the Company accepted the first 14 sites offered by Wal-Mart. The minimum annual lease commitments for these 14 sites is approximately $0.3 million, and the total commitment is approximately $3 million over the initial ten-year term.

Other Commitments

Under an agreement with the State of Alaska reached in June 1998, the State released the Company from all payment obligations and all mortgages, liens and security interests in connection with a 1993 agreement settling a contract dispute with the State. The Company is obligated to pay the State of Alaska a throughput charge of $0.32 per barrel in 2000 and $0.33 per barrel in 2001 with respect to barrels of feedstock processed at the Alaska refinery which exceed 50,000 barrels per day on a monthly basis, subject to available credits (as defined in the agreement). No payments were required in 1999.

Environmental and Other

The Company is a party to various litigation and contingent loss situations, including environmental matters, arising in the ordinary course of business. The Company has made accruals in accordance with SFAS No. 5, "Accounting for Contingencies," in order to provide for these matters. The ultimate effects of these matters cannot be predicted with certainty, and related accruals are based on management's best estimates, subject to future developments. Although the resolution of certain of these matters could have a material adverse impact on interim or annual results of operations, the Company believes that the outcome of these matters will not result in a material adverse effect on its liquidity or consolidated financial position.

The Company is subject to extensive federal, state and local environmental laws and regulations. These laws, which change frequently, regulate the discharge of materials into the environment and may require the Company to remove or mitigate the environmental effects of the disposal or release of petroleum or chemical substances at various sites or install additional controls or other modifications or changes in use for certain emission sources.

The Company is currently involved with the Environmental Protection Agency ("EPA") regarding a waste disposal site near Abbeville, Louisiana. The Company has been named a potentially responsible party ("PRP") under the Federal Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA" or "Superfund") at this location. Although the Superfund law might impose joint and several liability upon each party at the site, the extent of the Company's allocated financial contribution for cleanup is expected to be de minimis based upon the number of companies, volumes of waste involved and total estimated costs to close the site. The Company believes, based on these considerations and discussions with the EPA, that its liability at the Abbeville site will not exceed $25,000.

In connection with the Hawaii Acquisition discussed in Note E, affiliates of BHP and the Company executed a separate environmental agreement, whereby the BHP affiliates indemnified the Company for environmental costs arising out of conditions which existed at or prior to closing. This indemnification, which is in effect until 2008, is subject to a maximum limit of $9.5 million ($8.2 million remaining as of December 31, 1999). Under the environmental agreement, the first $5.0 million of these liabilities will be the responsibility of the BHP affiliates and the next $6.0 million will be shared on the basis of 75% by the BHP affiliates and 25% by the Company. Certain environmental claims arising out of prior operations will not be subject to the $9.5 million limit or the ten-year time limit. The indemnity obligation of the BHP affiliates are guaranteed by BHP

Under the agreement related to the Washington Acquisition discussed in Note E, an affiliate of Shell generally agreed to indemnify the Company for environmental liabilities at the Washington Refinery arising out of conditions which existed at or prior to the closing date and identified by the Company prior to August 1, 2001. The Company is responsible for environmental costs up to the first $0.5 million each year, after which the Shell affiliate will be responsible for annual environmental costs up to $1.0 million. Annual costs greater than $1.0 million will be shared equally between the Company and the Shell affiliate, subject to an aggregate maximum of $5.0 million and a ten-year term. The indemnity obligation of Shell's affiliate is guaranteed by Shell.

The Company is also involved in remedial responses and has incurred cleanup expenditures associated with environmental matters at a number of sites, including certain of its own properties. At December 31, 1999, the Company's accruals for environmental expenses totaled $13.6 million. Based on currently available information, including the participation of other parties or former owners in remediation actions, the Company believes these accruals are adequate.

To comply with environmental laws and regulations, the Company anticipates that it will make capital improvements of approximately $8 million in 2000 and $10 million in 2001. The Company is currently evaluating certain proposed revisions to the Clean Air Act regulations which would require a reduction in the sulfur content in gasoline fuel manufactured at its refineries. The Company expects that it will make capital improvements to certain equipment at its Washington Refinery to meet the revised gasoline standard. Additional proposed changes to the Clean Air Act regulations may include new emission controls at certain processing units at each of the Company's refineries. The Company anticipates that the revisions to the Clean Air Act will become effective over the next three to five years and that, based on known current technology, it could spend approximately $25 million to $30 million to comply with these proposed revisions.

Conditions that require additional expenditures may exist for various Company sites, including, but not limited to, the Company's refineries, retail gasoline stations (operating and closed locations) and petroleum product terminals, and for compliance with the Clean Air Act and other state and federal regulations. The amount of such future expenditures cannot currently be determined by the Company.

On October 1, 1998, the Attorney General for the State of Hawaii filed a lawsuit in the U.S. District Court for the District of Hawaii ("Court") against thirteen oil companies, including Tesoro Petroleum Corporation and Tesoro Hawaii Corporation, alleging anti-competitive marketing practices in violation of federal and state anti-trust laws, and seeking injunctive relief and compensatory and treble damages and civil penalties against all defendants in an amount in excess of $500 million. On March 25, 1999, the Attorney General filed an amended complaint with the U.S. District Court seeking damages against all defendants for such alleged anti-competitive marketing practices in an amount in excess of $1.5 billion. On January 28, 2000, the U.S. District Court for the District of Hawaii approved a Settlement Agreement and Mutual Release ("Settlement Agreement") reached between Tesoro Hawaii Corporation, the Company, BHP Hawaii Inc. and BHP Petroleum Americas Refining Inc. (the "Settling Defendants") and the State of Hawaii which dismissed the Settling Defendants from the lawsuit. Pursuant to the Settlement Agreement, the Company and Tesoro Hawaii Corporation, without admitting any liability for claims alleged in the lawsuit, paid $3 million (which was provided for in third quarter of 1999) on March 1, 2000 to the Court in complete settlement of the lawsuit.

REPORTS OF AUDIT COMMITTEE AND MANAGEMENT

7.64 Occasionally, survey companies presented a Report of An Audit Committee, and 332 survey companies presented a Report of Management. Examples of such reports follow.

Reports of Audit Committee

7.65

ALCOA INC.

AUDIT COMMITTEE REPORT

The Audit Committee of the Board of Directors, which is composed of five independent directors, met four times in 1999. In addition, the chairman of this committee met with management and the independent accountants prior to the announcement of quarterly earnings in April, July and October.

The Audit Committee oversees Alcoa's financial reporting process on behalf of the Board of Directors. In fulfilling its responsibility, the committee recommended to the Board the reappointment of PricewaterhouseCoopers LLP as the Company's independent public accountants. The Audit Committee reviewed with the Vice President–Environment, Health and Safety, Audit and Compliance and the independent accountants the overall scope and specific plans for their respective audits. The committee reviewed with management Alcoa's annual and quarterly reporting process, and the adequacy of the Company's internal controls. Without management present, the committee met separately with the Vice President–Environment, Health and Safety, Audit and Compliance and the independent accountants to review the results of their examinations, their evaluations of the Company's internal controls, and the overall quality of Alcoa's financial reporting.

Chairman, Audit Committee

7.66

BAUSCH & LOMB INCORPORATED

REPORT OF THE AUDIT COMMITTEE

The audit committee of the board of directors, which held three meetings during 1999, is composed of five outside directors. The chair of the committee is Alvin W. Trivelpiece, Ph.D. The other members are Franklin E. Agnew, Domenico De Sole, Ruth R. McMullin and Linda Johnson Rice.

The audit committee meets with the independent accountants, management and the internal auditors to provide reasonable assurance that management fulfills its responsibilities in the preparation of the financial statements and in the maintenance of an effective system of internal controls. The audit committee reviews the performance and fees of the independent accountants, recommends their appointment and meets with them and the internal auditors, with and without management present, to discuss the scope and results of their audit work. Both the independent accountants and the internal auditors have full access to the audit committee.

Chair, Audit Committee

Reports of Management

7.67

AMERICAN GREETINGS CORPORATION

MANAGEMENT REPORT

The management of American Greetings Corporation 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. 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 Corporation's financial statements have been audited by Ernst & Young LLP, independent auditors. Management has made available to Ernst & Young LLP all of the Corporation'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 Corporation maintains a system of internal accounting controls designed to provide reasonable assurance that the books and records properly reflect the transactions of the Corporation, and that assets are safeguarded against unauthorized acquisition, use or disposition. The design, monitoring and revision of internal accounting control systems involve, among other things, management's judgments with respect to the relative cost and expected benefits of specific control measures. The Corporation maintains a staff of internal auditors who review and evaluate both internal accounting and operating controls. The internal audit staff also coordinates with Ernst & Young LLP the latter's annual audit of the Corporation's financial statements.

The Audit Committee of the Board of Directors, which is composed of directors who are not employees, meets periodically with management, the independent auditors and the internal auditors to ensure that each is carrying out its responsibilities. Both independent and internal auditors have full and free access to the Committee.

In recognition of the fact that quality people are the basis for a sound system of internal accounting controls, the Corporation maintains high standards in the selection and development of personnel.

Chief Executive Officer

Chief Financial Officer

Chief Accounting Officer

7.68

AMERICAN STANDARD COMPANIES INC.

MANAGEMENT'S REPORT ON FINANCIAL STATEMENTS

The accompanying consolidated balance sheet at December 31, 1999 and 1998, and related consolidated statements of operations, stockholders' deficit and cash flows for the years ended December 31, 1999, 1998 and 1997, have been prepared in conformity with generally accepted accounting principles, and the Company believes the statements set forth a fair presentation of financial condition and results of operations. The Company believes that the accounting systems and related controls which it maintains are sufficient to provide reasonable assurance that the financial records are reliable for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance is based on the recognition that the cost of a system of internal control must be related to the benefits derived and that the balancing of those factors requires estimates and judgment. Reporting on the financial affairs of the Company is the responsibility of its principal officers, subject to audit by independent auditors who are engaged to express an opinion on the Company's financial statements. The Board of Directors has an Audit Committee of outside Directors which meets periodically with the Company's financial officers, internal auditors and the independent auditors and monitors the accounting affairs of the Company.

Chairman and Chief Executive Officer

Senior Vice President and Chief Financial Officer

Vice President and Controller

7.69

IKON OFFICE SOLUTIONS, INC.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The management of IKON Office Solutions, Inc. is responsible for the preparation and presentation of the financial statements and related financial information included in this annual report. The financial statements include amounts that are based on management's best estimates and judgments. These statements have been prepared in conformity with generally accepted accounting principles consistently applied and have been audited by Ernst & Young LLP, independent auditors.

Management is also responsible for maintaining systems of internal accounting controls that are designed to provide reasonable assurance as to the integrity of the financial records and the protection of corporate assets. IKON Office Solutions, Inc. supports and manages an active program of auditing to monitor the proper functioning of its systems. The reports issued under this program, as well as comment letters from Ernst & Young LLP, are reviewed regularly by the Audit Committee of the Board of Directors, which is composed of five directors who are not employees of the Company. The Audit Committee meets periodically with Ernst & Young LLP and management to review audit scope, timing and results.

President and Chief Executive Officer

Senior Vice President and Chief Financial Officer

Appendix of 600 Companies

List of 600 Companies on Which Tabulations Are Based

In this edition, companies have been assigned the same number as in the Fifty-third (1999) edition. 38 companies in the 1999 edition have been eliminated and their numbers left unused. These 38 companies were replaced by 1 company included in a prior edition but not the 1999 edition, and 37 companies not previously included in any prior editions. Companies numbered out of alphabetical order are shown in *italics* and have been given an additional listing in alphabetical order in **bold**.

Company Number (CN)		Month in which fiscal year ends*
	3Com Corporation—*see CN 951*	
6	*AMETEK, Inc.*	12
10	Abbott Laboratories	12
	ABM Industries Incorporated—*see CN 30*	
	Acme Metals Incorporated—*see CN 651*	
	ADC Telecommunications, Inc.—*see CN 921*	
	Adolph Coors Company—*see CN 147*	
	Advanced Micro Devices, Inc.—*see CN 652*	
	ADVO, Inc.—*see CN 861*	
	AGCO Corporation—*see CN 862*	
	Agway Inc.—*see CN 952*	
16	Air Products and Chemicals, Inc.	9
	AK Steel Holding Corporation—*see CN 56*	
	Alberto-Culver Company—*see CN 601*	
17	Albertson's, Inc.	1
18	*IKON Office Solutions, Inc.*	9
20	*Honeywell International Inc..*	12
	Alcoa Inc.—*see CN 24*	
	Allegheny Technologies incorporated—*see CN 776*	
	Allen Telecom Inc.—*see CN 602*	
	Allergan, Inc.—*see CN 796*	
	Alliant Techsystems Inc.—*see CN 777*	
	Allied Waste Industries, Inc.—*see CN 922*	
23	Alpha Industries, Inc.	3
24	*Alcoa Inc.*	12
	Amazon.com, Inc.—*see CN 953*	
25	Amcast Industrial Corporation	8
26	Amerada Hess Corporation	12
	America Online, inc.—*see CN 923*	
28	American Biltrite Inc.	12
29	*Fortune Brands, Inc.*	12
30	*ABM Industries Incorporated*	10
33	American Greetings Corporation	2
35	American Home Products Corporation	12
41	American Standard Companies Inc.	12
43	*AT&T Corp.*	12
44	Ameron International Corporation	11
	AMETEK, Inc.—*see CN 6*	
	Amgen Inc.—*see CN 841*	
	Amkor Technology, Inc.—*see CN 954*	
46	Ampco-Pittsburgh Corporation	12
	Amphenol Corporation—*see CN 842*	
	Anacomp, Inc.—*see CN 696*	
	Analog Devices, Inc.—*see CN 924*	
48	Analogic Corporation	7
51	Anheuser-Busch Companies, Inc.	12
	A.O. Smith Corporation—*see CN 494*	
52	Apple Computer, Inc.	9
	Applied Industrial Technologies, Inc.—*see CN 955*	
	Applied Materials, Inc.—*see CN 863*	
53	Archer Daniels Midland Company	6
54	Arden Group, Inc.	12
56	*AK Steel Holding Corporation*	12
57	Armstrong World Industries, Inc.	12
	Arrow Electronics, Inc.—*see CN 844*	
59	Arvin Industries, Inc.	12
60	Ashland Inc.	9
	AT&T Corp.—*see CN 43*	
64	Atlantic Richfield Company	12
	Atmel Corporation—*see CN 864*	
	Ault Incorporated—*see CN 738*	
	Automatic Data Processing, Inc.—*see CN 865*	
	Avery Dennison Corporation—*see CN 604*	
65	Avnet, Inc.	6
66	Avon Products, Inc.	12
67	*BMC Industries, Inc.*	12
68	Badger Meter, Inc.	12
70	Baker Hughes Incorporated	12
	Baldor Electric Company—*see CN 778*	
71	Ball Corporation	12
	Banta Corporation—*see CN 806*	
	Barnes Group Inc.—*see CN 605*	
	Bassett Furniture Industries, Incorporated—*see CN 606*	
74	Bausch & Lomb Incorporated	12
75	Baxter International Inc.	12
	B/E Aerospace, Inc.—*see CN 866*	
	Beckman Coulter, Inc.—*see 846*	
78	Becton, Dickinson and Company	9
	Bed Bath & Beyond Inc.—*see CN 956*	
	Bell Atlantic Corporation—*see CN 957*	
	BellSouth Corporation—*see CN 958*	
81	Bemis Company, Inc.	12
	Bestfoods—*see CN 106*	
83	Bethlehem Steel Corporation	12
	The BFGoodrich Company—*see CN 248*	
	BJ Services Company—*see CN 896*	

Company Number (CN)		Month in which fiscal year ends*
85	The Black & Decker Corporation	12
	Blount International, Inc.—*see CN 699*	
	BMC Industries, Inc.—*see CN 67*	
87	The Boeing Company	12
88	Boise Cascade Corporation	12
90	*Burns International Services Corporation*	12
	Boston Scientific Corporation—*see CN 867*	
	Bowater Incorporated—*see CN 607*	
91	Bowne & Co., Inc.	12
93	Briggs & Stratton Corporation	6
94	Bristol-Myers Squibb Company	12
96	Brown & Sharpe Manufacturing Company	12
97	Brown Shoe Company, Inc.	1
	Brown-Forman Corporation—*see CN 657*	
99	Brunswick Corporation	12
102	*Unisys Corporation*	12
105	*CMI Corporation*	12
106	*Bestfoods*	12
107	*CSP Inc.*	8
	Burlington Coat Factory Warehouse Corporation—*see CN 959*	
	Burlington Industries, inc.—*see CN 818*	
	Burlington Resources Inc.—*see CN 700*	
	Burns International Services Corporation—*see CN 90*	
108	Cabot Corporation	9
110	Campbell Soup Company	7
112	*Dole Food Company, Inc.*	12
	Carlisle Companies Incorporated—*see CN 897*	
	Carpenter Technology Corporation—*see CN 610*	
113	Caterpillar Inc.	12
	CBS Corporation—*see CN 583*	
	Centex Corporation—*see CN 836*	
	Ceridian Corporation—*see CN 145*	
	Champion Enterprises, Inc.—*see CN 740*	
117	Champion International Corporation	12
	Chesapeake Corporation—*see CN 659*	
121	Chevron Corporation	12
127	*Milacron Inc.*	12
	Chiquita Brands International, Inc.—*see CN 557*	
	Circuit City Stores, Inc.—*see CN 868*	
	Cisco Systems, Inc.—*see CN 869*	
	CK Witco Corporation—*see CN 926*	
	CLARCOR Inc—*see CN 658*	
130	Cleveland-Cliffs Inc	12
131	The Clorox Company	6
	CMI Corporation—*see CN 105*	
132	The Coastal Corporation	12
133	The Coca-Cola Company	12
	Coca-Cola Enterprises Inc.—*see CN 660*	
	Coherent, Inc.—*see CN 742*	
135	Colgate-Palmolive Company	12
137	Collins Industries, Inc.	10
	Columbia/HCA Healthcare Corporation—*see CN 899*	
140	Commercial Metals Company	8
	Compaq Computer Corporation—*see CN 661*	
	CompUSA Inc.—*see CN 960*	
	Computer Associates International, Inc.—*see CN 925*	
	Computer Sciences Corporation—*see CN 848*	

Company Number (CN)		Month in which fiscal year ends*
142	ConAgra, Inc.	5
144	Consolidated Papers, Inc.	12
145	*Ceridian Corporation*	12
	Cooper Cameron Corporation—*see CN 900*	
146	Cooper Industries, Inc.	12
147	*Adolph Coors Company*	12
	Cooper Tire & Rubber Company—*see CN 849*	
	Cordant Technologies Inc.—*see CN 805*	
149	Corning Incorporated	12
	Costco Wholesale Corporation—*see CN 961*	
150	Courier Corporation	9
152	Crane Co.	12
	C. R. Bard, inc.—*see CN 845*	
153	Crown Central Petroleum Corporation	12
154	Crown Cork & Seal Company, Inc.	12
	CSP Inc.—*see CN 107*	
	CTS Corporation—*see CN 701*	
157	Cummins Engine Company, Inc.	12
158	Curtiss-Wright Corporation	12
	CVS Corporation—*see CN 372*	
161	Dana Corporation	12
165	*Target Corporation*	1
	Danaher Corporation—*see CN 664*	
	Datascope Corp.—*see CN 927*	
166	Dean Foods Company	5
167	Deere & Company	10
	Del Monte Foods Company—*see CN 962*	
	Dell Computer Corporation—*see CN 963*	
168	Deluxe Corporation	12
174	*The Walt Disney Company*	9
175	*R. R. Donnelley & Sons Company*	12
	Detroit Diesel Corporation—*see CN 821*	
	Dexter Corporation—*see CN 798*	
	The Dial Corporation—*see CN 257*	
	Dillard's, Inc.—*see CN 850*	
	DIMON Incorporated—*see CN 782*	
	The Dixie Group, Inc.—*see CN 665*	
	Dole Food Company, Inc.—*see CN 112*	
	Donaldson Company, Inc.—*see CN 744*	
176	Dover Corporation	12
177	The Dow Chemical Company	12
178	Dow Jones & Company, Inc.	12
182	The Dun & Bradstreet Corporation	12
184	*E. I. du Pont de Nemours and Company*	12
187	*PerkinElmer, Inc.*	12
	The Earthgrains Company—*see CN 928*	
190	The Eastern Company	12
	Eastman Chemical Company—*see CN 871*	
191	Eastman Kodak Company	12
192	Eaton Corporation	12
	Ecolab Inc.—*see CN 617*	
	E. I. du Pont de Nemours and Company—*see CN 184*	
194	Elcor Corporation	6
	Electronic Data Systems Corporation—*see CN 964*	
	Eli Lilly and Company—*see CN 339*	
	EMCOR Group, Inc.—*see CN 901*	
195	Emerson Electric Co.	9
	Enesco Group, Inc.—*see CN 510*	

Company Number (CN)		Month in which fiscal year ends*
198	Engelhard Corporation	12
	Equifax Inc.—*see CN 902*	
	The Estee Lauder Companies Inc.—*see CN 872*	
199	Ethyl Corporation	12
	Exide Corporation—*see CN 873*	
202	Exxon Mobil Corporation	12
203	*FMC Corporation*	12
	The Fairchild Corporation—*see CN 656*	
205	Fansteel Inc.	12
	Farr Company—*see CN 705*	
206	Fedders Corporation	8
	Federal Screw Works—*see CN 747*	
208	Federal-Mogul Corporation	12
209	Federated Department Stores, Inc.	1
	Ferro Corporation—*see CN 800*	
	First Data Corporation—*see CN 851*	
212	Fleetwood Enterprises, Inc.	4
213	Fleming Companies, Inc.	12
214	Flowers Industries, Inc.	12
	Flowserve Corporation—*see CN 903*	
216	Fluor Corporation	10
	FMC Corporation—*see CN 203*	
219	Ford Motor Company	12
	Fort James Corporation—*see CN 307*	
	Fortune Brands, Inc.—*see CN 29*	
221	Foster Wheeler Corporation	12
	Freeport-McMoRan Copper & Gold Inc.—*see CN 965*	
	Fruit of the Loom, Inc.—*see CN 670*	
	Furniture Brands International, Inc.—*see CN 296*	
228	Gannett Co., Inc.	12
	Garan, Incorporated—*see CN 671*	
	Gateway, Inc.—*see CN 874*	
230	GenCorp Inc.	11
231	*Harcourt General, Inc.*	10
232	General Dynamics Corporation	12
233	General Electric Company	12
237	General Mills, Inc.	5
238	General Motors Corporation	12
	Geneva Steel Company—*see CN 875*	
242	Genuine Parts Company	12
	The Geon Company—*see CN 966*	
	Georgia Gulf Corporation—*see CN 748*	
243	Georgia-Pacific Corporation	12
246	The Gillette Company	12
	Global Marine Inc.—*see CN 929*	
247	Golden Enterprises, Inc.	5
248	*The BFGoodrich Company*	12
249	The Goodyear Tire & Rubber Company	12
252	*W. R. Grace & Co.*	12
253	*W.W. Grainger, Inc.*	12
254	The Great Atlantic & Pacific Tea Company, Inc.	2
256	Greif Bros. Corporation	10
257	*The Dial Corporation*	12
	Guidant Corporation—*see CN 904*	
259	Guilford Mills, Inc.	9
263	*HON INDUSTRIES Inc.*	12
264	Halliburton Company	12
266	Hampton Industries, Inc.	12
	Hannaford Bros. Co.—*see CN 877*	
	Harcourt General, Inc.—*see CN 231*	
	Harley-Davidson, Inc.—*see CN 673*	
	Harmon Industries, Inc.—*see CN 475*	
268	Harnischfeger Industries, Inc.	10
	Harrah's Entertainment, Inc.—*see CN 829*	
269	Harris Corporation	6
270	Harsco Corporation	12
271	Hartmarx Corporation	11
	Hasbro, Inc.—*see CN 623*	
	H.B. Fuller Company—*see CN 621*	
273	Hecla Mining Company	12
275	*H.J. Heinz Company*	4
276	Hercules Incorporated	12
	Herman Miller, Inc.—*see CN 377*	
277	Hershey Foods Corporation	12
278	Hewlett-Packard Company	10
	Hillenbrand Industries, Inc.—*see CN 624*	
	H.J. Heinz Company—*see CN 275*	
280	Homasote Company	12
	The Home Depot, Inc.—*see CN 905*	
	HON INDUSTRIES Inc.—*see CN 263*	
	Honeywell International Inc.—*see CN 20*	
282	Hormel Foods Corporation	10
	Hubbell Incorporated—*see CN 930*	
283	Hughes Supply, Inc.	1
285	Humana Inc.	12
286	Hunt Corporation	11
287	Hurco Companies, Inc.	10
288	*Whitman Corporation*	12
291	*ITT Industries, Inc.*	12
	IBP, inc—*see CN 751*	
	IKON Office Solutions, Inc.—*see CN 18*	
	Illinois Tool Works Inc.—*see CN 625*	
	IMC Global Inc.—*see CN 752*	
292	Ingersoll-Rand Company	12
293	*Ryerson Tull, Inc.*	12
	Ingram Micro Inc.—*see CN 906*	
295	Intel Corporation	12
296	*Furniture Brands International, Inc.*	12
	Interface, Inc.—*see CN 753*	
	Intergraph Corporation—*see CN 801*	
298	International Business Machines Corporation	12
299	*Navistar International Corporation*	10
	International Flavors & Fragrances Inc.—*see CN 627*	
301	International Multifoods Corporation	2
302	International Paper Company	12
	The Interpublic Group of Companies, Inc.—*see CN 837*	
303	Interstate Bakeries Corporation	5
305	*JLG Industries, Inc.*	7

Company Number (CN)		Month in which fiscal year ends*
307	*Fort James Corporation*	12
	Iomega Corporation—*see CN 931*	
	ITT Industries, Inc.—*see CN 291*	
	Jacobs Engineering Group Inc.—*see CN 754*	
	J. C. Penney Company, Inc.—*see CN 428*	
	JLG Industries, Inc.—*see CN 305*	
	The J.M. Smucker Company—*see CN 917*	
	Johns Manville Corporation—*see CN 357*	
308	Johnson & Johnson	12
309	Johnson Controls, Inc.	9
	Jones Apparel Group, Inc.—*see CN 878*	
312	Jostens, Inc.	12
314	*Kmart Corporation*	1
	Juno Lighting, Inc.—*see CN 712*	
	K2 Inc.—*see CN 737*	
	Kaman Corporation—*see CN 629*	
	Kaufman and Broad Home Corporation—*see CN 967*	
317	Kellogg Company	12
	Kellwood Company—*see CN 838*	
318	Kelly Services, Inc.	12
320	Kerr-McGee Corporation	12
	Kimball International, Inc.—*see CN 853*	
324	Kimberly-Clark Corporation	12
	KLA-Tencor Corporation—*see CN 932*	
	Kmart Corporation—*see CN 314*	
326	Knape & Vogt Manufacturing Company	6
327	Knight-Ridder, Inc.	12
	Kohl's Corporation—*see CN 933*	
329	The Kroger Co.	1
331	*The LTV Corporation*	12
332	LaBarge, Inc.	6
333	Laclede Steel Company	9
	Lafarge Corporation—*see CN 678*	
	Lam Research Corporation—*see CN 880*	
	The Lamson & Sessions Co.—*see CN 713*	
	Lance, Inc.—*see CN 854*	
	La-Z-Boy Incorporated—*see CN 879*	
	L. B. Foster Company—*see CN 669*	
336	Lee Enterprises, Incorporated	9
337	Leggett & Platt, Incorporated	12
339	*Eli Lilly and Company*	12
	Lexmark International Group, Inc.—*see CN 908*	
340	Litton Industries, Inc.	7
	Liz Claiborne, Inc.—*see CN 611*	
341	Lockheed Martin Corporation	12
342	Lone Star Industries, Inc.	12
	Louisiana-Pacific Corporation—*see CN 824*	
344	Lowe's Companies, Inc.	1
	The L. S. Starrett Company—*see CN 512*	
	LSI Logic Corporation—*see CN 907*	
	The LTV Corporation—*see CN 331*	
345	The Lubrizol Corporation	12
	Lucent Technologies Inc.—*see CN 968*	
	Lufkin Industries, Inc.—*see CN 714*	
348	Lynch Corporation	12

Company Number (CN)		Month in which fiscal year ends*
357	*Johns Manville Corporation*	12
	Lyondell Chemical Company—*see CN 757*	
	MagneTek, Inc.—*see CN 758*	
	M.A. Hanna Company—*see CN 672*	
	Mallinckrodt Inc.—*see CN 881*	
	Mandalay Resort Group—*see CN 898*	
	Manpower Inc.—*see CN 855*	
	Mark IV Industries, Inc.—*see CN 759*	
360	Masco Corporation	12
361	Mattel, Inc.	12
	MAXXAM Inc.—*see CN 760*	
362	The May Department Stores Company	1
363	Maytag Corporation	12
364	McCormick & Company, Incorporated	11
365	McDermott International, Inc.	3
366	McDonald's Corporation	12
368	The McGraw-Hill Companies, Inc.	12
	MCI WORLDCOM, Inc.—*see CN 969*	
369	McKesson HBOC, Inc.	3
370	The Mead Corporation	12
	Media General, Inc.—*see CN 631*	
371	Medtronic, Inc.	4
372	*CVS Corporation*	12
373	Merck & Co., Inc.	12
374	Meredith Corporation	6
	Merrimac Industries, Inc.—*see CN 882*	
375	Met-Pro Corporation	1
377	*Herman Miller, Inc.*	5
	Metro-Goldwyn-Mayer Inc.—*see CN 934*	
	Michael Foods, Inc.—*see CN 856*	
	Micron Technology, Inc.—*see CN 787*	
	Microsoft Corporation—*see CN 825*	
	Milacron Inc.—*see CN 127*	
379	Minnesota Mining and Manufacturing Company	12
	Minntech Corporation—*see CN 679*	
	Mirage Resorts, Incorporated—*see CN 935*	
	Mohawk Industries, Inc.—*see CN 857*	
	Molex Incorporated—*see CN 716*	
383	Monsanto Company	12
387	Motorola, Inc.	12
389	*PremiumWear, Inc.*	12
390	Murphy Oil Corporation	12
392	*NCR Corporation*	12
	NACCO Industries, Inc.—*see CN 403*	
	Nashua Corporation—*see CN 761*	
397	National Presto Industries, Inc.	12
398	National Semiconductor Corporation	5
399	National Service Industries, Inc.	8
	Navistar international Corporation—*see CN 299*	
	NCR Corporation—*see CN 392*	
400	The New York Times Company	12
	Newell Rubbermaid Inc.—*see CN 680*	
	Newmont Mining Corporation—*see CN 936*	
401	NIKE, Inc.	5
	Noble Affiliates, Inc.—*see CN 910*	
	Nordstrom, Inc.—*see CN 911*	
402	Nortek, Inc.	12
403	*NACCO Industries, Inc.*	12

Company Number (CN)		Month in which fiscal year ends*
405	Northrop Grumman Corporation	12
	Northwestern Steel and Wire Company—*see CN 826*	
	Novell, Inc.—*see CN 839*	
	Nucor Corporation—*see CN 633*	
408	Occidental Petroleum Corporation	12
	Office Depot, Inc.—*see CN 970*	
	OfficeMax, Inc.—*see CN 971*	
409	Ogden Corporation	12
411	Olin Corporation	12
	Omnicom Group Inc.—*see CN 682*	
	Optical Coating Laboratory, Inc.—*see CN 683*	
	Oracle Corporation—*see CN 972*	
415	Owens Corning	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
	PE Corporation—*see CN 433*	
	Peerless Mfg. Co.—*see CN 790*	
427	The Penn Traffic Company	1
428	*J. C. Penney Company, Inc.*	1
430	Pennzoil-Quaker State Company	12
	Pentair, Inc.—*see CN 684*	
	PeopleSoft, Inc.—*see CN 973*	
432	PepsiCo, Inc.	12
433	*PE Corporation*	6
	PerkinElmer, Inc.—*see CN 187*	
435	Pfizer Inc.	12
	Pharmacia & Upjohn, Inc.—*see CN 569*	
436	Phelps Dodge Corporation	12
437	Philip Morris Companies Inc.	12
438	Phillips Petroleum Company	12
	Phillips-Van Heusen Corporation—*see CN 634*	
	Photo Control Corporation—*see CN 686*	
	Pilgrim's Pride Corporation—*see CN 913*	
	Pillowtex Corporation—*see CN 938*	
441	Pitney Bowes Inc.	12
	Plasma-Therm, Inc.—*see CN 762*	
	Polaris Industries Inc.—*see CN 883*	
443	Polaroid Corporation	12
	Polo Ralph Lauren Corporation—*see CN 974*	
446	Potlatch Corporation	12
	PPG Industries, Inc.—*see CN 418*	
447	Prab, Inc.	10
	Praxair, Inc.—*see CN 828*	
	Precision Castparts Corp.—*see CN 975*	
	PremiumWear, Inc.—*see CN 389*	
	PRIMEDIA Inc.—*see CN 912*	
451	The Procter & Gamble Company	6
453	The Quaker Oats Company	12
	QUALCOMM Incorporated—*see CN 914*	
455	Quanex Corporation	10
	Quantum Corporation—*see CN 884*	
	Quebecor World (USA) Inc.—*see CN 895*	
458	Ralston Purina Company	9
461	Raytheon Company	12
	The Reader's Digest Association, Inc.—*see CN 792*	
	Reebok International Ltd.—*see CN 885*	
	Republic Group Incorporated—*see CN 718*	
	Republic Services, Inc.—*see CN 976*	
	The Reynolds and Reynolds Company—*see CN 939*	
466	Reynolds Metals Company	12
	Rite Aid Corporation—*see CN 886*	
	Robbins & Myers, Inc.—*see CN 764*	
	Robert Half International Inc.—*see CN 977*	
	Rock-Tenn Company—*see CN 915*	
469	Rockwell International Corporation	9
470	Rohm and Haas Company	12
	Rouge Industries, Inc.—*see CN 916*	
471	The Rowe Companies	11
475	*Harmon Industries, Inc.*	12
477	*SPS Technologies, Inc.*	12
	R.R. Donnelley & Sons Company—*see CN 175*	
	Ruddick Corporation—*see CN 811*	
	Russell Corporation—*see CN 832*	
	Ryerson Tull, Inc.—*see CN 293*	
	Safety-Kleen Corp.—*see CN 978*	
478	Safeway Inc.	12
	Sames Corporation—*see CN 739*	
479	Sara Lee Corporation	6
	Saucony, Inc.—*see CN 675*	
	SBC Communications Inc.—*see CN 979*	
481	Schering-Plough Corporation	12
482	Schlumberger Limited	12
	SCI Systems, Inc.—*see CN 793*	
	Science Applications International Corporation—*see CN 980*	
	Scientific Industries, Inc.—*see CN 765*	
484	Scope Industries	6
	Scott Technologies, Inc.—*see CN 706*	
	The Scotts Company—*see CN 833*	
	Seaboard Corporation—*see CN 858*	
	Seagate Technology, Inc.—*see CN 687*	
486	Sears, Roebuck and Co.	12
	Sequa Corporation—*see CN 519*	
487	Service Corporation International	12
	The ServiceMaster Company—*see CN 940*	
	Shaw Industries, Inc.—*see CN 643*	
490	The Sherwin-Williams Company	12
494	*A.O. Smith Corporation*	12
	Silicon Graphics, Inc.—*see CN 981*	
	Simpson Industries, Inc.—*see CN 689*	
	Smith International, Inc.—*see CN 941*	
	Smithfield Foods, Inc.—*see CN 690*	
	Smurfit-Stone Container Corporation—*see CN 628*	
496	Snap-on Incorporated	12
	Sodexho Marriott Services, Inc.—*see CN 982*	
	Solectron Corporation—*see CN 888*	
	Sonoco Products Company—*see CN 691*	
	Southdown, Inc.—*see CN 766*	
	Span-America Medical Systems, Inc.—*see CN 834*	

Company Number (CN)		Month in which fiscal year ends*
498	Sparton Corporation	6
499	Spectrum Control, Inc.	11
	Speizman Industries, Inc.—*see CN 721*	
502	Springs Industries, Inc.	12
	SPS Technologies, Inc.—*see CN 477*	
	SPX Corporation—*see CN 642*	
	Standard Commercial Corporation—*see CN 812*	
507	Standard Motor Products, Inc.	12
	The Standard Products Company—*see CN 722*	
509	The Standard Register Company	12
510	*Enesco Group, Inc.*	12
	Standex International Corporation—*see CN 767*	
511	The Stanley Works	12
512	*The L. S. Starrett Company*	6
519	*Sequa Corporation*	12
	Staples, Inc.—*see CN 983*	
	Starbucks Corporation—*see CN 984*	
	Steel Technologies inc.—*see CN 723*	
	Steelcase Inc.—*see CN 942*	
	Stewart & Stevenson Services, Inc.—*see CN 768*	
	Storage Technology Corporation—*see CN 804*	
	Suiza Foods Corporation—*see CN 918*	
	Sun Microsystems, inc.—*see CN 769*	
520	Sunoco, Inc	12
	Sunrise Medical Inc.—*see CN 724*	
522	SUPERVALU INC.	2
526	*TRW Inc.*	12
	Sybase, inc.—*see CN 889*	
	SYSCO Corporation—*see CN 887*	
528	Tandy Corporation	12
	Target Corporation—*see CN 165*	
529	Tasty Baking Company	12
530	Tecumseh Products Company	12
	Tektronix, Inc.—*see CN 794*	
	Tellabs, Inc.—*see CN 944*	
532	Temple-Inland Inc.	12
533	Temtex Industries, Inc.	8
534	Tenneco Automotive Inc.	12
	Teradyne, Inc.—*see CN 890*	
	Terra Industries Inc.—*see CN 676*	
535	Tesoro Petroleum Corporation	12
536	Texaco Inc.	12
	Texas Industries, Inc.—*see CN 725*	
537	Texas Instruments Incorporated	12
538	Textron Inc	12
	Thermo Electron Corporation—*see CN 813*	
	Thomas & Betts Corporation—*see CN 771*	
540	Time Warner Inc.	12
541	The Times Mirror Company	12
542	The Timken Company	12
	The TJX Companies, Inc.—*see CN 770*	
	Tokheim Corporation—*see CN 693*	
	The Toro Company—*see CN 726*	
544	Tosco Corporation	12
	Tower Automotive, Inc.—*see CN 945*	
	Toys "R" Us, Inc.—*see CN 772*	
	TransTechnology Corporation—*see CN 727*	
	TreeSource Industries, Inc.—*see CN 894*	
547	Tribune Company	12
	TRICON Global Restaurants, Inc.—*see CN 943*	
	Trinity Industries, Inc.—*see CN 646*	
	True North Communications Inc.—*see CN 946*	
	TRW Inc.—*see CN 526*	
	Tupperware Corporation—*see CN 891*	
	Twin Disc, Incorporated—*see CN 728*	
	Tyco International Ltd.—*see CN 773*	
549	Tyler Technologies, Inc.	12
550	Tyson Foods, Inc.	9
552	*USG Corporation*	12
	Ultramar Diamond Shamrock Corporation—*see CN 919*	
553	Unifi, Inc.	6
555	Union Carbide Corporation	12
557	*Chiquita Brands International, Inc.*	12
	Unisys Corporation—*see CN 102*	
558	United Foods, Inc.	2
561	*USX Corporation*	12
563	*UST Inc.*	12
564	United Technologies Corporation	12
	UnitedHealth Group Incorporated—*see CN 859*	
566	Universal Corporation	6
	Universal Foods Corporation—*see CN 814*	
	Universal Forest Products, Inc.—*see CN 949*	
568	Unocal Corporation	12
569	*Pharmacia & Upjohn, Inc.*	12
570	*VF Corporation*	12
	UNOVA, Inc.—*see CN 947*	
	U.S. Industries, Inc.—*see CN 948*	
	USA Networks, Inc.—*see CN 985*	
	USG Corporation—*see CN 552*	
	UST Inc.—*see CN 563*	
	USX Corporation—*see CN 561*	
	Valero Energy Corporation—*see CN 647*	
571	Varian Medical Systems, Inc.	9
	Venator Group, Inc.—*see CN 596*	
	VF Corporation—*see CN 570*	
	Viacom Inc.—*see CN 920*	
	Viad Corp—*see CN 893*	
	Vishay Intertechnology, Inc.—*see CN 731*	
	Vlasic Foods International Inc.—*see CN 986*	
573	Vulcan Materials Company	12
575	Walgreen Co.	8
	Wal-Mart Stores, Inc.—*see CN 648*	
	The Walt Disney Company—*see CN 174*	
579	Warner-Lambert Company	12
	The Washington Post Company—*see CN 649*	
580	Waste Management, Inc.	12
581	Wausau•Mosinee Paper Corporation	12
583	*CBS Corporation*	12
	Waxman Industries, Inc.—*see CN 732*	
	Weatherford International, Inc.—*see CN 950*	
	Weirton Steel Corporation—*see CN 835*	
	Western Digital Corporation—*see CN 733*	
	WestPoint Stevens Inc.—*see CN 840*	
584	Westvaco Corporation	10
586	Weyerhaeuser Company	12
587	*WHX Corporation*	12

Company Number (CN)		Month in which fiscal year ends*
588	Whirlpool Corporation	12
	Whitman Corporation—*see CN 288*	
	WHX Corporation—*see CN 587*	
590	Willamette Industries, Inc.	12
593	Winn-Dixie Stores, Inc.	6
594	Winnebago Industries, Inc.	8
596	*Venator Group, Inc.*	1
597	Wm. Wrigley Jr. Company	12
	Wolverine World Wide, Inc.—*see CN 734*	
	Worthington Industries, Inc.—*see CN 735*	
	W. R. Grace & Co.—*see CN 252*	
	W.W. Grainger, Inc.—*see CN 253*	
599	Xerox Corporation	12
	York International Corporation—*see CN 650*	
	Young & Rubicam Inc.—*see CN 987*	
600	Zenith Electronics Corporation	12

COMPANIES ADDED FOR 1987 EDITION

601	*Alberto-Culver Company*	9
602	*Allen Telecom Inc.*	12
604	*Avery Dennison Corporation*	12
605	*Barnes Group Inc.*	12
606	*Bassett Furniture Industries, Incorporated*	11
607	*Bowater Incorporated*	12
610	*Carpenter Technology Corporation*	6
611	*Liz Claiborne, Inc.*	12
617	*Ecolab Inc.*	12
621	*H.B. Fuller Company*	11
623	*Hasbro, Inc.*	12
624	*Hillenbrand Industries, Inc.*	11
625	*Illinois Tool Works Inc.*	12
627	*International Flavors & Fragrances Inc.*	12
628	*Smurfit-Stone Container Corporation*	12
629	*Kaman Corporation*	12
631	*Media General, Inc.*	12
633	*Nucor Corporation*	12
634	*Phillips-Van Heusen Corporation*	1
642	*SPX Corporation*	12
643	*Shaw Industries, Inc.*	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

651	*Acme Metals Incorporated*	12
652	*Advanced Micro Devices, Inc.*	12
656	*The Fairchild Corporation*	6
657	*Brown-Forman Corporation*	4
658	*CLARCOR Inc.*	11
659	*Chesapeake Corporation*	12

Company Number (CN)		Month in which fiscal year ends*
660	*Coca-Cola Enterprises Inc.*	12
661	*Compaq Computer Corporation*	12
664	*Danaher Corporation*	12
665	*The Dixie Group, Inc.*	12
669	*L. B. Foster Company*	12
670	*Fruit of the Loom, Inc.*	12
671	*Garan, Incorporated*	9
672	*M.A. Hanna Company*	12
673	*Harley-Davidson, Inc.*	12
675	*Saucony, Inc.*	12
676	*Terra Industries Inc.*	12
678	*Lafarge Corporation*	12
679	*Minntech Corporation*	3
680	*Newell Rubbermaid Inc.*	12
682	*Omnicom Group Inc.*	12
683	*Optical Coating Laboratory, Inc.*	10
684	*Pentair, Inc.*	12
686	*Photo Control Corporation*	12
687	*Seagate Technology, Inc.*	6
689	*Simpson Industries, Inc.*	12
690	*Smithfield Foods, Inc.*	4
691	*Sonoco Products Company*	12
693	*Tokheim Corporation*	11

COMPANIES ADDED FOR 1989 EDITION

696	*Anacomp, Inc.*	9
699	*Blount International, Inc.*	12
700	*Burlington Resources Inc.*	12
701	*CTS Corporation*	12
705	*Farr Company*	12
706	*Scott Technologies, Inc.*	12
712	*Juno Lighting, Inc.*	11
713	*The Lamson & Sessions Co.*	12
714	*Lufkin Industries, Inc.*	12
716	*Molex Incorporated*	6
718	*Republic Group Incorporated*	6
721	*Speizman Industries, Inc.*	6
722	*The Standard Products Company*	6
723	*Steel Technologies Inc.*	9
724	*Sunrise Medical Inc.*	6
725	*Texas Industries, Inc.*	5
726	*The Toro Company*	10
727	*TransTechnology Corporation*	3
728	*Twin Disc, Incorporated*	6
731	*Vishay Intertechnology, Inc.*	12
732	*Waxman Industries, Inc.*	6
733	*Western Digital Corporation*	6
734	*Wolverine World Wide, Inc.*	12
735	*Worthington Industries, Inc.*	5

COMPANIES ADDED FOR 1990 EDITION

737	*K2 Inc.*	12
738	*Ault Incorporated*	5

Company Number (CN)		Month in which fiscal year ends*
739	*Sames Corporation*	11
740	*Champion Enterprises, Inc.*	12
742	*Coherent, Inc.*	9
744	*Donaldson Company, Inc.*	7
747	*Federal Screw Works*	6
748	*Georgia Gulf Corporation*	12
751	*IBP, inc.*	12
752	*IMC Global Inc.*	12
753	*Interface, Inc.*	12
754	*Jacobs Engineering Group Inc.*	9
757	*Lyondell Chemical Company*	12
758	*MagneTek, Inc.*	6
759	*Mark IV Industries, Inc.*	2
760	*MAXXAM Inc.*	12
761	*Nashua Corporation*	12
762	*Plasma-Therm, Inc.*	11
764	*Robbins & Myers, Inc.*	8
765	*Scientific Industries, Inc.*	6
766	*Southdown, Inc.*	12
767	*Standex International Corporation*	6
768	*Stewart & Stevenson Services, Inc.*	1
769	*Sun Microsystems, Inc.*	6
770	*The TJX Companies, Inc.*	1
771	*Thomas & Betts Corporation*	12
772	*Toys "R" Us, Inc.*	1
773	*Tyco International Ltd.*	9

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
793	*SCI Systems, Inc.*	6
794	*Tektronix, Inc.*	5

COMPANIES ADDED FOR 1992 EDITION

796	*Allergan, Inc.*	12
798	*Dexter Corporation*	12
800	*Ferro Corporation*	12
801	*Intergraph Corporation*	12
804	*Storage Technology Corporation*	12
805	*Cordant Technologies Inc.*	12

COMPANIES ADDED FOR 1993 EDITION

806	*Banta Corporation*	12
811	*Ruddick Corporation*	9
812	*Standard Commercial Corporation*	3
813	*Thermo Electron Corporation*	12
814	*Universal Foods Corporation*	9

COMPANIES ADDED FOR 1994 EDITION

818	*Burlington Industries, Inc.*	9
821	*Detroit Diesel Corporation*	12
824	*Louisiana-Pacific Corporation*	12
825	*Microsoft Corporation*	6
826	*Northwestern Steel and Wire Company*	7
828	*Praxair, Inc.*	12
829	*Harrah's Entertainment, Inc.*	12
832	*Russell Corporation*	12
833	*The Scotts Company*	9
834	*Span-America Medical Systems, Inc.*	9
835	*Weirton Steel Corporation*	12

COMPANIES ADDED FOR 1995 EDITION

836	*Centex Corporation*	3
837	*The Interpublic Group of Companies, Inc.*	12
838	*Kellwood Company*	4
839	*Novell, Inc.*	10
840	*WestPoint Stevens Inc.*	12

COMPANIES ADDED FOR 1996 EDITION

841	*Amgen Inc.*	12
842	*Amphenol Corporation*	12
844	*Arrow Electronics, Inc.*	12
845	*C. R. Bard, Inc.*	12
846	*Beckman Coulter, Inc.*	12
848	*Computer Sciences Corporation*	3
849	*Cooper Tire & Rubber Company*	12
850	*Dillard's, Inc.*	1
851	*First Data Corporation*	12
853	*Kimball International, Inc.*	6
854	*Lance, Inc.*	12
855	*Manpower Inc.*	12
856	*Michael Foods, Inc.*	12
857	*Mohawk Industries, Inc.*	12
858	*Seaboard Corporation*	12
859	*UnitedHealth Group Incorporated*	12

COMPANIES ADDED FOR 1997 EDITION

861	*ADVO, Inc.*	9
862	*AGCO Corporation*	12

Company Number (CN)		Month in which fiscal year ends*
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 Corporation	3
874	Gateway, Inc.	12
875	Geneva Steel Company	9
877	Hannaford Bros. Co.	12
878	Jones Apparel Group, Inc.	12
879	La-Z-Boy Incorporated	4
880	Lam Research Corporation	6
881	Mallinckrodt Inc.	6
882	Merrimac Industries, Inc.	12
883	Polaris Industries Inc.	12
884	Quantum Corporation	3
885	Reebok International Ltd.	12
886	Rite Aid Corporation	2
887	SYSCO Corporation	6
888	Solectron Corporation	8
889	Sybase, Inc.	12
890	Teradyne, Inc.	12
891	Tupperware Corporation	12
893	Viad Corp.	12
894	TreeSource Industries, Inc.	4
895	Quebecor World (USA) Inc.	12

COMPANIES ADDED FOR 1998 EDITION

896	BJ Services Company	9
897	Carlisle Companies Incorporated	12
898	Mandalay Resort Group	1
899	Columbia/HCA Healthcare Corporation	12
900	Cooper Cameron Corporation	12
901	EMCOR Group, Inc.	12
902	Equifax Inc.	12
903	Flowserve Corporation	12
904	Guidant Corporation	12
905	The Home Depot, Inc.	1
906	Ingram Micro Inc.	12
907	LSI Logic Corporation	12
908	Lexmark International Group, Inc.	12
910	Noble Affiliates, Inc.	12
911	Nordstrom, Inc.	1
912	PRIMEDIA Inc.	12
913	Pilgrim's Pride Corporation	9
914	QUALCOMM Incorporated	9
915	Rock-Tenn Company	9
916	Rouge Industries, Inc.	12
917	The J.M. Smucker Company	4
918	Suiza Foods Corporation	12
919	Ultramar Diamond Shamrock Corporation	12
920	Viacom Inc.	12

Company Number (CN)		Month in which fiscal year ends*

COMPANIES ADDED FOR 1999 EDITION

921	ADC Telecommunications, Inc.	10
922	Allied Waste Industries, Inc.	12
923	America Online, Inc.	6
924	Analog Devices, Inc.	10
925	Computer Associates International, Inc.	3
926	CK Witco Corporation	12
927	Datascope Corp.	6
928	The Earthgrains Company	3
929	Global Marine Inc.	12
930	Hubbell Incorporated	12
931	Iomega Corporation	12
932	KLA-Tencor Corporation	6
933	Kohl's Corporation	1
934	Metro-Goldwyn-Mayer Inc.	12
935	Mirage Resorts, Incorporated	12
936	Newmont Mining Corporation	12
938	Pillowtex Corporation	12
939	The Reynolds and Reynolds Company	9
940	The ServiceMaster Company	12
941	Smith International, Inc.	12
942	Steelcase Inc.	2
943	TRICON Global Restaurants, Inc.	12
944	Tellabs, Inc.	12
945	Tower Automotive, Inc.	12
946	True North Communications Inc.	12
947	UNOVA, Inc.	12
948	U.S. Industries, Inc.	9
949	Universal Forest Products, Inc.	12
950	Weatherford International, Inc.	12

COMPANIES ADDED FOR 2000 EDITION

951	3Com Corporation	5
952	Agway Inc.	6
953	Amazon.com, Inc.	12
954	Amkor Technology, Inc.	12
955	Applied Industrial Technologies, Inc.	6
956	Bed Bath & Beyond Inc.	2
957	Bell Atlantic Corporation	12
958	BellSouth Corporation	12
959	Burlington Coat Factory Warehouse Corporation	5
960	CompUSA Inc.	6
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	The Geon Company	12
967	Kaufman and Broad Home Corporation	11
968	Lucent Technologies Inc.	9
969	MCI WORLDCOM, Inc.	12
970	Office Depot, Inc.	12
971	OfficeMax, Inc.	1
972	Oracle Corporation	5
973	PeopleSoft, Inc.	12

Company Number (CN)		Month in which fiscal year ends*
974	*Polo Ralph Lauren Corporation*	3
975	*Precision Castparts Corp.*	3
976	*Republic Services, Inc.*	12
977	*Robert Half International Inc.*	12
978	*Safety-Kleen Corp.*	8
979	*SBC Communications Inc.*	12
980	*Science Applications International Corporation*	1
981	*Silicon Graphics, Inc.*	6
982	*Sodexho Marriott Services, Inc.*	8
983	*Staples, Inc.*	1
984	*Starbucks Corporation*	9
985	*USA Networks, Inc.*	12
986	*Vlasic Foods International Inc.*	7
987	*Young & Rubicam Inc.*	12

Companies Included in Fifty-Third Edition Not Included in this Edition of the Survey

Company Number (CN)		Month in which fiscal year ends*
9	ASARCO Incorporated	
42	American Stores Company	
98	Browning-Ferris Industries, Inc.	
115	EKCO Group, Inc.	
124	Chock Full o'Nuts Corporation	
143	Concord Fabrics Inc.	
163	Data General Corporation	
236	General Instrument Corporation	
245	Giant Food Inc.	
281	Honeywell Inc.	
338	Aeroquip-Vickers, Inc.	
380	Mobil Corporation	
385	Morton International, Inc.	
407	Oak Industries Inc.	
413	O'Sullivan Corporation	
440	Pioneer Hi-Bred International, Inc.	
521	Sundstrand Corporation	
548	Tultex Corporation	
554	Union Camp Corporation	
574	Walbro Corporation	
577	Wang Laboratories, Inc.	
589	Whittaker Corporation	
595	Witco Corporation	
635	Premark International, Inc.	
638	Raychem Corporation	
644	Thorn Apple Valley, Inc.	
662	Cyprus Amax Minerals Company	
755	LADD Furniture, Inc.	
783	First Brands Corporation	
791	Pittway Corporation	
803	Nalco Chemical Company	
819	Central Sprinkler Corporation	
823	Furon Company	
847	Coltec Industries Inc.	
870	Durakon Industries, Inc.	
876	Gulfstream Aerospace Corporation	
909	Nine West Group Inc.	
937	PennzEnergy Company	

*Months are numbered in calendar-year sequence, January through December (e.g., January = 1 and February = 2).

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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.

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