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American Institute of Certified Public Accountants

1987 Accounting Trends & Techniques AICPA

1987
Forty-First Edition

Accounting Trends & Techniques

Annual Survey of Accounting Practices Followed in 600 Stockholders' Reports

AICPA
American Institute of Certified Public Accountants

1987

Forty-First Edition

Accounting Trends & Techniques

Forty-first annual cumulative survey of the accounting aspects of the annual reports of 600 industrial and merchandising corporations to which are added excerpts from and comments upon unusual accounting treatments found in additional reports. The reports analyzed are those with fiscal years ended not later than February 1, 1987.

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PREFACE

Accounting Trends & Techniques—1987, Forty-first Edition, is a compilation of data obtained by a survey of 600 annual reports to stockholders undertaken for the purpose of analyzing the accounting information disclosed in such reports. The annual reports surveyed were those of selected industrial and merchandising companies for fiscal periods ending between February 22, 1986 and February 1, 1987.

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

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

Each of the 600 survey companies included in this edition has been assigned an identification number which is used for reference throughout the text in the discussion of pertinent information. 550 of the companies were listed in the fortieth (1986) edition and each retained the number assigned in that edition. The other 50 companies in the 1986 edition have been eliminated. Most of the eliminated companies were eliminated because of a business combination with another company. The identification numbers of the eliminated companies have not been reused. Numbers 601 through 650 have been assigned to the replacement companies. The 600 companies in the current edition are listed in the Appendix of 600 Companies both alphabetically and by their identification number.

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

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

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Section 1: General

TABLE 1-1: INDUSTRY CLASSIFICATIONS

	1986	1985	1984	1983
Foods:				
Meat products	8	7	8	8
Dairy Products	3	4	4	5
Canning, etc.	4	4	4	5
Packaged and bulk	17	18	17	18
Baking	3	4	4	3
Sugar, confections, etc.	4	4	5	5
Beverages	6	6	5	6
Tobacco products	5	5	5	5
Textiles	25	22	24	25
Paper products	22	20	18	18
Printing, publishing	20	17	16	15
Chemicals	25	25	25	26
Drugs, cosmetics, etc.	30	27	29	27
Petroleum	28	29	30	31
Rubber products, etc.	11	9	10	8
Shoes—manufacturing, merchandising, etc.	7	8	8	7
Building:				
Cement	4	3	2	3
Roofing, wallboard	10	11	11	11
Heating, plumbing	3	3	3	4
Other	19	18	19	17
Steel and Iron	17	16	16	16
Metal—nonferrous	16	17	16	16
Metal fabricating	19	18	18	18
Machinery, equipment and supplies	36	38	39	39
Electrical equipment, appliances	19	20	19	19
Electrical, electronic equipment	31	31	30	29
Business equipment and supplies	20	20	17	18
Containers—metal, glass, etc.	8	11	9	9
Autos and trucks (including parts, accessories)	27	25	22	22
Aircraft and equipment, aerospace	12	10	13	13
Railway equipment, shipbuilding, etc.	6	6	6	6
Controls, instruments, medical equipment, watches and clocks, etc.	18	18	19	17
Merchandising:				
Department stores	4	7	8	8
Mail order stores, variety stores	2	2	2	2
Grocery stores	16	17	18	20
Other	6	6	5	6
Motion pictures, broadcasting	5	6	6	5
Widely diversified, or not otherwise classified	84	88	90	90
Total Companies	**600**	**600**	**600**	**600**

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

COMPANIES SELECTED FOR SURVEY

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

TABLE 1-2: REVENUE OF SURVEY COMPANIES

	1986	1985	1984	1983
Less than $100,000,000	49	54	63	69
Between $100,000,000 and $500,000,000	109	121	119	116
Between $500,000,000 and $1,000,000,000	122	88	88	98
Between $1,000,000,000 and $2,000,000,000	113	117	117	104
More than $2,000,000,000	207	220	213	213
Total Companies	**600**	**600**	**600**	**600**

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

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

1. Selected quarterly financial data.
2. Disagreements with accountants on accounting and financial disclosure.
3. 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.

Examples of items 1, 3, and 8 follow. Examples of segment information disclosures are presented on pages 19-33.

Quarterly Financial Data

CULBRO CORPORATION

Note 10—Quarterly Results of Operations (unaudited)

Summarized quarterly financial data are presented below.

1986 Quarter	1st	2nd	3rd	4th	Year
Net sales and other revenue	$253,397	$285,108	$267,060	$225,535	$1,031,100
Gross profit	36,329	42,700	38,953	35,852	153,834
Unusual item, plant consolidation costs	—	(5,000)	—	(1,600)	(6,600)
Income from continuing operations	3,448	2,466	2,233	2,402	10,549
Gain on sale of smokeless tobacco business, net of income taxes	15,100	—	—	—	15,100
Net income	18,548	2,466	2,233	2,402	25,649
Per share data:					
Income from continuing operations	0.81	0.58	0.52	0.56	2.47
Net income	4.36	0.58	0.52	0.56	6.00
1985 Quarter	**1st**	**2nd**	**3rd**	**4th**	**Year**
Net sales and other revenue	$257,055	$279,474	$261,852	$260,498	$1,058,879
Gross profit	36,075	38,383	33,974	35,225	143,657
Income from continuing operations	1,819	1,920	2,041	2,880	8,660
Income from discontinued operation	234	940	744	954	2,872
Net income	2,053	2,860	2,785	3,834	11,532
Per share data:					
Income from continuing operations	0.43	0.46	0.48	0.68	2.05
Net income	0.49	0.68	0.66	0.90	2.73

The unusual item recognized in the second and fourth quarters of 1986, as presented above, represents the estimated costs of closing production facilities in the Corporation's consumer products segment and consolidating production into expanded or existing facilities. The 1986 fourth quarter also includes a pre-tax benefit of $577 from adoption of the new pension accounting rules. The 1986 first quarter includes approximately $2,000 of profits, before federal income taxes, from the sale of properties by the Connecticut real estate development subsidiary. Fourth quarter sales and income in 1986 exclude the Metropolitan Distribution operation which was sold on September 26. The 1985 first quarter includes pre-tax gains of approximately $1,800 from the sale of excess processing facilities; the second quarter of 1985 includes $750 from a contract price adjustment by the Connecticut real estate development subsidiary.

EATON CORPORATION (DEC)

FINANCIAL REVIEW

Quarterly Data

(Unaudited)	Quarter Ended			
	Dec. 31	Sept. 30	June 30	Mar. 31
	(in Millions Except for Per Share Amounts)			
1986				
Net sales	$1,028.3	$897.6	$1,003.3	$882.4
Gross margin	240.4	206.1	248.9	235.7
Net income (loss)	46.8	(11.8)	52.5	50.1
Per Common Share:				
Net income (loss):				
Primary	1.53	(.38)	1.61	1.52
Fully diluted	1.47	(.38)	1.55	1.46
Cash dividends paid	.40	.40	.40	.40
Market price:				
High	79⅞	72¼	75⅞	79
Low	67½	63	66⅝	63½
1985				
Net sales	$983.6	$869.1	$912.6	$909.2
Gross margin	254.3	223.2	247.7	246.1
Net income	55.2	50.2	59.6	65.9
Per Common Share:				
Net income:				
Primary	1.67	1.52	1.81	2.01
Fully diluted	1.61	1.47	1.74	1.92
Cash dividends paid	.35	.35	.35	.30
Market price:				
High	64⅞	57¼	55½	69¼
Low	52⅛	51½	49½	50½

Net loss for the third quarter of 1986 includes a provision for exiting businesses of $74.7 million, before income tax credits of $34.1 million.

In the first quarter of 1986, the Company adopted Statement of Financial Accounting Standards No. 87—Employers' Accounting for Pensions (SFAS No. 87). The effect of the adoption of SFAS No. 87 was to increase income before income taxes and net income for each of the first three quarters of 1986 by $4.5 million and $2.4 million, respectively, and to increase fourth quarter income before income taxes by $5.0 million and net income by $2.8 million.

THE INTERLAKE CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 15—Quarterly Results (Unaudited)

Previously reported amounts have been restated to present as discontinued operations the operating results of the Acme Steel Company (which was spun off during the second quarter of 1986) less costs and expenses associated with the Company's reorganization and the subsequent Spin-Off.

Quarterly results of operations for 1986 and 1985 were as follows:

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
	(in millions except per-share data)			
1986				
Net sales of continuing operations	$177.4	$187.6	$187.9	$183.1
Gross profit	44.2	47.6	44.5	50.0
Income from continuing operations	5.4	7.9	6.9	10.5
Income (loss) from discontinued operations	2.2	(.4)	—	—
Net income	7.6	7.5	6.9	10.5
Earnings (loss) per common share:				
Continuing operations	.48	.69	.61	.91
Discontinued operations	.19	(.03)	—	—
Net income	.67	.66	.61	.91
1985				
Net sales of continuing operations	$155.7	$153.1	$153.9	$172.6
Gross profit	39.0	38.7	36.7	41.2
Income from continuing operations	6.6	7.3	5.5	9.4
Income (loss) from discontinued operations	.4	.4	.1	(1.5)
Net income	7.0	7.7	5.6	7.9
Earnings (loss) per common share:				
Continuing operations	.60	.66	.49	.84
Discontinued operations	.04	.03	.01	(.14)
Net income	.64	.69	.50	.70

Liquidations of LIFO inventory quantities in the first and fourth quarters of 1986 and the first quarter of 1985 increased income from continuing operations after taxes by $.7 million, $1.5 million and $.3 million, respectively.

Income from continuing operations in the fourth quarter of 1986 was reduced by $1.3 million as a result of the retroactive elimination of investment tax credits in the Tax Reform Act of 1986.

Income from continuing operations in the fourth quarter of 1985 included a gain of $.7 million arising from the disposal of the die casting business. In addition, a favorable adjustment to a provision for restructuring certain Handling/Packaging operations in Europe increased pre-tax income in the fourth quarter of 1985 by $1.0 million plus $.4 million tax benefit.

Income from continuing operations in the first and second quarters of 1986 was reduced by $2.3 million and $.7 million, respectively, as a result of unusual items of expense in connection with Interlake's stock incentive plans (Note 5).

LONE STAR INDUSTRIES, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

27. Quarterly Financial Data (Unaudited)

Summarized quarterly financial data for 1986 and 1985 is as follows (in thousands except per-share data):

	Quarter			
1986	First	Second	Third	Fourth
Net sales	$161,252	$246,224	$248,915	$227,024
Gross profit	$ 18,893	$ 54,263	$ 50,406	$ 36,779
Net income (loss)	$ (6,342)	$ 19,079	$ 16,450	$ 88,183
Income (loss) per common share:				
Primary	$ (0.74)	$ 1.05	$ 0.89	$ 5.81
Fully Diluted	$ (0.74)	$ 1.00	$ 0.87	$ 4.93
1985				
Net sales	$160,040	$245,718	$254,964	$211,041
Gross profit	$ 17,865	$ 49,825	$ 55,333	$ 42,821
Income (loss) before extraordinary gains	$ (6,939)	$ 17,358	$ 35,181	$ 8,881
Extraordinary gains:				
Extinguishments of debt, net of income taxes	2,340	—	—	—
Utilization of tax loss carryforward by a joint venture	354	504	553	84
Net income (loss)	$ (4,245)	$ 17,862	$ 35,734	$ 8,965
Income (loss) per common share:				
Primary:				
Income (loss) before extraordinary gains	$ (0.96)	$ 0.98	$ 2.39	$ 0.32
Extraordinary gains	0.21	0.04	0.05	0.01
Net income (loss)	$ (0.75)	$ 1.02	$ 2.44	$ 0.33
Fully diluted:				
Income (loss) before extraordinary gains	$ (0.96)	$ 0.95	$ 2.11	$ 0.32
Extraordinary gains	0.21	0.03	0.03	0.01
Net income (loss)	$ (0.75)	$ 0.98	$ 2.14	$ 0.33

(1) Gross profit is after deducting depreciation expense relating to cost of sales of $44,010,000 and $43,005,000 in 1986 and 1985, respectively.

(2) Earnings per share are computed independently for each of the quarters presented. Therefore, the sum of the quarterly earnings per share in 1985 do not equal the total for the year because of the stock transactions which occurred during 1985 as described in Note 20.

(3) The effect of convertible preferred stock, convertible debentures and stock options on the fully-diluted earnings per share computation for the first quarter of 1986 and the first and fourth quarters of 1985 were anti-dilutive and, therefore, primary and fully-diluted earnings per share are equivalent.

(4) The gain on asset dispositions contributed $138,645,000 to the fourth quarter pre-tax income for 1986. The gain on asset dispositions contributed $354,000, $325,000 and $27,898,000, respectively, to the first, second and third quarters pre-tax income for 1985.

THE STANLEY WORKS

SUPPLEMENTAL FINANCIAL INFORMATION (UN-AUDITED)

Quarterly Results of Operations

(All dollar amounts in thousands, except per share figures)

	QUARTER				YEAR
	First	Second	Third	Fourth	
1986					
Net Sales	$278,276	$357,771	$350,927	$384,296	$1,371,270
Gross Profit	97,323	128,079	124,295	137,769	487,466
Selling, general and administrative expenses	66,888	84,459	84,633	89,598	325,578
Earnings from continuing operations	14,816	19,891	20,509	22,637	77,853
Earnings from discontinued operations	1,114	2	(79)	(176)	861
Net Earnings	$ 15,930	$ 19,893	$ 20,430	$ 22,461	$ 78,714
Earnings Per Share:					
Continuing operations	$.36	$.47	$.48	$.53	$1.84
Discontinued operations	.02	—	—	—	.02
Net earnings	$.38	$.47	$.48	$.53	$1.86
1985					
Net Sales	$228,121	$260,863	$246,994	$270,952	$1,006,930
Gross Profit	80,861	95,300	90,951	109,793	376,905
Selling, general and administrative expenses	56,610	60,902	57,758	65,582	240,852
Earnings from continuing operations	12,269	17,172	17,661	23,095	70,197
Earnings from discontinued operations	1,766	1,962	1,737	2,624	8,089
Net Earnings	$ 14,035	$ 19,134	$ 19,398	$ 25,719	$ 78,286
Earnings Per Share:					
Continuing operations	$.31	$.41	$.43	$.55	$1.70
Discontinued Operations	.04	.05	.04	.07	.20
Net earnings	$.35	$.46	$.47	$.62	$1.90

Notes: Previously published quarterly financial data have been restated for discontinued operations and a pooling of interests (See Notes B and C to the Consolidated Financial Statements).

Net earnings for the third quarter 1986 include a gain of approximately $2,869,000 ($.07 per share) from the sale of the Farmington, Connecticut distribution center. Net earnings for the fourth quarter 1986 include a gain of approximately $1,132,000 ($.03 per share) on the sale of land and a gain of approximately $299,000 ($.01 per share) from a liquidation of LIFO inventories. Net earnings for the fourth quarter have been reduced by $1,353,000, $.03 per share, for the reversal of Investment Tax Credit that was included in earnings in the first three quarters of 1986 but repealed by the Tax Reform Act of 1986. In the four quarters of 1986, pension expense was reduced and net earnings improved by $.02, $.02, $.02 and $.05, respectively, primarily by the adoption of FASB Statement No. 87. Net earnings for the fourth quarter 1985 include a gain of approximately $1,966,000 ($.05 per share) from a reduction in LIFO inventories.

Selected Information For Five Years

AEL INDUSTRIES, INC.

Selected Financial Data

(Dollars in thousands, except per share data)

	Fiscal Year Ended (a)				
	Feb. 28, 1986	Feb. 22, 1985	Feb. 24, 1984	Feb. 25, 1983	Feb. 26, 1982
Sales and service revenues	$104,909	$ 83,779	$64,208	$53,815	$45,791
Operating profit	6,675	4,990	5,723	3,852	1,145
Interest expense	(881)	(410)	(900)	(1,194)	(1,166)
Interest income	1,483	2,721	1,534	1,075	853
Share in net income of unconsolidated subsidiary	1,317	1,983	921	354	99
Other income (expense), net	(222)	(113)	275	(182)	(301)
	8,372	9,171	7,553	3,905	630
Provision for claim settlements	(1,783)				
	6,589	9,171	7,553	3,905	630
Income tax provision	1,850	1,817	3,158	1,668	231
Income from continuing operations before extraordinary credit	4,739	7,354	4,395	2,237	399
Extraordinary credit-benefit of net operating loss carryforwards			2,500		
Income (loss) from discontinued business, net of income taxes		36,240		(2,754)	(5,121)
Net income (loss)	$ 4,739	$ 43,594	$ 6,895	$ (517)	$ (4,722)
Net income (loss) per share (b):					
Continuing operations (c)	$ 1.01	$ 1.51	$ .69	$ .23	$ (.12)
Extraordinary credit-benefit of net operating loss carryforwards			.54		
Discontinued business		7.79		(.62)	(1.17)
Net income (loss)	$ 1.01	$ 9.30	$ 1.23	$ (.39)	$ (1.29)

	Feb. 28, 1986	Feb. 22, 1985	Feb. 24, 1984	Feb. 25, 1983	Feb. 26, 1982
Working capital	$ 33,087	$ 34,197	$21,473	$ 7,637	$12,534
Total assets	84,025	86,283	53,477	47,721	41,615
Long-term debt	8,758	6,910	3,573	5,002	5,376
Redeemable preferred stock			15,000	15,000	15,000
Shareholders' equity	55,501	50,539	8,838	1,941	3,220
Backlog	162,999	144,077	95,277	52,995	46,158

(a) Fiscal years 1985, 1984, 1983 and 1982 contain fifty-two weeks while fiscal year 1986 contains fifty-three weeks.
(b) Per share data have been adjusted for three-for-two stock splits effective July 19, 1985 and July 27, 1984.
(c) Fiscal years 1985, 1984, 1983 and 1982 include a reduction of $.07, $.26, $.27 and $.21 respectively, for preferred stock dividends.

MOTOROLA, INC.

Five Year Financial Summary

	1986	1985	1984	1983	1982
Operating Results (in millions of dollars)					
Net sales	$5,888	$5,443	$5,534	$4,328	$3,786
Manufacturing and other costs of sales	3,647	3,406	3,206	2,593	2,269
Selling, general and administrative expense	1,431	1,464	1,472	1,110	1,007
Depreciation of plant, equipment, and leased equipment	459	441	353	289	244
Net interest expense	86	87	37	27	54
Total costs and other expenses	5,623	5,398	5,068	4,019	3,574
Earnings before income taxes and extraordinary gain	265	45	466	309	212
Income taxes (benefit) provided on earnings	71	(27)	117	65	42
Cancellation of DISC taxes	—	—	(38)	—	—
Net earnings before extraordinary gain	194	72	387	244	170
Extraordinary gain	—	—	—	—	8
Net earnings	$ 194	$ 72	$ 387	$ 244	$ 178
Net earnings excluding DISC tax cancellation	$ 194	$ 72	$ 349	$ 244	$ 178
Net earnings excluding DISC tax cancellation as a percent of sales	3.3%	1.3%	6.3%	5.6%	4.5%
Per Share Data[2] (In dollars)					
Net earnings	$ 1.53	$ .61	$ 3.27	$ 2.09	$ 1.62
Net earnings excluding DISC tax cancellation	$ 1.53	$ .61	$ 2.95	$ 2.09	$ 1.62
Dividends declared	.64	.64	.61	.53	.53
Balance Sheet (In millions of dollars)					
Total assets	$4,682	$4,370	$4,194	$3,236	$2,833
Working capital	868	924	1,001	894	924
Long-term debt	334	705	531	262	369
Total debt	641	996	642	270	378
Stockholders' equity	$2,754	$2,284	$2,278	$1,948	$1,700
Other Data					
Current ratio	1.63	1.78	1.83	2.07	2.57
Return on average invested capital	6.1%	2.4%	14.5%[1]	12.2%	9.1%
Return on average stockholders' equity	7.4%	3.2%	16.4%[1]	13.5%	11.3%
Yearend employment (approximate)	94,000	90,200	99,900	88,800	78,800
Average shares outstanding (in millions)[2]	126.5	119.0	118.5	117.1	109.5

NOTES

1. Excludes cancellation of DISC taxes.
2. Years 1982 and 1983 reflect the 3-for-1 stock split in 1984.

RUSS TOGS, INC.

Five Year Selected Financial Data

(Dollars in thousands except per share amounts)

	Year Ended January 31, 1987	February 1, 1986	February 2, 1985*	January 28, 1984	January 29, 1983
For the Year					
Net sales	$ 274,332	$ 276,815	$ 273,524	$ 250,805	$ 226,108
Earnings from continuing operations	13,819	13,028	12,104	12,231	10,062
(Loss) discontinued division (net of income tax benefit):					
Operations		(1,120)	(991)	(117)	
Disposal		(922)			
NET EARNINGS	13,819	10,986	11,113	12,114	10,062
Earnings per common share:					
Continuing operations	2.68	2.47	2.28	2.31	1.89
Discontinued division:					
Operations		(.22)	(.19)	(.02)	
Disposal		(.18)			
Total	2.68	2.07	2.09	2.29	1.89
Average number of shares used in computing earnings per common share	5,041,000	5,126,000	5,121,000	5,121,000	5,121,000
Dividends per common share	.76	.76	.76	.73⅔	.66⅔
At Year End					
Working capital	88,130	80,293	75,102	69,275	63,810
Working capital ratio	3.0 to 1	2.8 to 1	2.6 to 1	2.8 to 1	3.1 to 1
Property and equipment—net	12,945	12,720	13,663	12,188	11,931
Total assets	149,007	141,259	141,677	125,704	112,866
Long-term debt	1,616	1,613	2,331	2,690	4,975
Stockholders' equity	101,690	93,535	89,753	82,940	75,020
Shares outstanding:					
Common	5,024,000	5,027,000	5,124,000	5,121,000	5,121,000
Preferred	154,000	190,000	213,000	215,000	215,000
Equity per common share**	19.01	17.09	15.86	14.52	12.97

*Year ended February 2, 1985 represents fifty-three weeks.
**After liquidation preference of Preferred Stock.

Net sales and earnings have been restated for the fiscal years ended January 28, 1984 and February 2, 1985 to exclude the operations of the division terminated in November, 1985 and to report its results under "Loss discontinued division."

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

AMERICAN STORES COMPANY

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

Results of Operations

The net earnings for the 52 weeks ended January 31, 1987 amounted to $144,528,000, or $3.79 per common share of stock. Net earnings for the 52 weeks ended February 1, 1986 amounted to $154,470,000, or $4.11 per common share of stock. Comparable 1984 net earnings were $134,529,000, or $4.01 per common share of stock. Reported net earnings for the 53 weeks ended February 2, 1985 amounted to $185,525,000, or $5.71 per common share of stock, and include after-tax nonrecurring gains from the disposition of subsidiary and divisions of $1.70 per common share of stock.

Net earnings for the year ended January 31, 1987 were negatively impacted by the elimination of the Investment Tax Credit, which contributed significantly to the increase in the effective tax rate to 52.8% in 1986 from 50.1% in 1985. The tax increase resulted in a reduction of earnings per common share of $.26 for the year. Earnings were also negatively impacted by the establishment of reserves for certain reorganization expenses of $.15 per common share.

During 1984, the Company acquired Jewel Companies, Inc. The Company also sold 33 Alpha Beta grocery stores in Arizona, 22 Alpha Beta grocery stores and support facilities in Northern California and its Rea and Derick, Inc. subsidiary, comprised of 134 drug stores. These dispositions resulted in a 1984 after-tax nonrecurring gain of $50,996,000, or $1.70 per common share of stock.

Sales for 1986 amounted to $14,021,484,000 compared to $13,889,528,000 in 1985 and $12,118,793,000 in 1984. Sales include Jewel Companies, Inc. from June 29, 1984. Sales from like stores, or stores that have been in operation for two full years, increased less than one percent in 1986 and 1985, compared to six percent in 1984. The Company operated 1,498 stores in 40 states at January 31, 1987, 1,493 stores in 40 states at February 1, 1986, and 1,487 stores in 40 states at February 2, 1985. Retail square footage at year-end amounted to 32,016,000 in 1986, 31,822,000 in 1985 and 31,681,000 in 1984.

Gross profits as a percent of sales were 24.55% in 1986, 24.07% in 1985 and 23.80% in 1984. During 1986 and 1985 the Company expanded the inventories accounted for under the LIFO (last-in, first-out) method to include new general merchandise categories. At year-end 1986, 83% of the Company's inventories were valued under the LIFO method, compared to 80% in 1985 and 61% in 1984. The pretax LIFO charge amounted to $13,516,000 in 1986, $15,962,000 in 1985 and $7,150,000 in 1984. The LIFO charge decreased earnings per common share by $.20 in 1986, $.25 in 1985 and $.13 in 1984.

Operating expenses for 1986, as a percent of sales, were 21.54% compared to 21.03% in 1985 and 20.92% in 1984. The operating expenses increase, as a percent of sales, is due primarily to the lower level of increases in sales compared to operating expense increases in such areas as labor, utilities, property taxes and others.

Operating profit for 1986 was $421,802,000 compared to operating profits of $422,538,000 in 1985 and $348,588,000 in 1984.

Net other expenses were $115,677,000 in 1986 and included interest expense of $114,179,000, interest income of $1,599,000 and other miscellaneous expense of $3,097,000. Included in other miscellaneous expense is approximately $9,800,000 for the establishment of reserves for certain reorganization expenses. The remaining items consist primarily of miscellaneous gains on sales of assets. Net other expenses in 1985 of $113,077,000 included interest expense of $128,770,000, interest income of $7,857,000 and other miscellaneous income of $7,836,000. Net other expenses in 1984 of $1,975,000 included interest expense of $111,738,000, interest income of $16,954,000, other miscellaneous income of $12,847,000 and pretax nonrecurring gains from the sales of subsidiary and divisions of $79,962,000.

Pretax earnings were relatively flat when comparing $306,125,000 in 1986 to $309,461,000 in 1985. Comparable pretax earnings for 1984 were $266,651,000 ($346,613,000 including the previously discussed nonrecurring gains). The effective income tax rates were 52.8% in 1986, 50.1% in 1985 and 44.6% in 1984. During 1986 the Tax Reform Act of 1986 was enacted into law. The immediate impact of the law was the elimination of the Investment Tax Credit retroactive to January 1, 1986. The impact of this elimination is reflected in the increase in the 1986 effective tax rate. This resulted in a reduction of earnings of $.26 per common share. The effective income tax rates were also impacted by the nondeductibility of certain purchase accounting adjustments resulting from the acquisition of Jewel Companies, Inc. The 1984 income tax rate was also affected by the nonrecurring capital gains, which were taxed at lower rates.

Liquidity and Working Capital

Working capital increased to $325,948,000 at January 31, 1987 compared to $240,441,000 at February 1, 1986, an increase of 35.6%. Working capital at February 2, 1985 amounted to $211,394,000. The increase in working capital at January 31, 1987 compared to February 1, 1986 is due to increases in operating cash, receivables and inventories (net of related accounts payable) which offset the increases in other accrued liabilities and income taxes payable. Current ratios were 1.25:1, 1.19:1 and 1.17:1 at January 31, 1987, February 1, 1986 and February 2, 1985, respectively.

In December 1986, the Company entered into an agreement with a group of commercial banks, which expires in 1993, which provides the Company with a revolving credit facility of $800,000,000. Concurrently, the company terminated an existing $300,000,000 revolving credit facility used during the year. The new facility will be used to repurchase common shares and to provide and support short-term borrowings. The Board of Directors has authorized the repurchase of up to 1.5 million common shares. The Company uses short-term borrowings to finance seasonal inventory increases and to finance new construction prior to placement of long-term debt. As a supplement to working capital, the Company has arranged for bank lines of credit in the amount of $90,000,000. At January 31, 1987 and February 1, 1986, the Company had short-term borrowings of $194,275,000 and $55,000,000, respectively, which were classified as long-term debt under these agreements. At year-end 1986, $695,725,000 was unused under the revolving credit facility and bank lines of credit.

The Company believes that the working capital, revolving credit facility and bank lines of credit are adequate to meet the presently identifiable working capital requirements.

Average short-term borrowings amounted to $135,490,000 in 1986, $21,109,000 in 1985 and $4,176,000 in 1984. The maximum short-term borrowings outstanding were $299,700,000 in 1986, $70,000,000 in 1985 and $65,000,000 in 1984. Short-term borrowing for 1985 and 1984 excluded acquisition borrowings under the revolving credit facilities, while 1986 short-term borrowings included outstanding commercial paper supported by the revolving credit facilities. Average interest rates charged to the Company on short-term borrowings were 6.45% in 1986, 8.20% in 1985 and 9.97% in 1984.

Debt to Equity

During 1986, the Company financed its real estate program and retired the remaining debt associated with the acquisition of Jewel Companies, Inc. The funds for these transactions were provided through internally generated cash, an additional $57,000,000 in fixed rate debt to commercial banks and the use of the revolving credit agreement in the form of short-term borrowings and commercial paper.

During 1985, the Company retired $150,000,000 of acquisition debt through internally generated funds and refinanced an additional $75,000,000 of the acquisition debt. The Company also retired $63,833,000 of debt assumed in the acquisition of Jewel Companies, Inc. Debt incurred in conjunction with financing new stores and related facilities amounted to $57,463,000 in 1985.

During 1984, the Company borrowed $750,000,000 under a short-term agreement with a syndicate of commercial banks to acquire approximately 71% of the outstanding common stock of Jewel Companies, Inc. In January 1985, $300,000,000 of the loan was repaid, $425,000,000 was refinanced under a long-term agreement and $25,000,000 continued to be borrowed under a short-term facility. In addition, $125,000,000 of debt was incurred to redeem the Company's $5.51 Cumulative Redeemable Preferred Stock.

As a result of the items discussed above, the ratio of long-term debt and obligations under capital leases to common shareholders' equity decreased to 1.22:1 in 1986 from 1.41:1 in 1985 and1.77:1 in 1984.

Capital Expenditures

Capital expenditures for 1986 amounted to $195,221,000 compared to $203,026,000 in 1985 and $308,120,000 in 1984.

The Company expects capital expenditures to be approximately $400,000,000 in 1987.

Inflation and Changing Prices

The impact of inflation on the Company has lessened in recent years as the rate of inflation has declined. However, inflation continues to increase costs to the Company including the cost of merchandise, labor, utilities and the cost of acquiring property, plant and equipment. As operating expenses increase, the Company, to the extent permitted by competition, recovers these increased costs by increasing sales prices over time.

The Company uses the LIFO method of accounting for the majority of its inventories. Under this method, the cost of merchandise sold reported in the financial statements approximates current costs and thus reduces the distortion in reported income due to the impact inflation has on increasing costs.

The replacement cost of property, plant and equipment is generally greater than the historical cost shown on the books of the Company as a result of inflation that has occurred over the years that the property, plant and equipment has been in service.

APPLE COMPUTER, INC.

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

The following discussion should be read in conjunction with the consolidated financial statements and notes thereto. All information is based on Apple's *fiscal* calendar.

Results of Operations

1986 Compared with 1985

This past year was a transition year for Apple.

As 1986 began, many companies, including Apple, were still experiencing the effects of an industry slowdown. In light of this, the first item on the Company's agenda called for controlling costs and improving margins. At the same time, Apple was planning its reemergence as a growth company by significantly increasing investment in new product development. In large measure, as suggested in the discussion that follows, the Company's efforts in this regard were successful. In 1986, Apple doubled previous record net income, posting earnings of $154 million or $2.39 per share, despite no growth in revenues.

Net sales in 1986 were $1,902 million, a slight decrease from $1,918 million in 1985. Bolstered by the introductions of the Macintosh 512K Enhanced, the Macintosh Plus, and the LaserWriter Plus during the year, together with momentum provided by renewed interest from third-party hardware and software developers, revenues from the sale of Macintosh family products in 1986 eclipsed Apple II family products for the first time. In general, increased unit sales volume of higher-end Macintosh computers, and market acceptance of certain peripherals introduced in late 1985 and 1986 were offset by the effects of reduced unit sales volume of lower-end Apple II computers and certain price reductions to meet competitive pressures. The Apple IIGS, which was announced in the fourth quarter of 1986, did not ship in significant volumes.

Gross margin was 53% of sales in 1986, representing an increase of 11 percentage points from the 42% registered in 1985. Much of this increase was attributable to economics arising from the June 1985 consolidation of operations, alluded to above. Also, improved financial controls that were implemented subsequently permitted reductions in average inventories and, therefore, reductions in related financial exposures. For example, inventory scrap and obsolescence expenses decreased significantly from 1985 to 1986. Other manufacturing efficiencies resulted from the Company's continuing keen interest in automated assembly techniques and improved yields. Changes in sales mix also contributed to the improvement in gross margin performance in 1986. Apple's ability to maintain margins at 1986 levels in the future may be affected by increased competition, changes in the cost of certain materials, and start-up inefficiencies associated with expected new product introductions.

Research and development expenses in 1986 increased to $128 million or 6.7% of sales, from $73 million or 3.8% of sales in 1985. The sharp rise in spending resulted from intensified system development efforts in 1986, including significant additions to Apple's engineering staff, increases in prototype materials and tooling, and the purchase of other equipment and proprietary design software to shorten product development cycles.

Marketing and distribution expenses were $477 million or 25% of sales in 1986, very closely approximating 1985 expenditure levels in the aggregate. Relative to the preceding year, in 1986 Apple close to invest proportionately more in various focused sales and marketing programs and proportionately less in advertising and merchandising, notwithstanding significant fourth quarter advertising increases related to the Apple IIGS rollout and a new television campaign. Distribution expenses were comparable in 1985 and 1986.

General and administrative expenses increased to $133 million or 7.0% of sales in 1986, from $110 million or 5.7% of sales in 1985. In 1986, Apple provided proportionately more of each sales dollar for bad debt expenses, primarily in recognition of continuing difficult business conditions in the U.S. retail channel, but also due to certain changes in strategic direction that culminated in the consolidation of the U.S. dealer network and the restructuring of certain foreign selling arrangements during the year. In addition, continued investment in the Company's internal data processing and communications capabilities contributed to the increase in general and administrative expenditures from 1985.

Interest and other income, net, was $36 million in 1986, more than double the $17 million from 1985. The improvement in 1986 resulted principally from higher interest income associated with the increase in average short-term cash investments. Favorable currency fluctuations, reflecting moderation in the strength of the dollar during 1986, further contributed to the increase.

The effective income tax rate was 50% in 1986, representing a slight increase from 49% in 1985. In part, the increase arose from Apple's receiving proportionately less benefit from certain tax credits due to the sharp rise in pretax earnings in 1986.

The impact of inflation on Apple's financial position and results of operations has been minimal.

1985 Compared with 1984

Although the Company began 1985 with record sales, the industry slowdown quickly affected Apple. As a result, 1985 earnings were reduced by a pretax charge of $37 million—management's estimate of the costs associated with the major organizational and operational restructuring of the Company in June 1985.

Net sales in 1985 were $1,918 million, an increase of $402 million or 27% over 1984. The Company's sales growth was generally attributable to increased unit volume. In 1985, Apple responded to sluggish business conditions by implementing sales incentive programs that offered price reductions on various bundled systems. Apple IIe sales increased slightly in 1985. The Macintosh and Apple IIc, which were introduced in the second and third quarters, respectively, of 1984, had a significant impact on 1985 sales. In the fourth quarter of 1985, the Company introduced a 20-megabyte hard disk for the Macintosh, and eight new products designed to technologically enhance the Apple II. These new products did not significantly affect 1985 sales.

Gross margin was 42% of sales in 1985, unchanged from 1984. In general, margin improvements afforded by manufacturing economies, including falling semiconductor prices, were offset by the aforementioned price reductions and greater provisions for excess and obsolete inventories. In addition, 1985 sales to the education market, which generally result in lower gross margins than sales through Apple's other distribution channels, increased as a percentage of total Company sales. Gross margin was 46% in the fourth quarter of 1985. The improvement was attributable to the consolidation of manufacturing operations, higher production levels, and lower material costs.

Research and development expenses in 1985 were $73 million, representing a modest increase from $71 million in 1984. As a percentage of sales, research and development expenditures decreased 0.9 percentage points to 3.8%. The decline in spending as a percentage of sales in part reflects significant expenses incurred in the first half of 1984 related to the Macintosh and Apple IIc computers, which were then under development. In addition, 1985 spending was affected by the cancelation of certain accessory product projects and the temporary interruption of work on other projects due to the significant operational changes then taking place within the Company.

Marketing and distribution expenses decreased to 25% of sales, compared with 26% in 1984. The decline in spending as a percentage of sales resulted principally from proportionately reduced spending for advertising, offset in part by increased payments to dealers for installation and training on Apple's direct sales to educational institutions. In the fourth quarter of 1985, Apple announced its intention to distribute the Macintosh personal computer almost entirely through its network of authorized dealers and to significantly improve relations with outside add-on hardware and software suppliers. These moves, designed to increase the dealer support and versatility of Apple products, did not significantly affect 1985 marketing and distribution expenses.

General and administrative expenses as a percentage of sales increased 0.3 percentage points to 5.7% in 1985.

Interest and other income, net, was $17 million in 1985, a decrease from $23 million in 1984. Interest income in 1985 was comparable to that in 1984, as the impact of higher average short-term cash investments was generally offset by declining interest rates. A litigation settlement and the sale of certain technical data contributed to other income in 1984.

The effective income tax rate increased to 49% in 1985, from 41% in 1984. This resulted principally from the effect of the 1984 reversal of deferred taxes previously provided on the accumulated earnings of the Company's Domestic International Sales Corporation in accordance with the Tax Reform Act of 1984.

Liquidity and Capital Resources

Apple relies primarily on the results of its operations to generate the cash necessary to meet its liquidity needs. In addition, Apple's liquidity is enhanced by the proceeds from the sale of common stock under the Company's stock option and employee stock purchase plans, and related tax benefits. The tax benefit recognized upon the exercise of nonqualified stock options arises because Apple receives a compensation deduction for tax reporting purposes for the difference between the option exercise prices and the fair market value of the shares at the time of exercise. In 1986 and 1985, Apple realized similar tax benefits for certain participant dispositions of shares acquired through the employee stock purchase plan.

1986 Compared with 1985

In 1986, Apple improved its strong financial condition while continuing to make significant investments in research and development and in advanced manufacturing technologies. Working capital increased $186 million or 35% from 1985. Cash and temporary cash investments increased $239 million or 71%, notwithstanding Apple's utilizing $55 million of cash in the fourth quarter of 1986 to repurchase previously outstanding common stock. Investment in new property, plant, and equipment increased 23% from 1985 to a record $67 million.

The major sources of liquidity in 1986 were $262 million from operations and $46 million from the sale of common stock to employees under Apple's stock option and employee stock purchase plans, including $9 million in related tax benefits, representing increases of $125 million, $22 million, and $3 million, respectively, from 1985.

Emphasis on inventory control in 1986 allowed the Company to significantly reduce inventory levels and improve inventory turnover. Net inventories decreased 35% to $109 million, as inventory turnover increased to 6.5 in 1986, from 5.2 in 1985. In the fourth quarter of 1986, inventory turnover reached 9.1. Patterns in accounts receivable collections were very similar from 1985 to 1986. Thus, the increase in accounts receivable from $220 million to $263 million generally reflects higher fourth quarter sales levels in 1986.

At September 26, 1986, unused sources of liquidity consisted primarily of $576 million in cash and temporary cash investments. The Company's capital resource commitments at the end of 1986 consisted principally of obligations under operating lease agreements.

1985 Compared with 1984

In 1985, working capital increased $94 million or 22% from 1984. Cash and temporary cash investments increased $222 million or 193% over this same period.

Apple's traditional sources of funds—operations and sales of common stock to employees—provided working capital of $161 million in 1985, an increase of $15 million from $146 million in 1984. In 1985, disposals of property, plant and equipment with a net book value of approximately $13 million resulted principally from the consolidation of operations. In 1984, there were no significant disposals of property, plant, and equipment.

Apple assumed a cautious posture relative to receivables and inventory management in 1985, as the industry entered a period of slow or no growth. Net accounts receivable decreased 15% to $220 million in 1985, predominantly from reduced billings. Net inventories decreased 37% to $167 million, as inventory turnover improved to 5.2 in 1985, from 4.3 in 1984. The decrease in inventories in 1985 resulted from aggressive inventory management as well as a conservative policy with respect to manufacturing build, in light of the market conditions discussed above. Further, in 1984 the Company had increased inventory to satisfy anticipated heavy holiday season demand and an unusually large back order of Apple IIe systems for education.

ATHLONE INDUSTRIES, INC.

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

The following discussion is supplemental to and should be read in conjunction with the consolidated financial statements and accompanying notes for the three years ended December 31, 1986, beginning on page 14.

Liquidity and Capital Resources

As reflected in the statements of changes in consolidated financial position on page 17, the principal source of funds during the three years ended December 31, 1986 was a public offering in 1984 of $75,000,000 principal amount of 15½% (increased to 15⅝% by amendment in early 1986) subordinated notes due June 1, 1991. The net proceeds of this offering were used by the Company, in part, to prepay $32,484,200 principal amount of 8⅝% and 14½% notes payable to an insurance company having aggregate annual maturities of $6,000,000 in 1984 through 1986, $3,992,100 in 1987 and 1988, $2,000,000 in 1989 and $1,500,000 thereafter through 1992 and to repay outstanding loans under a revolving credit agreement with banks. The balance of the net proceeds, approximately $15,000,000, was invested by the Company in preferred stocks of publicly held companies. Subsequent to this offering, the revolving credit agreement with banks was terminated and the Company entered into a new credit agreement with a bank providing for borrowings of up to $20,000,000 through December 31, 1988 repayable, at the option of the Company, over the four years ended December 31, 1992 as more fully described in note 4(b) to the consolidated financial statements. At December 31, 1986, $10,000,000 was available under this revolving credit agreement with the bank. In 1984, the Company issued industrial development bonds of $4,500,000 maturing in 1990 through 2004 for the purpose of financing certain capital expenditure projects of the specialty steel operation (Jessop Steel) which were completed in 1986.

In 1987, the Company estimates that its capital expenditures will amount to approximately $1,500,000, which is greater than actual commitments as of December 31, 1986. The expenditures are expected to be financed by internally generated funds or equipment leases and will be made largely on behalf of the Company's specialty steel operation.

Transactions involving the short-term borrowings of the Company and subsidiaries during the three years ended December 31, 1986 are discussed in note 11(b). At December 31, 1986 approximately $1,500,000 was available under short-term borrowing arrangements. The annual maturities on long-term debt for the years 1988 through 1991 are disclosed in note 4(f).

The Company's Federal income tax returns have been examined through December 31, 1983. All years through 1983 are closed except for one issue in 1983, not material in amount.

The Tax Reform Act of 1986 ("the Act") provides for, among other things, reduction in corporate income tax rates, the elimination of the investment tax credit, changes in depreciation rates and lives, and an amended alternative minimum tax. In addition, the Financial Accounting Standards Board issued an Exposure Draft ("ED") in 1986 which may result in the issuance in 1987 of a Statement of Financial Accounting Standards changing existing requirements for accounting for income taxes under Accounting Principles

Board Opinion No. 11 ("APB No. 11"). In general, APB No. 11 utilizes a deferred credit approach under which deferred taxes are provided based upon current tax rates without adjustment for changes in future tax rates whereas the ED proposes a liability approach under which recorded deferred taxes would be subsequently adjusted for changes in future tax rates.

At December 31, 1986, the Company had deferred taxes of $994,000 as shown on the consolidated balance sheet on page 15. The application of the provisions of the Act and the ED as of December 31, 1986 would not significantly affect this amount which primarily consists of state taxes rather than Federal income taxes. In 1985, the Company reversed certain previously recorded deferred income taxes of $5,847,000 in connection with the discontinuance of the Green River Steel operation. At December 31, 1986, the Company had loss carry-forwards for tax purposes of approximately $21,000,000. The deferred tax credits which were reversed will be reinstated in years subsequent to 1986, at the then current tax rates, as, and to the extent that, the tax benefits of such loss carry-forwards are realized.

Under current accounting requirements (Accounting Principles Board Opinion No. 16) nondeductible property appraisal increments arising from the acquisition of a business are recorded net of tax. The provisions of the ED would require that such appraisal increments be adjusted so that those amounts are before their tax effects and a corresponding deferred tax liability be recognized. At December 31, 1986, the Company's property, plant and equipment accounts reflect net of tax credits of approximately $3,000,000 which would be subject to such provisions.

Under the Act, the statutory Federal income tax rate is scheduled to be reduced from 46% in 1986 to 40% in 1987 and 34% thereafter. However, the investment tax credit will generally not be available for assets acquired after 1985. In addition, depreciation lives available for tax purposes will generally be longer than those utilized by the Company in 1986. These factors have not affected the Company's present capital expenditure plans but will have to be considered in formulating such plans in future years.

At December 31, 1986, the Company had unused investment tax credits of approximately $400,000. Such credits will be available for carryover to future years subject to the transitional rules of the Act.

Results of Operations 1986 vs. 1985

As shown under the Industry Segment Information table on page 10, overall net sales of the Company were down approximately 10% in 1986 from 1985. Net sales of the specialty steel segment decreased from $103,491,000 in 1985 to $97,588,000 in 1986 principally because of decreased tonnage; however, operating profit ratios were at about the same levels as in 1985. Net sales of the industrial fasteners segment amounted to $47,002,000 in 1986 compared to $54,346,000 in 1985. The decrease in sales was primarily attributable to decreased quantities and the sale in mid 1986 of the West German facility. Gross margins were adversely affected in 1986 by the weakened dollar. Operating profits of the industrial fasteners segment in 1986 included a gain of approximately $1,200,000 on the sale of the West German facility and approximately $1,270,000 on the discontinuance of a defined benefit pension plan which has been replaced by a defined contribution plan. Net sales of the consumer products group decreased from $59,428,000 in 1985 to $50,420,000 in 1986 primarily because of a weak market for women's blouses and the elimination of certain accessory products from the sporting goods line. Overall operating margins of the group, however, improved in 1986 primarily because of improved margins in the sporting goods and women's swimwear business.

Included in interest expense (net of interest income) in 1986 is approximately $3,140,000 of charges related to the discontinued Green River Steel operation, primarily accretion of deferred compensatory costs recorded in 1985 in connection with the shutdown of those operations.

in 1985 and in 1984 (in an odd lot tender offer), the Company acquired at market value 79,800 and 11,157 shares of its common stock, respectively. The effect of these transactions, after giving effect to imputed interest, net of taxes, on earnings per common share was insignificant.

1985 vs. 1984

Overall net sales and operating profits of the Company in 1985 were approximately at the same levels as in 1984. Operating profits of the specialty steel segment increased in 1985 as a result of the increase in sales of that operation from $94,169,000 in 1984 to $103,491,000 in 1985 largely because of increased tonnage. Although net sales of the industrial fasteners segment amounted to $54,346,000 in 1985 compared with $63,991,000 in 1984, gross margins improved in 1985 because of lower inventory costs; operating profits for the industrial fasteners segment include, in 1984, a gain of $1,765,000 on the sale of real estate. Net sales of the consumer products group in 1985 were approximately the same as in 1984. Operating profits of the group were lower in 1985 primarily because of softness in certain sectors of the women's swimwear and shoe trade; operating profits of the women's blouse business improved in 1985 and operating profits of the sporting goods operation were approximately the same as in 1984.

The increase in interest expense (net of interest income) in 1985 over 1984 is attributable to the public offering of subordinated notes which took place in the second quarter of 1984 as discussed above under "Liquidity and Capital Resources." The write-down of investment in stocks is applicable to preferred stocks of certain oil and gas drilling services and exploration companies whose market values were adversely affected in late 1985 because of declining oil and gas prices and related factors.

During 1985 and 1984, inventory quantities of certain of the specialty steel and industrial fasteners operations were reduced resulting in a liquidation of LIFO inventory quantities carried at lower costs prevailing in prior years as compared with the costs of the current year's purchases, the effect of which, on earnings per common share, was insignificant in both years.

AVERY INTERNATIONAL CORPORATION

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

Dollars in thousands

Results of Operations

Sales for fiscal 1986 increased 21 percent to $1,131,204 from the 1985 level of $932,669, and in 1985, 2 percent from $913,021 in 1984. The reported sales amounts were affected by a weaker U.S. dollar in 1986 compared to 1985, and a stronger U.S. dollar in 1985 compared to 1984. Excluding the impact of changes in foreign currency rates, sales increased 14 percent in 1986 and 5 percent in 1985.

The gross profit margin in 1986 was 33.1 percent, a slight decline from 33.4 percent in 1985 and 33.3 percent in 1984. Higher start-up expenses for new products and processes tended to depress margins, but these factors were largely offset by the positive impact of conversion to more effective coating and converting technology, maintenance of emphasis on selling higher-value-added products, and continued focus on cost reductions and productivity improvements in the plants.

Marketing, general and administrative expense as a percent of sales increased to 24.1 percent in 1986, compared to 23.5 percent in 1985 and 1984. Higher marketing expenses and insurance costs were primary contributors to this increase. Research and development expense of $24,257, included in marketing, general and administrative expense, increased 20.3 percent and was 2.1 percent of sales in 1986, compared with $20,166, or 2.2 percent of sales in 1985, and $17,580, or 1.9 percent of sales in 1984. The increase in research and development expense in 1986 was attributable to programs for new adhesives, release coatings and materials, and improved process technology.

Interest expense in 1986 was $13,616, or 1.2 percent of sales, compared with 1.1 percent in 1985 and 1.2 percent in 1984. The positive impact of declining interest rates in 1986 and 1985 was offset by increases in debt in 1986 and 1985 resulting from increased capital expenditures and acquisitions.

As a result of the above factors, income before taxes as a percent of sales declined to 7.8 percent in 1986, compared with 8.9 percent in 1985 and 8.6 percent in 1984.

The effective tax rate for 1986 was 44.5 percent, compared with 41.6 percent in 1985 and 39.7 percent in 1984. The increase in the tax rate in 1986 is primarily attributable to the phase-out of investment tax credits resulting from the Tax Reform Act of 1986, which had the effect of increasing the 1986 provision for taxes on income by approximately $2 million, or $.10 per share. The entire amount was recognized in the fourth quarter. The tax rate in 1984 was lower as the result of a U.K. ACT refund.

The Company expects that in future years the negative impact of the loss of investment tax credits will be more than offset by the positive impact of lower tax rates resulting from the Tax Reform Act.

Net income in 1986 was $48,634, or 4.3 percent of sales, compared with $48,261, or 5.2 percent of sales in 1985 and $47,561 or 5.2 percent of sales in 1984 due to the factors discussed above.

Net income per share increased to $2.45 in 1986, compared with $2.44 in 1985 and $2.42 in 1984. The average number of shares outstanding remained substantially unchanged during this three-year period.

Worldwide graphics materials businesses achieved higher sales and profits in 1986. United States roll operations reported significant increases in sales and profits during 1986 and 1985. Sales of U.S. specialty operations were up in both years, though income in 1986 was lower because of heavy expenditures for the new UltraLiner release liner. Decorative films operating results were below that of 1985 because of softness in the automotive industry, which led to decreased sales of Thermark brand products in 1986. In 1985, sales and income both increased from the 1984 level.

European roll operations ended 1986 with gains in sales and profits over 1985, despite high expenditures for new technology and product development and unsatisfactory manufacturing performance that adversely affected results for the first half of the year. Sales and profits of this operation also increased in 1985. Sales of specialty operations increased in 1986 and 1985; income increased in 1986 but declined in 1985.

The Specialty Tapes and Adhesives Group reported a gain in sales, though a significant reduction in profits, during 1986, following significant declines in sales and income in 1985. The principal factors were the loss of Specialty Tape (U.S.) Division's largest diaper-tape customer in 1985 and the impact of a slowdown in the electronics and industrial markets on Permacel Tape Division. A new product has been qualified by this diaper-tape customer and sales are starting to increase. An effort was launched at Permacel in 1986 to identify additional steps required for future growth and profitability. Sales of the Specialty Tape (Europe) Division were higher in both 1986 and 1985. Income increased in 1985 but declined in 1986.

Office products operations reported higher sales and profits in both 1986 and 1985, despite weakness in the office products market and significant costs related to the development, manufacture and distribution of Avery Notes. An improved product line was introduced during the third quarter of 1986, and national distribution is expected to be achieved in 1987.

The Label Group reported significant gains in sales and income of its domestic business systems operations in 1986. Income from domestic label systems operations declined over the past two years as the result of the weak manufacturing economy. Strong gains in both sales and income were reported in both 1986 and 1985 by the Group's European operations.

The Soabar Products Group reported increases in both sales and income during 1986, largely because of new Soabar brand electronic imprinting systems developed in response to the increased use of electronic imprinting methods taking place in retail markets. In 1985, sales were down slightly, but profits were also significantly higher than those reported in the prior year. Gains in 1985 were attributable primarily to increased emphasis on nonapparel, promotional graphics products.

Liquidity and Capital Resources

Cash provided by operations was $78,597 in 1986, compared with $55,925 in 1985 and $58,777 in 1984. Average working capital, excluding short-term debt, as a percent of sales was 17.5 percent in 1986, 17.2 percent in 1985 and 16.0 percent in 1984. The average number of days sales in receivables was approximately 55 in 1986, 54 in 1985 and 52 in 1984. The average inventory turnover rate was 4.8 in 1986, 4.9 in 1985 and 5.0 in 1984.

Capital expenditures were $67,219 in 1986, compared with $59,899 in 1985 and $52,489 in 1984. The increase in capital expenditures during this period is attributable primarily to investments in new process technology and increased productive capacity. Cash flow from operations continues to be sufficient to fund substantially all of the Company's capital expenditure requirements.

During 1986, total debt increased by $153,676, of which approximately $132,000 is attributable to the cost of the acquired companies and the existing debt of those companies. The remainder of the increase was for general corporate requirements. Long-term debt to total capital was 38.7 percent at November 30, 1986, compared with 21.6 percent for 1985 and 21.8 percent for 1984. Total debt to total capital was 43.5 percent at fiscal year-end 1986, compared with 26.9 percent for 1985 and 24.7 percent for 1984. The Company has more than adequate financing arrangements at competitive costs necessary to conduct its operations.

In December 1985, the Company issued $50,000 of 9⅝ percent notes due in 1995. Approximately $30,000 of the total proceeds were utilized to repay domestic variable-rate borrowings; the remainder was utilized for general corporate requirements including the financing of subsequent acquisitions. The remaining costs of the 1986 acquisitions were financed primarily with additional variable-rate borrowings. In response to this need for additional borrowings, the Company has increased its revolving credit agreement from $30,000 to $100,000 under terms and conditions equal to or more favorable than those previously obtained.

Shareholders' equity increased to $350,010 in 1986 from $314,455 in 1985 and $270,525 in 1984. The increases in 1986 and 1985 include translation gains of $15,746 and $7,678, respectively, as a result of the weakening of the U.S. dollar against European currencies. The return on average shareholders' equity was 14.5 percent in 1986, compared to 16.6 percent in 1985 and 18.6 percent in 1984. The return on average total capital was 11.8 percent in 1986, compared to 14.3 percent in 1985 and 15.4 percent in 1984.

The Company believes that, whereas costs and expenses rise with inflation, the effects will be offset by productivity improvements and by increases in prices, which generally are sufficient to absorb the impact of inflation.

Future Accounting Requirements

The Financial Accounting Standards Board issued Statement No. 87 during 1986, specifying new standards of accounting for pension plans. Various aspects of this Statement will affect the method by which the Company's pension expense is calculated. The principal change will be the adoption of the projected unit credit method of cost determination. It is anticipated that implementation of these changes in 1988 will increase pension expense, though such changes are not expected to have a significant impact on the results of operations.

During 1986, the Financial Accounting Standards Board issued an Exposure Draft on Accounting for Income Taxes. Assuming the principles set forth in the Exposure Draft are promulgated, the Company's tax provision in future years will be affected in a variety of ways, though primarily as described in the two succeeding paragraphs.

Deferred tax balances would be recalculated to reflect the tax rate in effect at the time these balances become payable. Based on the Tax Reform Act's effective rate of 34 percent as of July 1, 1987, the Company's deferred tax balances would be reduced. This could result in a reduction of 1987 income tax expense.

Effective in 1992, the Company would be required to provide deferred taxes on undistributed earnings of foreign subsidiaries and joint ventures. This could result in an increase in 1992 tax expense. However, because of the complexity of the assumptions and calculations involved, it is not possible to estimate the amount at this time.

CHRYSLER CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

Results of Operations

The U.S. and Canada combined car and truck industry continued to strengthen in 1986, increasing 3% to 17.8 million units. Chrysler's record retail car and truck sales in the U.S. and Canada resulted in an 11.9% market share in 1986. This compares to 12.2% in 1985 and 11.6% in 1984. The decrease in market share in 1986 reflects assembly plant down-time related to Chrysler's ambitious new product launch programs. These programs include the launch of the Dodge Shadow and Plymouth Sundance, the Dodge Dakota pick-up truck, the Chrysler LeBaron Coupe, the restyled Dodge Daytona and the Grand Voyager and Grand Caravan.

Despite the extensive product changeover, Chrysler was the only "Big 3" manufacturer to increase its U.S. retail car market share during the 1986 calendar year, representing the sixth consecutive annual increase in Chrysler's U.S. car market share.

Earnings before taxes and extraordinary item were $2.33 billion in 1986, including a gain on the sale of the investment in Peugeot S.A. of $144 million, compared to $2.37 billion in 1985. This decrease reflects the cost of aggressive sales incentive programs, significant expenditures for new models, higher wage and benefit costs resulting from labor agreements negotiated in the Fall of 1985 and increased interest expense, partially offset by an increase in unit sales. Earnings before taxes and extraordinary item in 1985 were lower than the record $2.43 billion in 1984, reflecting lump sum bonus payments to employees and retirees and increased sales and marketing programs in 1985, partially offset by an increase in unit sales.

Net earnings in 1986 were $1.40 billion, including a $132 million net-of-tax gain on the sale of the Peugeot S.A. investment, compared to $1.64 billion in 1985 and $2.38 billion in 1984. The decrease in net earnings since 1984 primarily reflects Chrysler's return to full taxpayer status as well as the effects of tax reform in 1986.

Chrysler's financial statements are prepared on an historical cost basis in accordance with generally accepted accounting principles and, therefore, do not fully reflect the effect of changing prices. Chrysler monitors the effect of inflation on its businesses and believes that recent inflation rates have had no significant effect on its results of operations.

Chrysler's 1986 breakeven point for the U.S. and Canadian operations increased to 1.4 million units, compared to 1.2 million units for the previous year, reflecting, in part, Chrysler's substantial spending to modernize its facilities and introduce new products. Despite this increase, Chrysler's breakeven point was only 64% of total unit sales in 1986. Chrysler is confident that its programs for improved productivity and quality will maintain a satisfactory breakeven level and reduce its vulnerability to future economic downturns.

Selected Comparison of Elements of Revenue and Costs

1986 Versus 1985—Chrysler posted record net sales of $22.6 billion in 1986, a 6% increase over 1985, resulting from an increase in worldwide factory unit sales, moderate price increases and the inclusion of Gulfstream Aerospace Corporation sales for the full year. The increase in equity in earnings of unconsolidated subsidiaries was primarily attributable to Chrysler Financial Corporation ("CFC") which had its best year ever with record pre-tax earnings of $315 million in 1986, an improvement of $59 million over 1985. In 1986, other income includes net gains on the sale of marketable securities of $72 million.

Depreciation of plant and equipment decreased $27 million in 1986 reflecting a reduction in the reserve for obsolescence offset, in part, by increased depreciation related to new and modernized facilities placed in service in 1986. Amortization of special tools increased $94 million in 1986 reflecting the amortization of expenditures related to the production of new products and in 1985, the extension in the expected period of time in which certain of the tools are used in the production process. The 20% increase in selling and administrative expenses in 1986 resulted from increased labor costs, the addition of Gulfstream Aerospace Corporation for the full year and increased marketing activities. Pension expense increased 8% in 1986 due to benefit increases negotiated as part of new labor agreements. Net interest expense was $33 million in 1986 compared to net interest income of $125 million in 1985. This change is attributable to higher average debt levels and decreased portfolio interest income as a result of declining interest rates.

In 1986, the effective tax rate was 39.6% compared to 31.0% in 1985. This increase reflects the utilization of approximately $300 million of carryforward investment and other tax credits in 1985 and the tax effect of the sale of the investment in Peugeot S.A. in 1986. In 1987, Chrysler's effective tax rate will incorporate the provisions of the Tax Reform Act of 1986 which include a lower effective statutory tax rate for 1987 of 40% and the elimination of investment tax credits effective January 1, 1986.

In December, 1985 the Financial Accounting Standards Board issued Statement of Financial Accounting Standards ("SFAS") No. 87, "Employers' Accounting for Pensions." Implementation of SFAS No. 87 in 1987 is expected to increase Chrysler's pension expense by more than 50% when compared to pension expense calculated under the previous standards. SFAS No. 87 will not, however, affect either the level of benefits provided or the funding requirements of the plans.

In September, 1986 the Financial Accounting Standards Board issued its Exposure Draft, "Accounting for Income Taxes." The principal provisions of this proposed statement, if adopted, would require Chrysler to adjust deferred taxes for the effect of changes in enacted tax rates and to record taxes on unremitted earnings of foreign subsidiaries even if such earnings were permanently reinvested in the business. The effect of implementing the proposed statement in 1987 would be to reduce deferred tax liabilities for the newly enacted tax rate offset, in part, by an increase in deferred tax liabilities relating to unremitted earnings of foreign subsidiaries.

Selected Comparison of Elements of Revenue and Costs

1985 Versus 1984—Chrysler's net sales of $21.3 billion in 1985 represented a 9% increase over 1984. This resulted from an increase in worldwide unit sales of 6%, improvement in product mix, moderate price increases and the addition of Gulfstream Aerospace Corporation sales since August 16, 1985. The increase in equity in earnings of unconsolidated subsidiaries resulted principally from the $126 million increase in Chrysler Financial Corporation's pre-tax earnings in 1985 over 1984. In 1985, other income includes net gains on the sale of marketable securities of $29 million.

Depreciation expense decreased 3% in 1985 to $264 million. This reflects an additional provision in 1984, not required in 1985, for obsolescence of older facilities partially offset by an increase in depreciation expense resulting from new facilities being placed in service in 1985. The increase in selling and administrative expenses of 16% in 1985, over 1984, resulted from increased levels of advertising, the addition of Gulfstream Aerospace Corporation and year-to-year economic cost increases. Pension expense decreased 18% in 1985, reflecting a change in the pension assets investment return assumption, prepayment of 1985 pension costs and a reduction in pension contribution deferrals. The 1985 improvement of $74 million over 1984 in interest income (net of interest expense) reflects the substantial increase in the average marketable securities portfolio.

The 1985 effective tax rate of 31% reflects approximately $300 million of investment and other tax credits carried forward from 1984 and prior. Chrysler used its remaining U.S. and Canadian loss carryforwards in 1984. As such, no taxes on income in 1985 were offset with operating loss carryforwards, compared with 1984, when $884 million of taxes were offset.

Liquidity

Chrysler's cash and marketable securities of $2.68 billion at December 31, 1986 reflect a year over year decrease of $118 million despite the generation of $2.49 billion in funds from operations in 1986. The decrease principally results from record capital expenditures, acquisition of common stock pursuant to Chrysler's stock purchase program and dividends on common stock, all reflecting Chrysler's commitment to its future and its shareholders. Reflecting these same factors, Chrysler's working capital of $243 million at December 31, 1986 was $342 million lower than the working capital of $585 million at December 31, 1985. The ratio of total debt to shareholders' equity decreased to 47.4% in 1986 from 63.2% in 1985 while book value per share of common stock increased to $24.70 in 1986 from $18.53 in 1985.

Chrysler plans to spend $12.5 billion in the next five years for new products and facility modernization, of which $7.2 billion represents capital expenditures. Chrysler expects to finance these projects principally with funds provided by operations.

At year end 1986, Chrysler, excluding its unconsolidated subsidiaries, had available approximately $2.5 billion under bank revolving credit agreements.

Chrysler Financial Corporation ("CFC")

CFC achieved record levels of earnings, receivables acquired and receivables outstanding in each of the last three years. This strong growth reflects the expansion of automotive financing operations and the acquisition of diversified financing businesses.

CFC continued to diversify in 1986 with the purchase of the inventory financing division of Westinghouse Credit Corporation (renamed Chrysler First Wholesale Credit, Inc.). CFC's diversification combined with subsequent portfolio growth has shifted the mix of CFC's assets from nearly all automotive in 1984 to 29% non-automotive at December 31, 1986.

CFC funded the growth in the automotive and diversified financing portfolios through $3.5 billion of term debt placements, $1.3 billion from receivable sales and a $2.5 billion increase in the level of commercial paper outstanding at December 31, 1986.

In 1986, CFC increased its available credit facilities by 24% to $9.1 billion, all of which were unused at December 31, 1986.

PACCAR INC.

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

Results of Operations for the Three Years Ended December 31, 1986

In 1986, the total U.S. Class 8 diesel truck market declined to 112,000 units from levels of approximately 130,000 units for the two previous years. During the year, PACCAR took action to restructure its operations and bring production capacity in line with market expectations for future years. The Kenworth plant in Kansas City, Missouri was closed in April and the Peterbilt plant in Newark, California closed in October. Canadian headquarters moved from Ottawa to Toronto to provide better access to customers. Total restructuring and relocation costs were $9.5 million after tax. Plant closings were responsive to chronic industry problems of excess production capacity and placed the Company in a stronger competitive position. Manufacturing efficiencies were achieved in 1986 and production capacities of the four remaining U.S. truck factories were increased to provide for peak demand periods.

Despite a smaller overall market, PACCAR expanded its 1986 U.S. market share to 19% from 18% in the prior year, although still below the 21% share of 1984. The 1986 gain in market share was based upon customer acceptance of new Kenworth and Peterbilt models which incorporate the latest technology and aerodynamic designs. A surge of new orders during the second half of 1986 provided the strongest sales order backlog since the first quarter of 1984.

The combined total of foreign subsidiary sales has improved gradually over the last three years. Combined net income has declined, however, as price discounting has become more common, particularly in Canada, and economic conditions in Australia have deteriorated. Partially offsetting these trends has been the success of the Foden truck operation in the United Kingdom, including growth in commercial sales along with continued progress in military contracts.

PACCAR's overall gross profit percentage was 11.4% for 1986 compared to 11.8% in 1985 and 13.3% in 1984. The percentages for 1986 and 1985 reflect lower sales volumes and severe price discounting. For 1986, the gross profit percentage was favorably impacted by liquidation of LIFO inventories. Plant closings and continued improvement in materials management reduced inventory levels and produced the liquidation effect explained in Note B to the financial statements.

PACCAR's equity in the net income of its unconsolidated companies continued in 1986 at the same level achieved in 1985, up substantially from 1984. PACCAR Financial Corp. (PFC) provides most of this income. At the end of 1986, PFC's total assets were $839 million, 53% above the year-end 1983 level. PFC's net income was $10.1, $9.5 and $10.8 million for the years 1984 through 1986, respectively. The other unconsolidated companies as a group posted a net loss of $1.5 million in 1984 and net income of $5.3 million in 1985 and $3.4 million in 1986. The principal reasons for the 1985 improvement were a 29% increase in sales by VILPAC S.A., a 49%-owned Mexican manufacturer of Kenworth trucks, and better earnings of insurance and leasing subsidiaries. The 1986 decline was the result of a net loss experienced by VILPAC as the Mexican economy declined.

Liquidity and Sources of Capital

Cash requirements of the consolicated companies for working capital, capital expenditure, and research and development have been met through internally generated funds. Management expects this to continue. Cash generated from foreign operations is generally reinvested in those operations and not considered to be a source of cash for U.S. operations. Outside borrowing remains minimal for the consolidated companies. Year-end ratios of current assets to current liabilities were 2.06 for 1986, 2.19 for 1985, and 2.30 for 1984. Long-term debt at year-end was 1.7% of equity for 1986 and 1985, and 2.0% in 1984. PACCAR's financial strength continues to provide flexibility to respond to new opportunities along with protection from unfavorable economic conditions. For 1986, capital expenditures were $34 million for facility improvements and new equipment. Approximately $30 million is planned for 1987 facility and equipment expenditures and $50 million for completion of the purchase of Trico as explained in Note H to the financial statements.

PACCAR's unconsolidated finance and leasing companies fund the majority of their finance and lease contract portfolios through outside borrowing. During 1986, outside borrowing net of repayments brought an increase of $73 million in short-term debt and a $30 million decrease in long-term debt. The commercial paper program, Eurobond issue, and publicly-offered medium-term notes of PACCAR Financial Corp. (PFC) provided sufficient funds to support its 1986 financing activities. PFC plans another shelf registration of medium-term notes for 1987 to provide for growth of its portfolio and for retirement of older debt as it comes due.

Impact of Tax Reform

The retroactive elimination of the investment tax credit by the Tax Reform Act of 1986 reduced the Company's 1986 cash flow. For 1987 and later years, the Act provides lower Corporate income tax rates which will benefit the Company. However, in addition to repeal of the investment tax credit, the Act also reduces depreciation benefits, and imposes a new alternative minimum tax. Depending on the levels of the Company's future taxable income and participation in certain transactions, these unfavorable provisions could eliminate the benefits of lower rates. PACCAR's unconsolidated companies have experienced significant growth in truck leasing activities in recent years. The Act will require these companies to revise their leasing and financing strategies to maintain profitability and growth.

In addition to tax reform, the Company's financial position and results of operations also may be affected by a proposal of the Financial Accounting Standards Board on accounting for income taxes. This proposal, which is subject to change, would favorably affect the Company by reducing the rate at which deferred taxes are now recognized on the balance sheet to the lower rates under the Act. The proposal also would require the Company to estimate and record additional deferred tax liabilities, if any, that may result from assuming distribution of currently undistributed earnings of foreign subsidiaries. The Company has objected to this proposal because it expects to continue indefinitely the reinvestment of these earnings in the foreign operations.

Impact of Inflation

The rate of inflation in the U.S. economy has slowed in recent years, but is still a factor which the Company must consider in its business decisions. Truck sales prices have been held in check by competition and in recent years have not increased proportionately with general inflation. Product redesign and intense negotiation with suppliers have also kept manufacturing cost advances below the level of general inflation during the same time period.

The Company uses the LIFO method of accounting for a large percentage of its inventories. Under usual circumstances, cost of sales using this method is a close approximation of current costs. However, during 1986, the Company significantly reduced the size of its inventories, causing the LIFO liquidation effect explained in the financial statement footnotes. The before-tax equivalent of this effect must be added to cost of sales in order to approximate current costs.

A significant portion of the Company's buildings and machinery and equipment were acquired in prior years at prices lower than today's costs. Over many years, these assets may be replaced at inflated costs which will result in higher depreciation charges. However, in many cases, there will be operating cost savings as well because of technological advances and improvements.

TABLE 1-3: SEGMENT INFORMATION

	Number of Companies			
	1986	1985	1984	1983
Industry segments				
Revenue	432	443	451	457
Operating income or loss	394	396	398	408
Identifiable assets	424	435	444	453
Depreciation expense	421	433	438	448
Capital expenditures	413	428	434	441
Geographic areas				
Revenue	202	206	207	214
Operating income or loss	156	161	165	166
Identifiable assets	197	201	204	203
Depreciation expense	14	15	13	15
Capital expenditures	18	16	16	16
Export sales	112	116	127	133
Sales to major customers	130	136	134	127

SEGMENT INFORMATION

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

Table 1-3 shows the type of segment information most frequently presented as an integral part of the 1986 financial statements of the survey companies.

Industry Segments

BAUSCH & LOMB INCORPORATED (DEC)

NOTES TO FINANCIAL STATEMENTS

Industry Segment and Geographic Information

The company's operations are classified into three different business segments: health care and consumer products, professional eye care products and biomedical and scientific products.

Operations within the health care and consumer products segment include the production and sale of solutions used in the care of contact lenses and relief of eye irritation, contact lens accessories and optical products used for the extension of vision and eye protection from the sun. Such optical products include sunglasses, binoculars, riflescopes, telescopes and magnifiers.

The professional eye care products segment manufactures and sells contact lenses and materials, prescription ophthalmic pharmaceuticals and ophthalmic surgical and diagnostic products.

Products manufactured and sold by the biomedical and scientific products segment include laboratory animals, principally rats, mice and guinea pigs, specially bred for use in biomedical research; specialized biotechnical products and services primarily for production of monoclonal antibodies; microscopes and photogrammetry products and vacuum coating services.

Inter-area sales to affiliates represent products which are transferred between geographic areas on a basis intended to reflect as nearly as possible the market value of the products.

Operating earnings by business segment and by geographic area are defined as sales less operating costs and expenses. Income and expenses not allocated to business segments or geographic areas include investment income, interest expense, foreign currency gains and losses, and corporate administrative costs.

Identifiable assets are those assets used exclusively in the operations of each business segment or geographic area or which are allocated when used jointly. Corporate assets are principally comprised of cash, short-term investments, purchased accounts receivable and certain property, plant and equipment.

The following tables show sales, operating earnings and other financial information by industry segment and geographic area for the years 1986, 1985 and 1984.

Industry Segment

Dollar Amounts in Thousands	Health Care & Consumer Products	Professional Eye Care Products	Biomedical & Scientific Products	Corporate and Other	Consolidated
1986					
Sales	$389,388	$173,364	$136,115	$ —	$698,867
Operating Earnings	83,858	32,391	22,031	—	138,280
Depreciation	8,762	5,865	8,503	1,487	24,617
Identifiable Assets	328,955	190,602	133,586	232,565	885,708
Capital Expenditures	24,518	9,590	8,142	8,036	50,286
1985					
Sales	$325,903	$161,319	$108,929	$ —	$596,151
Operating Earnings	71,066	35,422	21,922	—	128,410
Depreciation	7,101	4,537	5,243	965	17,846
Identifiable Assets	226,874	126,033	98,699	175,689	627,295
Capital Expenditures	8,798	10,147	11,518	3,652	34,115
1984					
Sales	$267,208	$ 173,853	$ 92,497	$ —	$533,558
Operating Earnings	47,985	51,614	17,505	—	117,104
Depreciation	6,506	4,273	5,195	801	16,775
Identifiable Assets	204,001	107,310	98,546	156,838*	566,695
Capital Expenditures	5,777	9,002	11,180	7,376*	33,335

*Includes items relating to the discontinuance of the industrial instruments business.

Geographic Area

Dollar Amounts in Thousands	United States	Europe	Other International	Consolidated
1986				
Sales to Unaffiliated Customers	$485,598	$ 98,320	$114,949	$698,867
Inter-Area Sales to Affiliates	39,061	29,321	1,011	69,393
Operating Earnings	89,709	32,946	15,625	138,280
Identifiable Assets	432,899	364,859*	87,950	885,708
1985				
Sales to Unaffiliated Customers	$455,129	$ 64,841	$ 76,181	$596,151
Inter-Area Sales to Affiliates	38,341	29,069	1,091	68,501
Operating Earnings	92,156	26,775	9,479	128,410
Identifiable Assets	387,954	190,487*	48,854	627,295
1984				
Sales to Unaffiliated Customers	$402,635	$ 61,616	$ 69,307	$533,558
Inter-Area Sales to Affiliates	35,758	35,895	871	72,524
Operating Earnings	73,174	35,743	8,187	117,104
Identifiable Assets	397,950	120,808*	47,937	566,695

*Includes financial assets of $176,800,000 in 1986, $115,900,000 in 1985 and $60,200,000 in 1984.

CHAMPION INTERNATIONAL CORPORATION (DEC)

NOTES TO FINANCIAL STATEMENTS

Note 16: Business Segments

The company reorganized its business units during 1986. In connection with that reorganization, some cost savings have been made, and certain other costs previously included in general corporate expense have been transferred to the business segments. The prior years' results have not been reclassified because the divestiture program was not completed and the new organization is not applicable to the former operations.

In February 1986, most packaging operations were sold to Stone Container Corporation and in December 1986 the Pensacola, Florida, mill was converted to the production of uncoated white paper. As a result, the downsized packaging operations have been reported as part of the paper segment for the year ended December 31, 1986. The remaining operations of the company's former paper packaging business consist of one kraft paper and paperboard mill and one shopping bag and gift wrap plant.

Information about the company's operations in different businesses for the three years ended December 31, 1986 is as follows:

(in thousands of dollars)	Paper	Wood Products	Packaging	Other	Total
Net Sales to Unaffiliated Customers:					
1986	$3,346,174	$1,041,449	$ —	$ —	$4,387,623
1985	2,882,233	1,502,965	1,384,561	—	5,769,759
1984	2,171,539	1,817,729	1,125,168	6,653	5,121,089
Segment Income from Operations:					
1986	$ 396,788	$ 102,788	$ —	$ —	$ 499,576
1985	401,335	86,940	21,900	—	510,175
1984	309,026	(196,945)*	69,546	4,935	186,562
Identifiable Assets:					
1986	$3,664,745	$ 432,775	$ —	$ —	$4,097,520
1985	3,048,115	443,121	783,605	—	4,274,841
1984	2,498,562	831,697	1,213,008	16,908	4,560,175
Capital Expenditures:					
1986	$ 405,153	$ 23,352	$ —	$ —	$ 428,505
1985	387,325	9,943	36,878	—	434,146
1984	308,708	43,370	33,040	286	385,404
Depreciation Expense and Cost of Timber Harvested:					
1986	$ 201,668	$ 60,010	$ —	$ —	$ 261,678
1985	112,520	85,875	57,346	—	255,741
1984	81,293	72,079	41,585	155	195,112

*Includes the $220,100,000 provision for wood products restructuring.

Information about the company's operations in different geographic areas for the three years ended December 31, 1986 is as follows:

(in thousands of dollars)	U.S.	Canada	Brazil	Other Foreign	Total
Net Sales to Unaffiliated Customers:					
1986	$3,724,985	$510,385	$152,253	$ —	$4,387,623
1985	4,943,550	487,338	151,973	186,898	5,769,759
1984	4,488,913	432,210	126,797	73,169	5,121,089
Segment Income from Operations:					
1986	$ 394,394	$ 58,044	$ 47,138	$ —	$ 499,576
1985	433,653	22,785	44,064	9,673	510,175
1984	132,458*	962	46,267	6,875	186,562
Identifiable Assets:					
1986	$3,572,109	$292,115	$233,296	$ —	$4,097,520
1985	3,738,558	278,265	244,084	13,934	4,274,841
1984	3,898,125	294,504	230,244	137,302	4,560,175
Capital Expenditures:					
1986	$ 390,275	$ 22,165	$ 16,065	$ —	$ 428,505
1985	400,778	6,081	23,350	3,937	434,146
1984	324,704	16,737	39,542	4,421	385,404
Depreciation Expense and Cost of Timber Harvested:					
1986	$ 237,720	$ 12,359	$ 11,599	$ —	$ 261,678
1985	227,728	15,326	10,705	1,982	255,741
1984	172,574	12,459	9,130	949	195,112

*Includes the $220,100,000 provision for wood products restructuring.

As of December 31, 1986, net assets located outside of the United States included in the consolidated financial statements were approximately $353,100,000.

A reconciliation of segment information to consolidated amounts is as follows:

Years Ended December 31 (in thousands of dollars)	1986	1985	1984
Segment Income from Operations	$ 499,576	$ 510,175	$ 186,562
Corporate general and administrative expense	(61,638)	(146,389)	(104,798)
Consolidated Income from Operations	$ 437,938	$ 363,786	$ 81,764
Segment Identifiable Assets	$4,097,520	$4,274,841	$4,560,175
Timber, timberlands, corporate, and other assets	1,928,170	1,823,288	2,255,221
Consolidated Assets	$6,025,690	$6,098,129	$6,815,396
Segment Capital Expenditures	$ 428,505	$ 434,146	$ 385,404
Timber, timberlands and corporate capital expenditures	70,360	51,585	53,100
Consolidated Capital Expenditures	$ 498,865	$ 485,731	$ 438,504
Segment Depreciation Expense and Cost of Timber Harvested	$ 261,678	$ 255,741	$ 195,112
Corporate depreciation expense	8,799	7,465	8,597
Consolidated Depreciation Expense and Cost of Timber Harvested	$ 270,477	$ 263,206	$ 203,709

The company's timber and timberlands assets and related capital expenditures support all business segments but were not allocated to the various segments because identification of the specific timber and timberlands assets associated with any one segment is impossible. The timber that has been harvested has been transferred to the various business segments at cost.

ENGELHARD CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2: Industry segment and geographic area data

The operations of the Company are organized into two principal segments—the Specialty Chemical Businesses and the Specialty Metal Businesses.

The Specialty Chemical Businesses comprise four groups: catalysts for the petroleum, chemical, petrochemical, pharmaceutical and environmental protection industries; performance minerals that include coating and extender pigments and absorbents; electronic chemical materials and circuits; and process technologies, primarily the Asphalt Residual Treatment (ARTsm) process.

The Specialty Metal Businesses are engaged in the fabrication of precious metals products, precious metals refining and precious metals dealing and management.

Information by industry segment follows:

(in thousands)	1986	1985	1984
Net sales			
Specialty Chemical Business	$ 665,623	$ 598,218	$ 560,304
Specialty Metal Business	1,623,908	1,665,479	1,950,670
	$2,289,531	$2,263,697	$2,510,974
Operating earnings			
Specialty Chemical Businesses	$ 76,975	$ 62,075	$ 65,866
Specialty Metal Businesses	18,644	23,163	46,345
	95,619	85,238	112,211
Nonrecurring charge	—	—	(63,100)
Equity earnings	4,866	3,816	5,092
Interest and other expenses, net	(29,317)	(30,170)	(13,732)
Earnings before income taxes	$ 71,168	$ 58,884	$ 40,471
Identifiable assets			
Specialty Chemical Businesses	$ 607,393	$ 527,985	$ 441,615
Specialty Metal Businesses	330,364	330,027	404,412
Investments and advances	33,303	16,399	13,064
General corporate	72,236	61,518	4,084
	$1,043,296	$ 935,929	$ 863,175
Capital expenditures, net			
Specialty Chemical Businesses	$ 40,104	$ 27,223	$ 36,510
Specialty Metal Businesses	8,618	9,159	9,328
General corporate	3,602	6,721	3,042
	$ 53,324	$ 43,103	$ 48,880
Depreciation and depletion			
Specialty Chemical Businesses	$ 34,237	$ 31,612	$ 26,023
Specialty Metal Businesses	7,255	6,628	7,104
General corporate	1,236	630	80
	$ 42,728	$ 38,870	$ 33,207

Sales, operating earnings and identifiable assets by geographic area follow:

(in thousands)	1986	1985	1984
Total sales			
United States	$1,573,066	$2,122,443	$2,070,186
Foreign	781,904	651,517	679,438
	2,354,970	2,773,960	2,749,624
Less, interarea transfers			
United States	36,843	411,122	103,712
Foreign	28,596	99,141	134,938
	$2,289,531	$2,263,697	$2,510,974
Operating earnings			
United States	$ 83,560	$ 75,245	$ 96,312
Foreign	12,059	9,993	15,899
	$ 95,619	$ 85,238	$ 112,211
Identifiable assets			
United States	$ 676,425	$ 647,585	$ 564,256
Foreign	333,568	271,945	285,855
Investments and advances	33,303	16,399	13,064
	$1,043,296	$ 935,929	$ 863,175
United States export sales	$ 234,008	$ 205,629	$ 173,510

Most of the Company's foreign operations are conducted by European subsidiaries. Interarea transfers are made at prevailing market prices. The book value of foreign assets consists mainly of receivables and inventories.

TECUMSEH PRODUCTS COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 7. Business Segment Data

Business segment data is presented on page 12 of this report.

BUSINESS SEGMENT DATA

(Dollars in millions)

Industry Segment Information

	Compressor Products	Engine & Power Train Products	Other Products	Eliminations & Corporate	Total
1986					
Net sales	$450.4	$328.6	$46.0	$ (3.9)	$821.1
Operating income	31.9	48.3	4.4	(7.8)	76.8
Identifiable assets	305.6	137.6	22.2	212.1	677.5
Capital expenditures	49.7	9.0	2.2	—	60.9
Depreciation	18.8	7.9	1.1	—	27.8
1985					
Net sales	479.4	306.3	48.2	(4.9)	829.0
Operating income	43.4	47.9	4.6	(7.6)	88.3
Identifiable assets	254.6	131.9	21.7	226.4	634.6
Capital expenditures	24.6	13.4	.1	—	38.1
Depreciation	18.0	6.4	1.1	—	25.5
1984					
Net sales	542.9	306.4	58.0	(5.4)	901.9
Operating income	54.9	44.6	5.2	(5.6)	99.1
Identifiable assets	229.8	126.3	25.6	173.9	555.6
Capital expenditures	18.3	6.3	3.0	—	27.6
Depreciation	15.8	5.9	1.3	—	23.0

In 1985 and prior years' annual reports, power train products (referred to as transaxle products) were grouped with other products in presenting industry segment data. Following a restructuring of management responsibilities within the Company during 1986, power train and engine products have been combined for industry segment data presentation and prior years' data have been restated.

Operating income for compressor products in 1984 reflects a nonrecurring expense of $5.5 million for closing the Marion, Ohio facility and transferring its production to other plants.

Sales to a major United States retailer and certain of its suppliers which manufacture lawn and garden equipment aggregated 13% of consolidated sales (33% of engine and power train product sales) in 1986; 12% of consolidated sales (34% of engine and power train product sales) in 1985; and 10% of consolidated sales (29% of engine and power train product sales) in 1984.

The following is a reconciliation between operating income and income before income taxes:

	1986	1985	1984
Operating income	$76.8	$ 88.3	$ 99.1
Other income, principally interest	9.8	16.0	18.8
Income before income taxes	$86.6	$104.3	$117.9

Geographic Segment Information

	Net Sales			Income Before Income Taxes			Year-End Assets		
	1986	1985	1984	1986	1985	1984	1986	1985	1984
United States	$754.6	$777.7	$850.3	$72.8	90.6	$104.0	$549.1	$528.4	$489.8
Foreign	117.1	106.4	101.8	14.0	13.5	14.8	140.9	114.4	75.1
Inter-area	(50.6)	(55.1)	(50.2)	(.2)	.2	(.9)	(12.5)	(8.2)	(9.3)
	$821.1	$829.0	$901.9	$86.6	$104.3	$117.9	$677.5	$634.6	$555.6

Export sales by domestic operations were $79.4, $68.2, and $94.2 million in 1986, 1985, and 1984, respectively.

H. K. PORTER COMPANY, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Business Segment Information

The Company currently operates in three principal areas: Industrial Products (Thermoid, Inc.), Electrical Products (Electrical Division) and Power Transmission Products (Peerless-Winsmith, Inc.). Industrial Products include various ducting products and a broad base of rubber products such as hose, lightweight conveyor and power transmission belting, roll coverings and rubber bands. Electrical Products include transformers, transit products and a wide variety of other current carrying apparatus for utility and industrial applications. Power Transmission Products include motors, fans, gear reducers and equipment employing magnetic forces.

Intersegment sales are insignificant. Identifiable assets by industry include assets directly identified with those operations. Corporate assets consist primarily of cash, marketable securities and corporate aircraft.

Business segment information pertaining to net sales, operating income and depreciation has been restated for prior years to reflect the disposition of friction products operations within the Industrial Products segment as detailed in the Notes to Consolidated Financial Statements.

For the Years Ended December 31,	1986	1985	1984
	(Thousands of Dollars)		
Net Sales			
Industrial Products	$ 43,198	$ 39,651	$ 43,038
Electrical Products	32,251	34,460	22,052
Power Transmission Products	68,052	44,408	23,140
	$143,501	$118,519	$ 88,230
Operating Income			
Industrial Products	$ 3,667	$ 3,448	$ 5,358
Electrical Products	1,647	2,291	466
Power Transmission Products	2,850	3,901	3,209
Corporate	(3,687)	(3,812)	(3,767)
	$ 4,477	$ 5,828	$ 5,266
Identifiable Assets			
Industrial Products	$ 53,474	$ 21,447	$ 20,196
Electrical Products	9,311	9,214	7,887
Power Transmission Products	48,942	22,233	5,553
Corporate	23,860	70,986	48,983
Discontinued Segment	—	—	18,036
	$135,587	$123,880	$100,655
Depreciation & Amortization			
Industrial Products	$ 1,212	$ 990	$ 766
Electrical Products	168	325	346
Power Transmission Products	4,196	1,762	243
Corporate	573	567	586
	$ 6,149	$ 3,644	$ 1,941
Capital Expenditures			
Industrial Products	$ 23,027	$ 2,014	$ 1,201
Electrical Products	136	—	4
Power Transmission Products	9,261	11,517	281
Corporate	—	—	—
	$ 32,424	$ 13,531	$ 1,486

Foreign Operations

UNISYS CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

18. Business Segment Information

The Company operates primarily in one business segment—information systems and related services and supplies. This segment represents more than 90% of consolidated revenue, operating profit and identifiable assets. A summary of the Company's operations by geographic area is presented below:

(Millions)	1986	1985	1984
United States—			
Customer revenue	$4,244.1	$2,834.5	$2,862.7
Affiliate revenue	749.4	527.6	591.7
Total	$4,993.6	$3,362.1	$3,454.4
Operating profit	$ 82.4	$ 291.7	$ 343.7
Identifiable assets	3,922.9	2,916.6	3,144.0
Europe/Africa—			
Customer revenue	$1,948.8	$1,169.0	$1,035.3
Affiliate revenue	139.7	120.4	136.4
Total	$2,088.5	$1,289.4	$1,171.7
Operating profit	$ 201.8	$ 148.9	$ 143.6
Identifiable assets	1,698.1	894.0	729.3
Americas/Pacific—			
Customer revenue	$1,238.4	$1,034.2	$ 910.3
Affiliate revenue	187.2	160.3	151.0
Total	$1,426.6	$1,194.5	$1,061.3
Operating profit	$ 99.4	$ 124.5	$ 112.0
Identifiable assets	1,027.1	904.6	807.9
Adjustments and eliminations—			
Affiliate revenue	$(1,076.3)	$ (808.3)	$ (879.1)
Operating profit	21.0	35.9	(11.9)
Identifiable assets	(142.0)	(274.9)	(261.7)
Consolidated—			
Revenue	$7,432.4	$5,037.7	$4,808.3
Operating profit	$ 404.6	$ 601.0	$ 587.4
General corporate expenses	(226.8)	(97.0)	(99.1)
Interest expense	(269.6)	(144.5)	(125.8)
Income (loss) before income taxes	$ (91.8)	$ 359.5	$ 362.5
Identifiable assets	$6,506.1	$4,440.3	$4,419.5
Corporate assets	2,902.7	116.1	84.7
Total assets	$9,408.8	$4,556.4	$4,504.2

Sales and transfers between geographic areas are generally priced to recover cost plus an appropriate markup for profit. Operating profit is revenue less related costs and direct and allocated operating expenses, excluding interest and the unallocated portion of corporate expenses.

Corporate assets are those assets maintained for general purposes, principally short-term investments, cost in excess of net assets acquired and corporate facilities.

No single customer accounted for more than 10% of revenue in 1986, 1985 or 1984, except that revenue from various agencies of the U.S. Government approximated $1,522, $583 and $528 million in 1986, 1985 and 1984, respectively.

AM INTERNATIONAL, INC. (JUL)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 13–Industry Segments and Geographic Areas

The Company is in one line of business. The Company provides equipment, supplies and services to the worldwide graphics market covering a broad spectrum of the commercial printing industry. Transfers between geographic areas are based on "arms-length" prices and are eliminated in the Consolidated Financial Statements. Financial data by geographic area are presented below: ($000)

	Geographic Areas				
	United States	Europe	Other	Adjustments & Elim.	Consolidated
Revenues					
1986					
Revenues from unaffiliated customers	$464,901	$149,344	$74,665	$ —	$688,910
Inter area revenues	48,780	8,055	76	(56,911)	—
Total revenues	$513,681	$157,399	$74,741	$(56,911)	$688,910
1985					
Revenues from unaffiliated customers	$431,199	$110,392	$70,153	$ —	$611,744
Inter area revenues	42,042	4,946	15	(47,003)	—
Total revenues	$473,241	$115,338	$70,168	$(47,003)	$611,744
1984					
Revenues from unaffiliated customers	$405,273	$116,959	$76,219	$ —	$598,451
Inter area revenues	38,750	4,779	22	(43,551)	—
Total revenues	$444,023	$121,738	$76,241	$(43,551)	$598,451
Operating Profit*					
1986	$ 26,689	$ 6,398	$ 4,045	$ —	$ 37,132
1985	30,545	3,106	2,431	—	36,082
1984	22,916	4,143	3,626	—	30,685
Identifiable Assets*					
1986	$618,235	$270,305	$41,824	$ —	$930,364
1985	195,983	61,320	37,013	—	294,316
1984	190,411	54,091	37,679	—	282,181

*Before Corporate expenses and Corporate and other assets.

Net assets and net income outside the United States were $63,162 and $2,774 in 1986, $27,581 and $335 in 1985 and $26,718 and $2,088 in 1984.

ABBOTT LABORATORIES (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 10–Industry Segment and Geographic Area Information

This information is disclosed on pages 33 and 34 of this annual report.

INDUSTRY SEGMENT AND GEOGRAPHIC AREA INFORMATION

The Company's principal business is the discovery, development, manufacture, and sale of a broad and diversified line of human health care products and services. In accordance with Statement of Financial Accounting Standards No. 14 (SFAS 14), these products have been classified into the following industry segments:

Pharmaceutical and nutritional products—Included are a broad line of adult and pediatric pharmaceuticals, nutritionals, vitamins, and hematinics, which are sold primarily on prescription or recommendation of physicians or other health care professionals; and personal care products, agricultural and chemical products, and bulk pharmaceuticals.

Hospital and laboratory products—Included are diagnostic systems for blood banks, hospital and clinical laboratories, and alternative care sites; intravenous and irrigating fluids and related administration equipment; venipuncture products; anesthetics; critical care equipment; and other specialty products for hospitals, clinical laboratories, and home health care.

In the following tables, net sales by industry segment and geographic area include both sales to customers, as reported in the Consolidated Statement of Earnings, and inter-area sales (for geographic areas), at sales prices which approximate market. Operating earnings, by SFAS 14 definition, exclude corporate expenses. General corporate assets are principally Cash and cash items and Investment Securities Maturing after One Year.

Industry Segments (1) (dollars in millions)	1986	1985	1984
Net Sales			
Pharmaceutical and nutritional ...	$2,057	$1,839	$1,706
Hospital and laboratory (2).......	1,751	1,521	1,398
Total	$3,808	$3,360	$3,104
Operating Earnings			
Pharmaceutical and nutritional ...	$ 651	$ 533	$ 484
Hospital and laboratory (2).......	259	221	220
Operating Earnings.................	910	754	704
Corporate expenses (3)...........	68	37	34
Interest (income) expense, net...	23	22	24
Earnings Before Taxes	$ 819	$ 695	$ 646
Identifiable Assets			
Pharmaceutical and nutritional ...	$1,288	$1,206	$1,096
Hospital and laboratory	1,599	1,330	1,088
General corporate	979	932	986
Total	$3,866	$3,468	$3,170
Capital Expenditures			
Pharmaceutical and nutritional ...	$ 122	$ 129	$ 165
Hospital and laboratory	256	161	146
General corporate	5	3	24
Total	$ 383	$ 293	$ 335
Depreciation and Amortization			
Pharmaceutical and nutritional ...	$ 75	$ 59	$ 54
Hospital and laboratory	124	96	74
General corporate	1	1	1
Total	$ 200	$ 156	$ 129

(1) See Note (1) to Geographic Areas.

(2) Domestic 1986, 1985, and 1984 net sales and operating earnings were affected by cost containment measures by government and private payers that have slowed the growth rate of hospital and related health care expenditures.

(3) Corporate expenses includes results from joint ventures, minority interest charges, and net foreign exchange losses (gains). These amounts are included in Other (income) expense, net, in the Consolidated Statement of Earnings. Net foreign exchange losses (gains) were $10.0 million in 1986, ($3.9) million in 1985, and $1.2 million in 1984. Also included is a $16.4 million call premium incurred in 1986 on the early redemption of the Company's 11.80% sinking fund debentures, which was partially offset by gains from the sale of certain investment securities.

Geographic Areas (1) and (2) (dollars in millions)	1986	1985	1984
Net Sales			
United States:			
Domestic & export customers (3)	$2,633	$2,410	$2,224
Inter-area..........................	247	215	193
Total United States	2,880	2,625	2,417
Latin America	153	155	148
Europe, Mideast & Africa.........	638	480	425
Pacific, Far East & Canada	384	315	307
Eliminations.........................	(247)	(215)	(193)
Total	$3,808	$3,360	$3,104
Operating Earnings			
United States (3)...................	$ 709	$ 600	$ 562
Latin America	19	27	18
Europe, Mideast & Africa.........	131	85	84
Pacific, Far East & Canada	51	39	38
Eliminations.........................	—	3	2
Total	$ 910	$ 754	$ 704
Identifiable Assets, Excluding General Corporate Assets			
United States.......................	$2,070	$1,811	$1,615
Latin America	116	132	116
Europe, Mideast & Africa.........	453	381	269
Pacific, Far East & Canada	257	221	192
Eliminations.........................	(9)	(9)	(8)
Total	$2,887	$2,536	$2,184

(1) Net sales and operating earnings in 1986 were favorably impacted by the weakening of the U.S. dollar, while 1985 was adversely impacted by the strengthening of the U.S. Dollar.

(2) The Company has a domestic manufacturing facility which produces semiprocessed pharmaceuticals primarily for foreign subsidiaries to finish and sell. The sales of the finished products, operating earnings, and identifiable assets which are associated with this operation have been included in the appropriate foreign area.

(3) See Note (2) to Industry Segments.

H. B. FULLER COMPANY (NOV)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

14. Business Segment Information

The Company is a manufacturer of specialty chemical products, which includes the formulation, compounding and marketing of adhesives, sealants, coatings, paints, specialty waxes, sanitizing chemicals and other specialty chemical products. The Company considers its manufacturing of specialty chemical and related products to be its dominant industry segment. This segment is served commonly by corporate/regional service departments including manufacturing, administration, research and development and marketing services.

The segment uses many common raw materials which are either petroleum-based or of a nonsynthetic nature. The segment is not capital intensive and the manufacturing facilities and raw materials are relatively interchangeable and are not, in general, highly specialized.

Operating earnings are net sales less operating costs and expenses pertaining to specific geographic areas.

A summary of Company operations by geographic areas for the years ended November 30, 1986, 1985 and 1984 is as follows:

(In thousands)	United States	Latin America	Europe	Other	Eliminations	Consolidated
1986						
Sales to unaffiliated customers	$304,021	68,457	117,235	38,758	—	$528,471
Intercompany sales	6,854	—	10,737	19,111	(36,690)	12
Total net sales	$310,875	68,457	127,972	57,869	(36,690)	$528,483
Operating earnings	$ 17,385	10,759	6,766	4,573	—	$ 39,483
Interest expense						(6,208)
General income						564
Earnings from continuing operations before income taxes and minority interests						$ 33,839
Identifiable assets	$135,581	56,412	70,313	28,025	(8,462)	$281,869
General corporate assets						7,010
Investment in affiliates						2,301
Total assets						$291,180
1985						
Sales to unaffiliated customers	$283,024	63,681	82,617	28,124	—	$457,446
Intercompany sales	4,734	—	8,055	23,094	(35,392)	491
Total net sales	$287,758	63,681	90,672	51,218	(35,392)	$457,937
Operating earnings	$ 15,960	10,414	1,367	2,992	—	$ 30,733
Interest expense						(7,627)
General income						528
Earnings from continuing operations before income taxes and minority interests						$ 23,634
Identifiable assets	$129,509	52,234	52,686	24,828	(13,192)	$246,065
General corporate assets						5,544
Investment in affiliates						1,962
Total assets						$253,571
1984						
Sales to unaffiliated customers	$277,846	60,269	91,458	16,944	—	$446,517
Intercompany sales	6,717	—	8,073	17,709	(31,032)	1,467
Total net sales	$284,563	60,269	99,531	34,653	(31,032)	$447,984
Operating earnings	$ 15,127	10,210	3,755	3,087	—	$ 32,179
Interest expense						(8,894)
General income						844
Earnings from continuing operations before income taxes and minority interests						$ 24,129
Identifiable assets	$118,855	51,252	45,410	20,968	(10,097)	$226,388
General corporate assets						3,591
Investment in affiliates						6,510
Total assets						$236,489

The net earnings of non-U.S. subsidiaries included in the Consolidated Financial Statements were $9,848,000, $6,289,000 and $6,618,000 for the years ended November 30, 1986, 1985 and 1984, respectively.

The parent Company's equity in non-U.S. consolidated subsidiaries was $65,869,000, $47,901,000 and $43,531,000 at November 30, 1986, 1985 and 1984, respectively.

NL INDUSTRIES, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share data)

21. Business Segment Reporting

The Company operates principally in four industry groups—Drilling fluids and related specialized engineering services (called collectively "Baroid"), Information Services (comprising NL Sperry-Sun, NL Baroid Logging Systems and NL McCullough), Oilfield Services (comprising NL Treating Chemicals, NL Acme Tool and NL Hycalog) and Oilfield Equipment (comprising NL Shaffer and NL Atlas Bradford). Sales between industry groups and geographical areas as well as to affiliated units are accounted for at values which approximate similar sales to unaffiliated customers. Sales within industry groups and geographic areas have been eliminated.

Data by Industry Groups for the years ended December 31,	1986	1985	1984
Sales:			
Baroid	$ 245,012	$ 382,680	$ 391,249
Information services	137,380	225,043	245,949
Oilfield services	83,156	128,171	131,722
Oilfield equipment	83,766	123,189	118,373
	$ 549,314	$ 859,083	$ 887,293
Operating Income (Loss):			
Baroid	$ (23,881)	$ 29,323	$ 35,574
Information services	(74,006)	(49,192)	(33,903)
Oilfield services	(15,796)	9,288	1,122
Oilfield equipment	(12,527)	3,668	6,435
General corporate	14,622	(11,366)	(17,007)
Interest expense	(30,011)	(34,153)	(41,529)
Charges from asset disposals (Note a)	(224,621)	—	(196,700)
	$(366,220)	$ (52,432)	$ (246,008)
Identifiable Assets:			
Baroid	$ 257,319	$ 443,144	$ 464,416
Information services	135,249	212,174	256,280
Oilfield services	60,779	81,592	89,093
Oilfield equipment	108,023	201,468	219,992
General corporate	243,321	208,135	220,829
Discontinued net assets	345,259	266,363	309,887
	$1,149,950	$1,412,876	$1,560,497
Capital Expenditures:			
Baroid	$ 4,833	$ 14,397	$ 14,801
Information services	14,616	41,916	32,997
Oilfield services	2,590	8,861	7,276
Oilfield equipment	799	964	1,212
General corporate	1,661	1,762	1,146
	$ 24,499	$ 67,900	$ 57,432
Depreciation and depletion:			
Baroid	$ 20,523	$ 22,361	$ 22,738
Information services	26,696	31,304	31,559
Oilfield services	11,007	13,122	20,950
Oilfield equipment	11,041	12,499	17,774
General corporate	6,814	5,437	4,580
	$ 76,081	$ 84,833	$ 97,601

Operating income (loss) (revenues less operating expenses) shown for the four operating industry groups, and for the geographic areas, does not include deductions for general corporate expenses (net), interest expense, charges from asset disposals or income taxes. Assets shown by industry grouping and geographical area are those assets that are used in the Company's operations in each such industry and area. Corporate assets, which are not allocated, represent principally cash, property and other investments and receivables. Certain financial data for companies accounted for on an equity basis are included for each applicable industry group and geographical area.

Data by Geographical Areas for the years ended December 31,	1986	1985	1984
Sales:			
United States	$ 324,588	$ 590,197	$ 631,126
Europe	150,793	176,352	155,684
Canada	15,465	26,467	22,769
Other	88,608	109,013	110,727
Eliminations	(30,140)	(42,946)	(33,013)
	$ 549,314	$ 859,083	$887,293
Operating Income (Loss):			
United States	$ (116,574)	$ (42,004)	$ (25,569)
Europe	(18,076)	18,378	12,930
Canada	(361)	602	(342)
Other	8,801	16,111	22,209
General corporate	14,622	(11,366)	(17,007)
Interest expense	(30,011)	(34,153)	(41,529)
Charges from asset disposals (Note a)	(224,621)	—	(196,700)
	$ (366,220)	$ (52,432)	$ (246,008)
Identifiable Assets:			
United States	$ 386,983	$ 704,443	$ 717,723
Europe	93,578	126,706	152,091
Canada	14,709	21,123	25,556
Other	66,100	86,106	134,411
General corporate	243,321	208,135	220,829
Discontinued net assets	345,259	266,363	309,887
	$1,149,950	$1,412,876	$1,560,497
Capital Expenditures:			
United States	$ 17,402	$ 56,919	$ 40,294
Europe	4,390	6,709	9,071
Canada	307	1,060	1,029
Other	739	1,450	5,892
General corporate	1,661	1,762	1,146
	$ 24,499	$ 67,900	$ 57,432
Depreciation:			
United States	$ 55,880	$ 63,981	$ 78,741
Europe	9,489	9,113	7,649
Canada	629	656	642
Other	3,269	5,536	5,989
General corporate	6,814	5,547	4,580
	$ 76,081	$ 84,833	$ 97,601

Note (a): The Company recorded charges totalling $224,621 and $196,683 in 1986 and 1984, respectively, representing a writedown in the carrying value of certain petroleum service assets and the cost of other restructuring activities (see Note 19).

Major Customers

ACME PRECISION PRODUCTS, INC. (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(8) Business Segment Data

The Company operates in one business segment. The Company is engaged primarily in the design and manufacture of machine tools together with related cutting tools and industrial automation equipment.

The Company has no foreign operations, and export sales are not significant. The Company distributes its products directly and is not dependent upon any single customer. However, sales to four customers in 1986, 1985 and 1984 each represented 10% or more of consolidated sales. Specifically, sales to General Motors Corporation amounted to $30,850,000 in 1986, $9,018,000 in 1985 and $12,287,000 in 1984; sales to Chrysler Corporation in 1986 amounted to $12,768,000; sales to Ford Motor Company amounted to $16,337,000 in 1985 and $5,276,000 in 1984 and sales to United Technologies amounted to $5,877,000 in 1984.

BALL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (DEC)

Operating Segment Information (In Part)

The company's major customers and principal facilities are located within the United States. The company's principal operating segment, packaging products, includes primarily commercial glass, home food preservation products and beer and soft drink cans and ends. Sales of commercial glass and home food preservation products accounted for approximately 21% of annual consolidated sales in each of the past three years. Beer and soft drink can and end sales accounted for approximately 50% of consolidated sales in each of the past three years.

Packaging products segment sales to Anheuser-Bush accounted for approximately 22%, 28% and 28% of consolidated sales for the years 1986, 1985 and 1984, respectively. Sales to various agencies of the United States government accounted for approximately 17% of consolidated sales in each of the past three years, of which approximately 90% in each year was attributable to the technical products segment and the remainder primarily to the industrial products segment.

A three year summary of financial information by segments is presented below. Additional information regarding operating units and products is reported within Management's Discussion and Analysis of Operations on pages 39 to 43 of this report.

BRIGGS & STRATTON CORPORATION (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(4) Industry Segments:

Certain information concerning the Company's industry segments is presented below (in thousands of dollars):

	Year Ended June 30		
	1986	1985	1984
Sales—			
Engines and parts	$685,259	$660,199	$615,337
Locks	60,572	57,574	55,856
	$745,831	$717,773	$671,193
Income From Operations—			
Engines and parts	$ 58,310	$ 58,796	$ 58,578
Locks	2,385	900	3,804
	$ 60,695	$ 59,696	$ 62,382
Assets—			
Engines and parts	$339,726	$335,816	$310,772
Locks	32,160	31,368	34,576
Unallocated	64,736	44,414	72,432
	$436,622	$411,598	$417,780
Depreciation Expense—			
Engines and parts	$ 19,805	$ 16,586	$ 15,799
Locks	1,703	1,328	1,311
	$ 21,508	$ 17,914	$ 17,110
Expenditures for Plant and Equipment—			
Engines and parts	$ 42,736	$ 55,492	$ 32,915
Locks	3,552	2,951	3,212
	$ 46,288	$ 58,443	$ 36,127

Unallocated assets include cash, certificates of deposit, prepaid employee health care and other assets. Export sales for fiscal 1986 were $118,799,000 (16% of total sales), for fiscal 1985 were $98,863,000 (14%) and for fiscal 1984 were $95,708,000 (14%). These sales were principally to customers in European countries and Canada.

Sales were made to two major engine customers in amounts exceeding 10% of total sales. Sales to one of these customers totaled $97,591,000 (13% of total sales) in fiscal 1986, $94,780,000 (13%) in fiscal 1985 and $79,219,000 (12%) in fiscal 1984. Sales to the other major customer totaled $82,402,000 (11% of total sales) in fiscal 1986, $75,861,000 (11%) in fiscal 1984, with an amount less than 10% in fiscal year 1985.

HARMON INDUSTRIES, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8. Business Segment Information

The Company and its subsidiaries operate in one reportable segment, as defined under Financial Accounting Standards Board Statement No. 14, "Financial Accounting for Segments of a Business Enterprise." That segment consists of various products sold primarily to the railroad industry.

Three customers accounted for approximately $7,358,000,

$6,105,000 and $5,546,000 of net sales during the year ended December 31, 1986. Three customers accounted for approximately $8,644,000, $7,643,000 and $7,153,000 of net sales during the year ended December 31, 1985. Three customers accounted for approximately $7,845,000, $6,472,000 and $6,403,000 of net sales during the year ended December 31, 1984.

ROWE FURNITURE CORPORATION (NOV)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 11. Business Segment and Major Customer Information

The Company and its subsidiaries have only one business segment, the manufacture and sale of household furniture. Shipments to one customer, as a percent of net shipments, amounted to 17% in 1986, 16% in 1985 and 15% in 1984.

Export Sales

THE BOEING COMPANY (DEC)

NOTES TO FINANCIAL STATEMENTS

Note 13 – Industry Segment Information

The Company operates principally in three industries: (1) Commercial Transportation Products and Services, (2) Military Transportation Products and Related Systems and (3) Missiles and Space. Operations in the commercial transportation segment involve development, production and marketing of such equipment (principally commercial jet transports) and providing related support services primarily to commercial customers. Operations in Military Transportation Products and Related Systems involve development and production of such products for the U.S. Government and foreign governments. Missiles and Space operations primarily involve research, development and production of various strategic and tactical missiles and space exploration products, principally for the U.S. Government.

Foreign sales by geographic area, consisting principally of export sales, for the years ended December 31 consisted of:

	1986	1985	1984
Asia	$3,575	$3,190	$1,574
Europe	2,263	1,822	1,287
Oceania	871	472	151
Western Hemisphere	431	322	293
Africa	190	55	316
	$7,330	$5,861	$3,621

Military sales were approximately 29%, 22% and 5% of total sales in Asia for 1986, 1985 and 1984, respectively, consisting principally of Airborne Warning and Control System (AWACS) program sales to Saudi Arabia. Military sales were approximately 6%, 5% and 33% of total sales in Europe for 1986, 1985 and 1984, respectively. Exclusive of these amounts, sales of Military transportation Products and Missiles and Space were principally to the U.S. Government.

Financial information by industry segment for the three years ended December 31, 1986 is summarized on page 38.

Revenues consist of sales plus other income applicable to the respective segments. Corporate income consists principally of interest income from corporate investments. Corporate expense consists of interest on debt and other assets consist principally of cash and short-term investments.

BOWATER INCORPORATED (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Segment and Geographic Information

Information concerning the Company's business segments for the three years ended December 31, 1986, appears on page 24.

Sales and operating income for the three years ended December 31, 1986, and identifiable assets at the end of each of those years, classified by geographic area, were as follows:

(In thousands)	United States	Canada	Consolidated
1986			
Sales to unaffiliated customers	$ 811,713	$107,977	$ 919,690
Operating income	$ 101,091	$ 22,925	$ 124,016
Identifiable assets	$1,453,934	$146,731	$1,600,665
1985			
Sales to unaffiliated customers	$ 810,281	$ 93,723	$ 904,004
Operating income	$ 120,511	$ 15,486	$ 135,997
Identifiable assets	$1,189,775	$125,261	$1,315,036
1984			
Sales to unaffiliated customers	$ 806,263	$ 81,399	$ 887,662
Operating income	$ 125,940	$ 11,204	$ 137,144
Identifiable assets	$ 918,244	$114,451	$1,032,695

Major Customers

In 1986, 1985 and 1984, there was one customer to whom sales of newsprint represented 11.4 percent, 11.5 percent and 11.9 percent of total sales, respectively.

Export Sales

The breakdown of total export sales by major country is as follows:

(In thousands)	1986	1985	1984
France	$17,729	$14,820	$ 16,861
Venezuela	5,286	7,128	10,816
West Germany	9,475	7,333	12,074
Netherlands	16,867	11,342	16,596
China	—	—	14,710
Egypt	—	—	12,895
England	11,127	4,308	5,187
Mexico	2,419	3,276	2,246
Brazil	11,873	—	7,012
Other	23,014	18,561	29,965
Total export sales	$97,790	$66,768	$128,362

THE PENN CENTRAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

24. Segment Information

Segment information is included in the Management's Discussion and Analysis of Financial Condition and Results of Operations section of this report on pages 12 and 13 and is an integral part of these financial statements.

MANAGEMENT'S DISCUSSION

Segment Information

		Electronics, Defense and Telecommunications				
(Dollars in Millions)	Consolidated	Electronic/ Electrical Components	Federal Systems	Telecommunications	Energy	Diversified Industries
Net Sales						
1986	$2,387.9	$449.1	$367.6	$654.8	$552.0	$364.4
1985	2,527.3	492.1	351.7	549.8	613.6	520.1
1984	2,569.1	571.1	346.0	318.0	677.1	656.9
Export Sales (included above)						
1986	51.6	7.0	7.8	7.9	—	28.9
1985	81.6	9.2	6.9	5.2	—	60.3
1984	67.1	15.5	8.1	1.2	—	42.3
Operating Income (Loss)						
1986	(171.3)	(154.5)	18.8	63.3	133.6	(232.5)
1985	222.5	(38.3)	25.3	52.5	121.7	61.3
1984	297.2	43.6	23.8	24.2	111.1	94.5
Identifiable Assets						
1986	1,527.5	475.8	169.7	529.1	191.7	161.2
1985	2,400.2	578.7	165.6	506.5	640.6	508.8
1984	2,497.7	619.6	160.7	367.9	663.0	686.5
Depreciation and Amortization						
1986	125.2	36.9	12.0	20.0	35.4	20.9
1985	128.1	34.4	11.6	17.4	36.9	27.8
1984	120.9	29.6	10.4	13.2	38.7	29.0
Capital Expenditures (additions to property, plant and equipment)						
1986						
Business acquired	1.1	—	—	.8	.3	—
Other	118.1	39.2	8.6	23.1	40.9	6.3
	119.2	39.2	8.6	23.9	41.2	6.3
1985						
Business acquired	60.0	—	—	32.0	24.3	3.7
Other	121.6	42.8	9.9	18.4	36.7	13.8
	181.6	42.8	9.9	50.4	61.0	17.5
1984						
Businesses acquired	35.8	21.3	3.1	—	7.8	3.6
Other	133.0	52.3	12.8	8.3	33.3	26.3
	168.8	73.6	15.9	8.3	41.1	29.9

The realignment of 1984 and 1985 segment data to conform to current presentation primarily included the reclassification of operations which provided support services to the nuclear industry, which were designated as Federal Systems in prior periods, to the Diversified Industries segment.

Intersegment sales are not material for industry segments.

Operating income does not include gains on sales of subsidiaries. The results of operations of acquired companies are included from the effective dates of acquisition and the results of operations for the Company's divestitures are included through the effective dates of the transactions. See Notes 3 and 5 of Notes to Financial Statements.

In 1986, operating income (loss) for Electronics, Telecommunications and Diversified Industries segments includes charges of $136.6, $5.0 and $267.3 million, respectively, for asset write-downs and costs associated with restructuring certain operations. See Note 4 of Notes to Financial Statements.

In 1986, operating income (loss) for Energy, Electronics and Telecommunications segments includes gains of $7.5, $13.9 and $25.0 million, respectively, recorded in connection with the termination of certain defined benefit pension plans. See Note 14 of Notes to Financial Statements.

Sales to the Federal government accounted for 12.9%, 11.3% and 13.1% of the Company's net sales in 1986, 1985 and 1984, respectively, and are primarily included in the Federal Systems segment.

Identifiable assets represent the assets used in each segment's operations at December 31 of the respective years and do not include corporate assets of $1,405.0, $473.7 and 268.5 million at December 31, 1986, 1985 and 1984, respectively. Corporate assets consist primarily of cash and temporary investments, businesses held for sale and other investments.

AMETEK, INC.

FINANCIAL INFORMATION BY SEGMENTS AND EXPORT SALES

(In thousands)

Net sales	1986	1985	1984
Electro-mechanical	$232,592	$176,180	$175,889
Process Equipment	47,568	55,931	48,929
Precision Instruments	143,240	133,827	133,252
Industrial Materials	145,093	136,851	145,856
Total consolidated	$568,493	$502,789	$503,926
Operating profit			
Electro-mechanical	$ 27,243	$ 34,739	$ 30,757
Process Equipment	4,190	5,509	6,942
Precision Instruments	18,695	19,781	22,842
Industrial Materials	18,561	22,513	26,194
Segment operating profit	68,689	82,542	86,735
Corporate, administrative, research and net interest expenses	(14,225)	(20,774)	(17,059)
Income before taxes	$ 54,464	$ 61,768	$ 69,676
Export sales by geographic area (included above)			
Europe	$ 26,703	$ 20,429	$ 21,382
Canada	18,659	16,663	15,205
Other	15,677	10,789	8,997
Total export sales	$ 61,039	$ 47,881	$ 45,584
Identifiable assets (Used by each segment at December 31)			
Electro-mechanical	$110,875	$119,458	$ 63,172
Process Equipment	20,144	27,018	29,930
Precision Instruments	74,626	78,788	63,133
Industrial Materials	81,289	76,277	69,242
Total segments	286,934	301,541	225,477
Corporate (Principally cash and equivalents and investments)	224,888	99,090	111,585
Total consolidated	$511,822	$400,631	$337,062
Additions to property, plant and equipment			
Electro-mechanical	$ 13,840	$ 18,959	$ 4,545
Process Equipment	530	300	2,173
Precision Instruments	3,261	6,116	3,159
Industrial Materials	7,729	8,463	8,543
Total segments	25,360	33,838	18,420
Corporate	351	499	116
Total consolidated	$ 25,711	$ 34,337	$ 18,536
Depreciation and amortization			
Electro-mechanical	$ 12,523	$ 4,834	$ 3,672
Process Equipment	1,243	1,327	1,263
Precision Instruments	5,015	3,764	3,529
Industrial Materials	7,071	6,893	7,474
Total segments	25,852	16,818	15,938
Corporate	386	83	61
Total consolidated	$ 26,238	$ 16,901	$ 15,999

NATURAL BUSINESS YEAR

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

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

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

During 1986, six companies changed the date of their fiscal year end. Examples of such changes and examples of fiscal year definitions follow.

TABLE 1-4: MONTH OF FISCAL YEAR END

	1986	1985	1984	1983
January	23	24	25	25
February	15	16	12	12
March	11	12	13	13
April	5	5	6	6
May	16	14	13	13
June	43	43	40	37
July	14	16	16	17
August	18	20	20	23
September	36	39	39	39
October	23	26	28	25
November	15	11	14	13
Subtotal	219	226	226	223
December	381	374	374	377
Total Companies	600	600	600	600

Change in Date of Fiscal Year Ending

CAPITAL CITIES/ABC, INC.

Consolidated Balance Sheet

December 28, 1986 and December 31, 1985
(Dollars in thousands)

Consolidated Statement of Income

Years ended December 28, 1986 and December 31, 1985 and 1984
(Dollars in thousands except per share amounts)

Consolidated Statement of Stockholders' Equity

Years ended December 28, 1986 and December 31, 1985 and 1984
(Dollars in thousands)

Consolidated Statement of Changes in Financial Position

Years ended December 28, 1986 and December 31, 1985 and 1984
(Dollars in thousands)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Accounting Policies

Reporting Year—Beginning in 1986, the Company changed its reporting year from a calendar year to a fiscal year ending the Sunday closest to December 31.

Report of Certified Public Accountants

The Board of Directors and Shareholders
Capital Cities/ABC, Inc.

We have examined the accompanying consolidated balance sheet of Capital Cities/ABC, Inc. at December 28, 1986 and December 31, 1985, and the consolidated statements of income, stockholders' equity and changes in financial position for each of the three years in the period ended December 28, 1986. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the statements mentioned above present fairly the consolidated financial position of Capital Cities/ABC, Inc. at December 28, 1986 and December 31, 1985, and the consolidated results of operations and changes in financial position for each of the three years in the period ended December 28, 1986, in conformity with generally accepted accounting principles applied on a consistent basis during the period.

MUNSINGWEAR, INC.

Consolidated Balance Sheets

January 3, 1987	December 31, 1985

Consolidated Statements of Operations

	Years Ended	
January 3, 1987	December 31, 1985	December 31, 1984

Consolidated Statements of Changes in Financial Position

	Years Ended	
January 3, 1987	December 31, 1985	December 31, 1984

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A (In Part): Summary of Significant Accounting Policies

Fiscal Year: Beginning in 1986, the Company changed its fiscal year-end from December 31 to the first Saturday following December 31.

Report of Independent Accountants

The Board of Directors and Stockholders
Munsingwear, Inc.

We have examined the consolidated balance sheet of Munsingwear, Inc. and subsidiaries as of January 3, 1987 and December 31, 1985 and the related consolidated statements of operations, changes in financial position and changes in stockholders equity for each of the three years in the period ended January 3, 1987. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion the financial statements referred to above present fairly the consolidated financial position of Munsingwear, Inc. and subsidiaries at January 3, 1987 and December 31, 1985 and the consolidated results of their operations and the changes in their financial position for each of the three years in the period ended January 3, 1987 in conformity with generally accepted accounting principles which, except for the changes, with which we concur, in the method of costing outlet store inventories and the method of determining pension expense as described in Notes G and M, respectively, to the financial statements, have been applied on a consistent basis.

WEST POINT-PEPPERELL, INC.

Balance Sheet

September 27, 1986 and August 31, 1985

Statement of Income

For the Years Ended September 27, 1986, August 31, 1985, and August 25, 1984

Statement of Shareholders' Equity

For the Years Ended September 27, 1986, August 31, 1985, and August 25, 1984

Statement of Changes in Financial Position

For the Years Ended September 27, 1986, August 31, 1985, and August 25, 1984

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note A: Basis of Presentation

The consolidated financial statements include the accounts of West Point-Pepperell, Inc. and all significant wholly-owned subsidiaries. All material intercompany accounts and transactions have been eliminated. Certain items in 1985 have been reclassified to conform with the current year presentation.

Effective with fiscal year 1986, the Company has changed its fiscal year end from the last Saturday in August to the last Saturday in September. Accordingly, the financial statements for fiscal year 1986 represent the 12 month period ended September 27, 1986. See Note K for the results of the month ended September 28, 1985.

Note K: Results for the Month Ended September 28, 1985

Due to the change in the Company's fiscal year end as described in Note A, the primary financial statements include results for the twelve months ended September 27, 1986. Condensed consolidated results for the month ended September 28, 1985 are as follows (in thousands except earnings per share):

Statement of Income	
Sales	$98,619
Cost of goods sold	73,931
Depreciation and amortization	3,740
Selling and administrative expenses	13,940
Interest expense	1,042
Income before income taxes	5,966
Income taxes	2,586
Net income	$ 3,380
Net income per share	$ .33
Statement of Changes in Financial Position	
Funds provided by:	
Operations:	
Net income	$ 3,380
Depreciation and amortization	3,740
Deferred items	644
Total from operations	7,784
Increase in Federal income tax payable	1,628
Decrease in inventories	1,309
Other transactions—net	443
Total funds provided	11,164
Funds used:	
Capital expenditures	1,674
Increase in accounts receivable	8,945
Decrease in notes payable	1,000
Total funds used	11,619
Decrease in cash	$ 455

Report of Certified Public Accountants

The Board of Directors and Shareholders
West Point-Pepperell, Inc.

We have examined the accompanying consolidated balance sheets of West Point-Pepperell, Inc. at September 27, 1986 and August 31, 1985, and the related consolidated statements of income, shareholders' equity and changes in financial position for the years ended September 27, 1986, August 31, 1985 and August 25, 1984, and for the month ended September 28, 1985 presented in Note K to the consolidated financial statements. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the statements mentioned above present fairly the consolidated financial position of West Point-Pepperell, Inc. at September 27, 1986 and August 31, 1985, and the consolidated results of operations and changes in financial position for the years ended September 27, 1986, August 31, 1985 and August 25, 1984, and for the month ended September 28, 1985, in conformity with generally accepted accounting principles applied on a consistent basis during the period.

Definition of Fiscal Year

BROWN GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Accounting Period

The corporations's fiscal year is the 52 or 53-week period ending the Saturday nearest to October 31. Fiscal years 1986, 1985 and 1984 ended on November 1, 1986, November 2, 1985 and November 3, 1984, respectively. The year 1984 included 53 weeks; 1985 and 1986 each included 52 weeks.

As a result of retailing becoming a greater portion of the corporation's business, Brown Group's fiscal year-end is being changed from October to January. The year-ending January, 1988 will be referred to as fiscal 1987.

FEDERAL PAPER BOARD COMPANY, INC.

NOTES TO FINANCIAL STATEMENTS

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

Fiscal Year

The Company's fiscal year is comprised of 52 or 53 weeks, ending on the Saturday nearest December 31. Quarterly reports to shareholders are issued as of the end of the 12th, 24th, and 36th weeks of each fiscal year. The 1986 fiscal year which ended on January 3, 1987, *includes 53 weeks*. The 1985 and 1984 fiscal years, which ended on December 28, 1985 and December 29, 1984, respectively, *include 52 weeks*.

H. J. HEINZ COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Significant Accounting Policies

Fiscal Year: The company operates on a fiscal year ending the Wednesday nearest April 30. Fiscal years for the financial statements included herein ended April 30, 1986, May 1, 1985, and May 2, 1984.

HUNT MANUFACTURING CO.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Fiscal Year: The Company's fiscal year ends on the Sunday nearest the end of November. Fiscal year 1986 ended on November 30, 1986; fiscal year 1985 ended December 1, 1985; and fiscal year 1984 ended December 2, 1984. Fiscal years 1986 and 1985 comprised 52 weeks; fiscal year 1984 comprised 53 weeks.

JOHNSON & JOHNSON

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Annual Closing Date

The Company follows the concept of a fiscal year which ends on the Sunday nearest to the end of the month of December. Normally each fiscal year consists of 52 weeks, but every five or six years, the fiscal year consists of 53 weeks. For 1987, the Sunday closest to the end of December is January 3, 1988. Johnson & Johnson's 1987 fiscal year will end on that date and will consist of 53 weeks.

THORN APPLE VALLEY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of significant accounting policies

Fiscal year:

The Company's fiscal year is reported on a 52/53-week period which ends on the last Friday in May. The fiscal years ended May 30, 1986 and May 25, 1984 are for 52-week periods, and the fiscal year ended May 31, 1985 is for a 53-week period.

ROUNDING OF AMOUNTS

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

TABLE 1-5: ROUNDING OF AMOUNTS

	1986	1985	1984	1983
To nearest dollar	62	66	72	75
To nearest thousand dollars:				
Omitting 000..............	367	363	357	363
Presenting 000...........	45	44	50	54
To nearest million dollars...	126	127	121	108
Total Companies..................	**600**	**600**	**600**	**600**

COMPARATIVE FINANCIAL STATEMENTS

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

Usually the income statement is the first financial statement presented and is followed by either a balance sheet (272 companies) or a statement showing changes in retained earnings (109 companies). The respective totals for 1985 were 252 and 106. 179 companies presented the balance sheet as the first financial statement followed by an income statement. The corresponding total for 1985 was 177.

Prior to 1986, the financial statements, with rare exception, were presented on consecutive pages. In 1986, 24 survey companies did not present their financial statements on consecutive pages but interspersed the Management's Discussion and Analysis of Financial Condition 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 auditors' report and was not presented in lieu of notes.

NOTES TO FINANCIAL STATEMENTS

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

Changes in accounting principles.

Any material retroactive adjustments.

Long-term lease agreements.

Assets subject to lien.

Preferred stock data.

Pension and retirement plans.

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

Contingencies and commitments.

Depreciation and depletion policies.

Stock option or stock purchase plans.

Consolidation policies.

Business combinations.

Computation of earnings per share.

Subsequent events.

Quarterly data.

Segment information.

TABLE 1-6: NOTES TO FINANCIAL STATEMENTS

	1986	1985	1984	1983
General reference only	355	345	335	333
General and direct references	236	246	258	259
Direct reference only	5	6	4	4
No reference to notes	4	3	3	4
Total Companies	**600**	**600**	**600**	**600**

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.

DISCLOSURE OF ACCOUNTING POLICIES

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

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

TABLE 1-7: DISCLOSURE OF ACCOUNTING POLICIES

	Number of Companies			
	1986	1985	1984	1983
Consolidation basis	579	584	581	580
Depreciation methods	579	580	580	582
Inventory pricing	554	557	556	560
Interperiod tax allocation	510	532	530	533
Property	493	496	497	481
Earnings per share calculation	400	393	375	376
Amortization of intangibles	309	304	294	292
Employee benefits	243	274	281	308
Translation of foreign currency	235	236	261	268
Research and development costs	113	124	145	142
Capitalization of interest	61	78	86	93

AMERICAN STANDARD INC. (DEC)

NOTES TO FINANCIAL STATEMENTS

Note 1: Accounting Policies

Consolidation

The financial statements include on a consolidated basis the results of all majority-owned subsidiaries. All material intercompany transactions are eliminated. Investments in associated companies are included at cost plus the Company's equity in their net income.

Translation of Foreign Financial Statements

Assets and liabilities of most foreign operations are translated at year-end rates of exchange, and the income statements are translated at the average rates of exchange for the year. Gains or losses resulting from translating foreign currency financial statements are accumulated in a separate component of stockholders' equity until the entity is sold or substantially liquidated.

Gains or losses resulting from foreign currency transactions (transactions denominated in a currency other than the entity's local currency) are generally included in net income. For operations in countries that have high rates of inflation (Brazil and Mexico), gains and losses from translating assets and liabilities at year-end rates of exchange, except for inventories and facilities, which are translated at historical rates, are included in net income.

Inventories

Inventory costs are determined by the use of the last-in, first-out (LIFO) method on a worldwide basis, and inventories are stated at the lower of such cost or realizable value. The LIFO carrying value of inventories on the balance sheet is substantially below current cost.

Facilities

The Company capitalizes in the facilities accounts costs, including interest during construction, of fixed asset additions, improvements, and betterments that add to productive capacity or extend the asset life. Maintenance and repair expenditures are charged against income. The benefits from investment tax credits are taken as a reduction of taxes on income in the year they arise. Significant foreign investment grants are amortized into income over the period of benefit.

Goodwill

Goodwill, principally from the acquisition of The Trane Company in 1984, represents the excess of the purchase price over the fair market value of the net assets acquired. Goodwill is being amortized over 40 years.

Warranties

The Company provides for estimated warranty costs at the time of sale. Warranty obligations beyond one year are classified in other long-term liabilities.

Leases

The asset values of capitalized leases are included with facilities, and the associated liabilities are included with long-term debt.

Post-Employment Benefits

Pension benefits are provided for substantially all employees of the Company, both in the United States and abroad. In the U.S. the Company also provides various post-employment health care and life insurance benefits for some of its employees.

Until 1985 the Company recognized the cost of providing post-employment health care and life insurance benefits when paid, except that these costs were fully accrued for plant shutdowns and discontinued operations. In 1985 the Company changed its accounting policy whereby these costs for ongoing operations are accrued utilizing actuarial methods and assumptions consistent with the Company's method of accounting for pensions. Although general practice is to account for these costs on a cash basis, the Company believes this change provides a better matching of current costs with current revenues.

Effective January 1, 1986, the Company adopted Statement of Financial Accounting Standards No. 87, "Employers' Accounting for Pensions," and applied similar principles for all other post-employment benefits.

Depreciation

Depreciation and amortization are computed on the straight-line method based on the estimated useful life of the asset or asset group.

Income Taxes

The Company provides for United States taxes on foreign earnings expected to be repatriated. Future income tax benefits represent tax effects of expense items, such as foreign LIFO inventory adjustments and post-employment benefits, deducted in the determination of pretax income for financial statement purposes that will be deducted for tax purposes in later years. Deferred taxes on income are primarily due to tax depreciation deductions in excess of depreciation reported in the financial statements.

THE BLACK & DECKER CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Thousands of dollars except per share data)

1: Summary of Accounting Policies

Fiscal Year: The Corporation's fiscal year ends on the last Sunday in September. The fiscal years ended September 28, 1986, September 29, 1985 and September 30, 1984, comprised 52, 52 and 53 weeks, respectively.

Principles of Consolidation: The consolidated financial statements include the accounts of the Corporation and its subsidiaries. Intercompany transactions have been eliminated.

Reclassifications: Certain prior years' amounts in the consolidated financial statements have been reclassified to conform to the presentation used for 1986.

Foreign Currency Translation: The financial position and results of operations of substantially all of the Corporation's foreign subsidiaries are measured using local currency as the functional currency except those subsidiaries located in highly inflationary economies, in which case the U.S. dollar is the functional currency. For subsidiaries other than those located in highly inflationary economies, assets and liabilities are translated at the rates of exchange on the balance sheet date. The resultant translation gains or losses are included in the component of stockholders' equity designated as equity adjustment from translation. Income and expense items of these subsidiaries are translated at average monthly rates of exchange. Gains and losses from foreign currency transactions of these subsidiaries are included in net earnings. For subsidiaries operating in highly inflationary economies, gains and losses on foreign currency transactions and balance sheet translation adjustments are included in net earnings.

Marketable Securities: Marketable securities are valued at cost, which approximates market.

Inventories: Inventories are stated at the lower of cost or market. The cost of United States inventories is based on the last-in, first-out (LIFO) method; all other inventories are based on the first-in, first-out (FIFO) method.

Property and Depreciation: Property, plant and equipment is stated at cost except for certain assets written down to net realizable value as part of the 1985 manufacturing capacity reduction plan. Depreciation is computed generally on the straight-line method for financial reporting purposes and on both accelerated and straight-line methods for tax reporting purposes. Depreciation expense charged to operations was $93,112 in 1986, $82,711 in 1985 and $60,995 in 1984.

Goodwill and Other Intangibles: Goodwill and other intangibles are amortized on the straight-line basis over periods ranging up to 20 years.

Sale of Accounts Receivable: During August and September 1985 and 1984, the Corporation sold accounts receivable subject to immaterial recourse provisions. Net proceeds to the Corporation were $154,867 and $87,159, respectively. The Corporation retained the servicing responsibility for these receivables. No receivables were sold during 1986. The Corporation has reclassified the effect of the sale of receivables in both 1985 and 1984 as a financing activity in the Consolidated Statement of Changes in Financial Position. Accordingly, the change in accounts receivable for those years represents the change exclusive of the sale of receivables.

Debt: The Corporation and certain of its subsidiaries participate in various intercompany back-to-back loan agreements with banks whereby funds are borrowed and, concurrently, funds are deposited by the Corporation and certain subsidiaries to support the loans. In the event of default under these arrangements, a legal right of offset permits the use of the deposit to satisfy the defaulted principal and interest. Since the mutual right of offset exists, debt and the equivalent deposits have been eliminated from the balance sheet. Related interest income and interest expense also have been eliminated.

Product Development Costs: Costs associated with the development of new products and changes to existing products are charged to operations as incurred ($39,686 in 1986, $36,030 in 1985 and $28,802 in 1984).

Income Taxes: United States income taxes have not been provided on unremitted earnings of subsidiaries located outside the United States as such earnings are considered to be permanently reinvested. Investment tax credits are accounted for on the flow-through method.

Earnings Per Share: Earnings per share is based on the average number of shares outstanding during each year. Fully diluted earnings per share is not materially different.

ADOLPH COORS COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1: Summary of Accounting Policies

Principles of consolidation: The consolidated financial statements include the accounts of Adolph Coors Company and all domestic and foreign subsidiaries (the Company). All significant intercompany accounts and transactions have been eliminated.

Short-term interest bearing investments: Short-term interest bearing investments consist of certificates of deposit and other income producing securities of less than one-year maturity. These investments are readily convertible to cash, and are stated at cost which approximates market.

Inventories: Inventories are stated at the lower of cost or market. Cost is determined by the last-in, first-out (LIFO) method for substantially all inventories.

Current cost, as determined principally on the first-in, first-out method, exceeded LIFO cost by $57,432,000 and $56,630,000 at December 28, 1986 and December 29, 1985, respectively.

Returnable containers: Bottles are in inventory at cost and expensed as used due to their limited lives. Kegs, which are classified as properties, are depreciated over their estimated useful lives.

Properties: Expenditures for new facilities and significant betterments of existing properties are capitalized at cost. The Company has engineering and construction staffs responsible for the majority of plant expansion projects and installation of machinery and equipment. Capitalized costs of projects undertaken internally consist of direct materials, labor and allocated overhead. Maintenance and repairs are expensed as incurred.

Depreciation is computed principally on the straight-line method at rates considered sufficient to amortize costs over estimated service lives.

The Company has oil, gas and coal properties to provide sources of energy for its own use and for sale to unaffiliated customers. The costs of acquisition, exploration and development of natural resource properties are accounted for under the successful efforts method. Productive properties are amortized on the unit of production method.

Excess of cost over net assets of businesses acquired: The excess of cost over the net assets of business acquired in transactions accounted for as purchases is being amortized on a straight-line basis, generally over a 40-year period.

Research and project development: Expenditures for research and development are charged to operations as incurred. Project costs, primarily feasibility and conceptual studies, are also charged to expense as incurred.

Income taxes: Investment tax credits ($2,000,000 in 1986, $4,000,000 in 1985 and $9,600,000 in 1984) are recorded on the flow-through method of accounting whereby they are applied as a reduction of income tax expense in the year the properties generating such credits are placed in service or are claimed on qualified progress expenditures.

Net income per share: Net income per share is based on the weighted average number of shares of common stock outstanding during each year. Except for voting, both classes of common stock have the same rights and privileges.

Fiscal year: The fiscal year of the Company is a 52- or 53-week period ending on the last Sunday in December.

KERR GLASS MANUFACTURING CORPORATION (DEC)

NOTES TO FINANCIAL STATEMENTS

Note 1: Summary of Significant Accounting Policies

Inventories

Inventories are valued at the lower of cost or market, determined by the first-in, first-out method.

Depreciation, Maintenance and Repairs

Depreciation of property, plant and equipment is provided primarily by the use of the straight-line method over the estimated useful lives of the assets. The principal estimated useful lifes used in computing the depreciation provisions are as follows:

Buildings and improvements	5 to 50 years
Machinery and equipment	3 to 25 years
Furniture and equipment	3 to 12 years

When properties are retired, or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and the resulting gain or loss is credited or charged to operations. The policy of the Company is to charge amounts expended for maintenance and repairs to expense and to capitalize expenditures for major replacements and betterments.

Debt Issuance Costs

Debt issuance costs are being amortized by the use of the straight-line method over the terms of the related debt agreements.

Investment Tax Credits

Investment tax credits are accounted for by use of the flow-through method as a reduction of federal income taxes in the year in which the credits arise. The Tax Reform Act of 1986 eliminated investment tax credits as of January 1, 1986 except for certain credits allowed pursuant to transitional provisions of the Act.

Earnings (Loss) Per Common Share

Primary net earnings (loss) per common share are based on the weighted average number of common shares outstanding and are after Preferred Stock dividend requirements.

Fully diluted net earnings (loss) per common share are further adjusted to reflect when dilutive, 1) the incremental common shares issuable upon the assumed exercise of outstanding stock options, and 2) the assumed conversion of the Class B Preferred Stock, Series D and the elimination of the related Preferred Stock dividends. Antidilution occurred in 1986, 1985 and 1984.

Financial Statement Reclassification and Presentation

Certain reclassifications have been made to prior years' financial statements to conform to the 1986 presentation.

In 1986, the Company is presenting Statements of Cash Flow. In prior years, the company had presented Statements of Changes in Financial Position. Prior years' statements have been conformed to the 1986 presentation.

POLAROID CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

Principles of Consolidation: The consolidated financial statements include the accounts of the domestic and foreign subsidiaries, all of which are wholly owned. Intercompany accounts and transactions are eliminated.

Statement of Changes in Financial Position: The Company has changed the format of its consolidated statement of changes in financial position from a working capital to a cash flow presentation. Management believes that the cash flow format provides a more meaningful presentation. Prior years amounts have been reformatted to conform with the current year presentation.

Short-term Investments: Short-term investments are carried at cost which approximates market.

Inventories: Inventories are valued on a first-in, first-out basis at the lower of standard cost (which approximates actual cost) or market value. Market value is determined by replacement cost or net realizable value.

Income Taxes: Income tax provisions are made at appropriate rates for all taxable items included in the consolidated statement of earnings regardless of the period for which such items are reported for tax purposes. Provision is made for U.S. income taxes on the earnings of foreign subsidiaries which are in excess of amounts being held for reinvestment in overseas operations.

Property, Plant and Equipment: The cost of buildings, machinery and equipment is depreciated, primarily by accelerated depreciation methods, over the estimated useful lives of such assets as follows: buildings, 20–40 years; machinery and equipment, 3–12 years.

Foreign Currency Translation: The Company's foreign operations are most appropriately measured by reflecting financial results of these operations as if they had taken place within a U.S. dollar based economic environment. Inventory, property, plant and equipment, cost of goods sold and depreciation are remeasured from foreign currencies to U.S. dollars at historical exchange rates. All other accounts are translated at current exchange rates. Gains and losses resulting from remeasurement are included in income.

Pension Plan: Effective January 1, 1986, the Company and its subsidiaries in the United Kingdom and the Netherlands adopted Financial Accounting Standards Board Statement No. 87, "Employers Accounting for Pensions". Pension accounting information is disclosed in Note 9 to Consolidated Financial Statements.

Patents and Trademarks: Patents and trademarks are valued at $1.

Product Warranty: Estimated product warranty costs are accrued at the time the products are sold.

Earnings Per Share: Earnings per share of common stock are based on the weighted average number of shares outstanding.

THE STANDARD OIL COMPANY (DEC)

NOTES TO FINANCIAL STATEMENTS

Note A: Major Accounting and Financial Reporting Policies

Reclassification: The December 31, 1985, Balance Sheet reflects the reclassification of certain accruals, which were established for losses on disposition, shutdown and modification of operations, from long-term obligations to net property, plant and equipment. Certain other amounts in previously issued financial statements have been reclassified to conform to 1986 presentations.

Consolidation: Majority-owned joint-venture financing and mining companies and the Company's 33.34% undivided interest in the trans-Alaska pipeline are consolidated on a pro rata basis. The Company's investment in Standard Oil Finance Company, a wholly-owned finance subsidiary, and operations which it has decided to divest are accounted for using the equity method. The Company fully consolidates in its financial statements the accounts of all other significant subsidiaries in which it owns more than 50% of the voting stock.

Inventories: Inventories are stated at cost, but not in excess of net realizable value. The cost of inventories is determined primarily on the last-in, first-out method, except for foreign product inventories and materials and supplies for which cost is determined using the first-in, first-out or average cost method.

Exploration and Development

Petroleum: The successful efforts method of accounting is followed for costs incurred in oil and gas exploration and development operations.

Property acquisition costs for unproved oil and gas properties are initially capitalized. The acquisition costs for individually significant unproved properties are assessed at least annually on a property-by-property basis, and any impairment in value is recognized currently. The acquisition costs of all other unproved properties that are not individually significant ("pooled properties") are aggregated, and the portion of such properties estimated to be nonproductive based on past experience are amortized over their weighted average expected holding period. Revisions of estimates that affect pooled properties are generally accounted for prospectively using revised amortization rates. However, current period income may be charged if a material, unusual event results in a significant change in expected exploration activities. Costs of properties surrendered are charged against the applicable valuation allowance.

Exploratory drilling costs are initially capitalized. If and when exploratory wells are determined to be nonproductive, the related costs are charged to expense. Other exploration costs, including geological, geophysical and carrying costs, are charged to expense as incurred.

When a property is determined to contain proved reserves, property acquisition costs and related exploratory drilling costs of successful wells are transferred to proved properties.

Development costs of proved properties, including producing wells and related facilities and any development dry holes, are capitalized.

Coal and Metals Mining: Exploration and development expenditures are generally charged to expense as incurred until a decision is made to develop a mineral reserve. Expenditures to bring new properties into production and major expenditures of a nonrecurring nature are deferred and amortized ratably over the production benefited. Expenditures for continuing development required to maintain production are charged to expense as incurred.

Property, Plant and Equipment

Depreciation, Depletion and Amortization Costs: Depreciation of the trans-Alaska pipeline is computed by the unit-of-throughput method based on estimated applicable proved crude oil reserves. Depletion and depreciation of proved oil and gas properties and depletion of mine development costs, mineral lands and leaseholds are computed for each oil and/or gas reservoir or mine using the unit-of-production method based on applicable reserves. Other property, plant and equipment is depreciated principally by the straight-line method over estimated useful lives which are revised periodically based on experience.

Dismantlement, Restoration and Reclamation Costs: The estimated future costs of dismantling, restoring and reclaiming certain major properties and facilities, less estimated residual values, are accrued during operations.

Capitalized Interest: Interest costs incurred in connection with significant expenditures for the construction or acquisition of property, plant and equipment are capitalized.

Property Disposition: Upon disposition of property, plant and equipment, the asset cost and related accumulated depreciation are eliminated from the respective accounts. Any gain or loss is included in current operations, except those related to dispositions of pipeline property and partial dispositions of oil and gas properties which are normally recorded as adjustments to the accumulated depreciation account.

Impairment: Except for impairment of unproved oil and gas properties discussed above, reductions in the utility of major units of property, plant and equipment, which the Company intends to hold and operate, caused by obsolescence due to technological, economic or other changes are generally recognized over the remaining productive lives of the assets. However, if it is determined that the book value of property, plant and equipment exceeds future estimated cash flows (undiscounted) over the remaining productive life of the asset, such excess is charged to expense in the period of determination. Property, plant and equipment held for divestment is written down to estimated net realizable value to the extent it is less than net book value.

Warrants and Indexed Debt Instruments: Proceeds from the issuance of warrants and the contingent payment portion of indexed debt instruments are deferred and recorded as long-term liabilities. Subsequently, the deferred liability is valued at the higher of premium received or market (the difference between the applicable commodity or other market value and the exercise price of the warrant or indexed debt instrument) until the warrant or indexed instrument is either exercised or expires.

Earnings Per Share: Earnings per share of common stock is based on the weighted average number of common shares outstanding and shares to which the special stock is equivalent.

ACCOUNTING CHANGES

APB Opinion No. 20 "defines various types of accounting changes and establishes guides for determining the manner of reporting each type." Table 1-8 lists the accounting changes disclosed in the 1986 annual reports of the survey companies. As indicated in Table 1-8, the most frequently disclosed change related to pension plans with 266 companies disclosing early compliance with *Statement of Financial Accounting Standards No. 87*.

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

TABLE 1-8: ACCOUNTING CHANGES

	Number of Companies			
	1986	1985	1984	1983
SFAS 87 adopted	266	17	—	—
Actuarial assumptions	102	104	118	83
Actuarial cost method	3	38	20	19
Reporting entity	9	5	9	9
SFAS 86 adopted	8	4	—	—
Successful efforts method adopted	6	2	—	—
Taxes on undistributed earnings discontinued	4	—	—	2
Depreciation method	3	7	4	5
Depreciable lives	3	3	3	6
LIFO method adopted or extended	2	10	4	6
Other inventory changes	4	9	7	4
Investment credit	—	2	3	2
Foreign currency translation	—	—	12	64
Other—described	16	13	16	11

CHANGE IN ACCOUNTING ESTIMATES

BROWNING-FERRIS INDUSTRIES, INC. (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

12 (In Part): Income Taxes

During 1986, the Company concluded that development and expansion of its foreign business would require that a portion of the undistributed earnings of foreign subsidiaries be reinvested indefinitely outside the United States. Accordingly, U.S. federal income taxes of $6.5 million provided in fiscal years 1983 through 1986 were removed from the deferred tax liability account and federal income tax expense for fiscal year 1986 was reduced by a corresponding amount.

A. H. ROBINS COMPANY, INCORPORATED (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Intangible Assets

Excess of cost over net assets of subsidiaries acquired after October 31, 1970 is being amortized over a period of 40 years or less. Effective January 1, 1986, the Company began amortizing excess cost of $19.5 million relating to companies acquired prior to November 1, 1970. The effect of this change was to decrease net earnings for the year 1986 by $1.7 million, or 7 cents per share. Expenditures for development of patents are charged to expense as incurred. Patents purchased and trademarks are being amortized over their determinable lives.

TIME INCORPORATED (DEC)

NOTES TO FINANCIAL STATEMENTS

Change in Estimate

In the first quarter of 1986, the Company changed the rate of amortization of its pay-TV programming costs to more closely reflect audience viewing patterns. The effect of this change was to reduce programming costs by $57 million for 1986, thereby increasing net income and earnings per share by $31 million and $.49, respectively.

WESTVACO CORPORATION (OCT)

NOTES TO FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (In Part)

Depreciation and amortization: The cost of plant and equipment, including those acquired under capital leases, is depreciated over the estimated useful lives of most assets by use of the straight-line method. For certain major projects, the units-of-production method is used until a planned level of production is reasonably sustained. In 1986, the company revised the estimated useful lives of certain assets. This resulted in increasing net income for the year by $6 million or $.15 per share. The cost of standing timber is charged to income as timber is cut at rates determined annually based on the relationship of unamortized timber costs to the estimated volume of recoverable timber.

CHANGE IN ACCOUNTING PRINCIPLES

Prior Period Financial Statements Restated

CBI INDUSTRIES, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Thousands of dollars, except per share amounts)

2. Change to Successful Efforts Accounting Method

During the second quarter of 1986, CBI changed its method of accounting for oil and gas exploration and development costs from the full cost method to the successful efforts method. Accordingly, the financial statements for prior years have been restated, reflecting the retroactive application of the successful efforts method. Although the full cost method continues to be acceptable, the Financial Accounting Standards Board has expressed a preference for the successful efforts method and CBI believes this method provides a better measure of the results of its exploration and development activities. Under successful efforts accounting, expenditures for unsuccessful exploration activities are expensed currently, while under the full cost method such expenditures are capitalized and amortized over the life of the proven reserves.

The change to the successful efforts method resulted in an increase of $369 ($.02 per share) in the net loss previously reported in 1985 and a decrease of $4,174 ($.23 per share) in the net income previously reported in 1984. Retained earnings at January 1, 1984 was reduced by $8,308 ($.48 per share), reflecting the cumulative effect of the change on prior periods.

If the full cost method of accounting had been used for the year ended December 31, 1986, reported net income, and income before extraordinary credit would have been decreased by $18,717 ($.86 per share). At December 31, 1986, the book value of proven oil and gas reserves exceeded the discounted future net revenues by $13,523.

INTERNATIONAL MINERALS & CHEMICAL CORPORATION

Consolidated Statement of Changes in Shareholders' Equity (In Part)

(In millions)	Common Stock	Preferred Stock	Capital in excess of Par Value	Retained Earnings
Balance, June 30, 1983, as previously reported	$137.9	$10.0	$17.5	$894.9
Cumulative effect of change in method of accounting for inventory				16.3
Balance, June 30, 1983, as restated	137.9	10.0	17.5	911.2

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in millions except per share amounts)

Accounting Policies (In Part)

Inventories

Inventories are stated at the lower of cost or market (net realizable value). In the fourth quarter of 1986, the Company changed its method of determining cost of certain domestic product inventories from the last-in, first-out (LIFO) method. Cost for all inventories is now determined on a cumulative annual average or first-in, first-out (FIFO) basis. Financial statements for prior years have been restated to reflect this change.

Product Inventories (In Part):

In the fourth quarter of 1986, IMC changed its method of determining cost of certain domestic product inventories from the LIFO cost method to a cumulative annual average cost method. Management believes this cost method will result in a fairer presentation of inventories while maintaining an appropriate matching of costs with revenues.

Financial statements of prior years have been restated to reflect this change. As a result, retained earnings have been increased by $16.3 million as of July 1, 1984. The effect of the restatement was to increase (decrease) operating results and per common share amounts as follows:

	1986 Adjustment	1986 Per Common Share	1985 Adjustment	1985 Per Common Share	1984 Adjustment	1984 Per Common Share
Continuing operations	$1.5	$.05	$1.2	$.04	$(1.5)	$(.05)
Discontinued operations	(1.3)	(.04)	.5	.02	.1	
	$ .2	$.01	$1.7	$.06	$(1.4)	$(.05)

Cumulative Effect Shown On Income Statement

NATIONAL SEMICONDUCTOR CORPORATION (MAY)

Consolidated Statements of Operations

(in millions, except per share amounts)

	1986	1985	1984
Earnings (Loss) before extraordinary credit and cumulative effect of accounting change	$(148.3)	$34.4	$56.2
Extraordinary credit—tax benefit resulting from utilization of operating loss carryforwards	5.6	8.8	7.8
Earnings (Loss) before cumulative effect of accounting change	(142.7)	43.2	64.0
Cumulative effect for years prior to 1986 of changing revenue recognition policy on distributor shipments (net of tax effect of $14.8 million).	51.2	—	—
Net earnings (loss)	$ (91.5)	$43.2	$64.0
Earnings (Loss) per share:			
Earnings (Loss) before extraordinary credit and cumulative effect of accounting change	$ (1.73)	$0.38	$0.66
Extraordinary credit	0.06	0.10	0.09
Earnings (Loss) before cumulative effect of accounting change	(1.67)	0.48	0.75
Cumulative effect of changing revenue recognition policy on distributor shipments	0.57	—	—
Net earnings (Loss)	$ (1.10)	$0.48	$0.75

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2. Accounting Change: Revenue Recognition on Distributor Shipments

In 1981, the Company adopted an accounting method which deferred the recognition of revenue on sales to distributors until final sale by the distributor. Since that time a clearly predictable pattern of returns from distributors and allowances to distributors has emerged. Consequently, the Company has changed its accounting method from deferring such revenue to recognizing revenue when products are shipped to distributors. The Company believes that the recognition of revenue at the time of shipment results in a more meaningful measurement of operations. Appropriate accruals for returns from distributors and for allowances granted to them are established at the time of shipment.

The following table presents certain information as reported in the financial statements and on a pro forma basis as though the new revenue recognition method had been applied in fiscal years 1984 and 1985:

As reported in financial statements:

(in millions, except per share amounts)	1986	1985	1984
Earnings (Loss) before extraordinary credit and cumulative effect of accounting change	$(148.3)	$34.4	$56.2
Extraordinary credit	5.6	8.8	7.8
Cumulative effect of accounting change	51.2	—	—
Net earnings (loss)	$ (91.5)	$43.2	$64.0
Earnings (Loss) per share:			
Earnings (Loss) before extraordinary credit and cumulative effect of accounting change	$ (1.73)	$0.38	$0.66
Extraordinary credit	0.06	0.10	0.09
Cumulative effect of accounting change	0.57	—	—
Net earnings (loss)	$ (1.10)	$0.48	$0.75

Pro forma amounts assuming the new revenue recognition method had been applied in fiscal years 1984 and 1985:

(in millions, except per share amounts)	1986	1985	1984
Earnings (Loss) before extraordinary credit	$(148.3)	$30.1	$82.9
Extraordinary credit	5.6	8.8	7.8
Net earnings (loss)	$(142.7)	$38.9	$90.7
Earnings (Loss) per share:			
Earnings (Loss) before extraordinary credit	$ (1.73)	$0.34	$0.97
Extraordinary credit	0.06	0.10	0.09
Net earnings (loss)	$ (1.67)	$ .44	$1.06

THE TIMKEN COMPANY (DEC)

Consolidated Statements of Income

	1986	1985	1984
	(Thousands of dollars, except per share data)		
Income (Loss) Before Extraordinary Item and Cumulative Effects of Accounting Changes	$(82,738)	$(6,966)	$46,057
Extraordinary item—foreign tax credit carryforward utilized	0	3,063	0
Cumulative effects of accounting changes on prior years:			
Depreciation (Net of income taxes of $46,544)	59,473	0	0
Gain on pension termination/reestablishment (Net of income taxes of $22,149)	26,001	0	0
Net Income (Loss)	$ 2,736	$(3,903)	$46,057
Earnings per share:			
Income (loss) before extraordinary item and cumulative effects of accounting changes	$ (6.70)	$ (.58)	$ 3.91
Extraordinary item	0	.26	0
Cumulative effects of accounting changes on prior years:			
Depreciation	4.81	0	0
Gain on pension termination/reestablishment	2.11	0	0
Net income (loss) per share	$ .22	$ (.32)	$ 3.91
Pro forma amounts assuming the accounting change for depreciation had been applied retroactively:			
Income (loss) before extraordinary item	$(82,738)	$(4,164)	$48,551
Income (loss) per share	$ (6.70)	$ (.35)	$ 4.13
Net income (loss)	$(56,737)	$(1,101)	$48,551
Net income (loss) per share	$ (4.59)	$ (.09)	$ 4.13

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note B. Accounting Changes

Effective January 1, 1986, the Company changed its method of depreciation for substantially all property, plant and equipment from accelerated methods (primarily double-declining balance method) to the straight-line method. The Company believes the straight-line method is preferable to the method previously used since it is more consistent with depreciation methods used by most similar industrial companies and, therefore, should improve comparability of financial reporting. This change increased net income by $71,165,000 ($5.76 per share) in 1986, which included the cumulative effect on prior years of $59,473,000 ($4.81 per share) and the after-tax effect on 1986 operations of $11,692,000 ($.95 per share).

In the fourth quarter, 1986, the Company elected early adoption of the provisions of Financial Accounting Standards Board Statements No. 87, "Employers' Accounting for Pensions," and No. 88, "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits," as recommended by the Financial Accounting Standards Board. It is required that these changes in accounting methods be applied effective January 1 in the year of adoption. Net income increased by $5,802,000 ($.47 per share) in 1986 as a result of adopting Statement No. 87. Under the provisions of Statement No. 88, approximately $48,150,000 of the gain on pension termination/reestablishment previously deferred was recognized as income. The cumulative effect of adopting Statement No. 88 as of January 1, 1986, was an increase to net income of $26,001,000 ($2.11 per share) in 1986.

THE SINGER COMPANY (DEC)

Statement of Income

	1986	1985	1984
	(Dollar Amounts in Millions, except per share data)		
Income before extraordinary credits and cumulative effect of change in method of accounting*	$ 91.8	$ 82.3	$ 53.3
Extraordinary credits	18.0	—	11.8
Cumulative effect of change in method of accounting	(27.2)	—	—
Net income*	$ 82.6	$ 82.3	$ 65.1
Net income applicable to primary earnings per share	$ 77.6	$ 77.9	$ 60.1
Average number of common shares and common share equivalents (000's omitted)	20,309	18,109	17,611
Earnings per share:			
Primary:			
Income from continuing operations	$ 2.63	$ 2.88	$ 3.24
Discontinued operations	1.64	1.42	(.50)
Extraordinary credits	.89	—	.67
Cumulative effect of change in method of accounting	(1.34)	—	—
Net income	$ 3.82	$ 4.30	$ 3.41
Fully diluted:			
Income from continuing operations	$ 2.60	$ 2.72	$ 3.23
Discontinued operations	1.59	1.23	(.43)
Extraordinary credits	.86	—	.58
Cumulative effect of change in method of accounting	(1.30)	—	—
Net income	$ 3.75	$ 3.95	$ 3.38

*Pro forma amounts assuming the new method of accounting had been applied retroactively for 1986, 1985 and 1984 are $91.8 million, $60.1 million, and $32.9 million, respectively, for income before extraordinary credits and $109.8 million, $60.1 million, and $44.7 million, respectively, for net income.

NOTES TO FINANCIAL STATEMENTS

2 (In Part): Accounting Changes

Program Method of Accounting

During the 1986 second quarter, the Company recorded a one-time after-tax charge of $2.72 million which resulted from the Company modifying the application of its program method of accounting for certain long-term contracts. The method adopted segregates certain contracts, that require major development or advancement of state-of-the-art technology products, and accounts for the costs related to such contracts as expense on a contract, versus program method. The Company believes that, due to the current environment of accelerated technological change, this modification is a preferable method of accounting.

The effect of this accounting change on income from continuing operations for the year ended December 31, 1986, was immaterial.

The pro forma earnings per share amounts assuming the new method of accounting had been applied retroactively are as follows:

Year Ended December 31,	1986	1985	1984
Primary:			
Income before extraordinary credits	$4.27	$3.08	$1.58
Net income	$5.16	$3.08	$2.25
Fully diluted:			
Income before extraordinary credits	$4.19	$2.89	$1.58
Net income	$5.05	$2.89	$2.25

Other Changes

DSC COMMUNICATIONS CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (In Part)

Research and Development Expenditures

Effective January 1, 1986, the Company began capitalizing certain software development costs not under contract with customers in accordance with Statement of Financial Accounting Standards No. 86, "Accounting for the Costs of Computer Software to be Sold, Leased, or Otherwise Marketed" (the Statement). Prior to 1986, all such costs were charged to research and development expense during the period incurred. Capitalization of software development costs begins upon the establishment of technological feasibility as defined in the Statement. The establishment of technological feasibility and the ongoing assessment of recoverability of capitalized software development costs requires considerable judgment by management with respect to certain external factors, including, but not limited, to technological feasibility, anticipated future gross revenues, estimated economic life and changes in software and hardware technologies.

Amortization of capitalized software costs is provided on a product-by-product basis at the greater of the amount computed using (a) the ratio of current gross revenues for a product to the total of current and anticipated future gross revenues or (b) the straight-line method over the remaining estimated economic life of the product. Generally, an original estimated economic life of two years is assigned to capitalized software development costs. During 1986, the Company capitalized $8,042,000 of software development costs and $1,582,000 of such costs were amortized to cost of revenue, which increased 1986 earnings before extraordinary gain and net earnings by $5,727,000 ($.14 per share).

All other research and development expenditures are charged to research and development expense in the period incurred.

MCDONNELL DOUGLAS CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Computer Software

The practice of capitalizing internally developed software to be marketed was first adopted in 1986, as required by the Statement of Financial Accounting Standards No. 86; however purchased software and software acquired in acquisitions of enterprises have been capitalized and amortized in prior years. Internally developed software capitalized, net of amortization, in 1986 amounted to approximately $22.7 million.

At December 31, 1986, unamortized software costs included in intangible assets was $169.8 million, and amortization of software costs and amounts written down to net realizable value by charges to expense were $78.9 million in 1986, $80.9 million in 1985 and $30.8 million in 1984.

WANG LABORATORIES, INC. (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note B. Deferred Software Production Costs

Effective July 1, 1985, the Company adopted a change of accounting for costs of computer software. The change was made in accordance with the provisions of Statement of Financial Accounting Standards No. 86, which specifies that certain costs incurred in the development of computer software to be sold or leased to customers are to be capitalized and amortized over the economic useful life of the software product. Total costs capitalized and deferred during the year ended June 30, 1986 approximated $21.1 million, of which $1.8 million has been amortized and charged to expense. The net effect of the change ($19.3 million) was recorded in the fourth quarter of Fiscal 1986.

ELCOR CORPORATION (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Change to LIFO Method of Inventory Pricing

Effective July 1, 1985, the Company adopted the last-in, first-out (LIFO) method of determining inventory costs. In previous years, the Company used the first-in, first-out (FIFO) method. Management believes the LIFO method is preferable because it more closely matches revenues and expenses during periods of price-level changes. The consolidated financial statements for fiscal years prior to 1986 have not been restated to reflect this change as it is not required under generally accepted accounting principles to state the cumulative effect on Retained Earnings of this change in accounting principle. The effect of this change for the year ended June 30, 1986, was to increase income from continuing operations by $524,000 ($.15 per share), and increase net income by $970,000 ($.28 per share).

JAMES RIVER CORPORATION OF VIRGINIA (APR)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

C. Inventories:

Inventories are valued at the lower of cost or market. As described in Note 5, effective for fiscal 1986, the Company adopted the last-in, first-out ("LIFO") cost flow assumption for valuing substantially all domestic inventories.

5. Inventories:

Inventory components and their valuation methods are as follows:

(in thousands)	1986	1985
Components:		
Raw materials	$ 96,844	$ 98,682
Finished goods and work in process	233,143	238,408
Stores and supplies	60,042	65,917
	390,029	403,007
Addition (subtraction) to state certain inventories at LIFO cost	5,926	(1,305)
	$395,955	$401,702
Valued at lower of cost or market:		
Last-in, first-out ("LIFO")	$325,852	$ 3,175
First-in, first-out ("FIFO")	68,211	162,965
Average	1,892	235,562
	$395,955	$401,702

Cost elements included in substantially all work in process and finished goods inventories are raw materials, direct labor and manufacturing overhead.

Effective April 29, 1985, James River adopted the LIFO cost flow assumption for valuing substantially all domestic inventories. The Company believes that the use of the LIFO method better matches current costs with current revenues. The cumulative effect of this change on retained earnings at the beginning of the year is not determinable, nor are the pro forma effects of retroactive application of LIFO to prior years. The effect of the change on fiscal 1986 was to increase net income by $3.3 million, or $.06 per fully diluted share ($.07 per primary share).

REPORTING ENTITY

THE COCA-COLA COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3 (In Part): Investments In and Advances To Affiliated Companies

On September 12, 1986, the Company transferred the operating assets of substantially all previously owned and recently acquired bottling companies in the United States to Coca-Cola Enterprises Inc. (Enterprises), a wholly owned subsidiary. In connection with these transactions, Enterprises assumed approximately $233 million of debt incurred by the Company in conjunction with certain of the acquisitions. In addition, in September 1986, Enterprises acquired the Coca-Cola bottling companies controlled by John T. Lupton and his family and the soft drink bottling operations of BCI Holdings Corporation (the successor to The Beatrice Companies, Inc.) and the remaining interest in The Detroit Bottling Company, Inc. for an aggregate cost of approximately $2.25 billion; these acquisitions were funded with borrowings under a credit agreement entered into by Enterprises with a syndicate of banks. The Company is not a party to the credit agreement and has not guaranteed any of the borrowings thereunder.

On November 21, 1986, Enterprises sold 71.4 million shares of its unissued common stock for net proceeds of approximately $1.12 billion. This transaction reduced the Company's ownership interest to 49 percent and resulted in a pretax gain of $375 million. Consistent with its reduced ownership interest, the Company has commenced reporting its investment in Enterprises under the equity method of accounting. The consolidated financial statements have been restated to reflect Enterprises under the equity method of accounting for all periods presented. The restatement had no effect on shareholders' equity, income from continuing operations, net income or related per share amounts.

PIONEER HI-BRED INTERNATIONAL, INC. (AUG)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (In Part): Significant Accounting Policies

Consolidation policy and change in reporting entity:

During the year ended August 31, 1986, the Company adopted the policy of including its previously unconsolidated foreign subsidiaries, all of which have a year end other than August 31, on a consolidated basis to better reflect financial position and operating results of the Company as a whole. The change in consolidation policy had the effect of increasing previously reported net sales by $33,079,000 and $27,804,000 for the years ended August 31, 1985 and 1984, respectively. This change had no effect on net income for the year ended August 31, 1986, or previously reported net income. All significant intercompany balances and transactions have been eliminated in consolidation.

The Company accounts for its investment in one domestic subsidiary, which does not constitute a significant subsidiary, by the equity method.

THE SOUTHLAND CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Sale of Half-Interest in Citgo and Accounting Change:

As of September 30, 1986, the Company sold 50% of the common stock of Citgo to Propercit S.A. (Propercit), a wholly owned subsidiary of PetrolEos de Venezuela, S.A. (PDVSA), the stock of which is owned by the Republic of Venezuela. The purchase price consisted of $290 million cash, of which $27.5 million was deferred because it was contingently repayable to Propercit on January 31, 1991, if the market prices of petroleum products do not increase sufficiently at any time prior to that date according to a formula in the Stock Purchase Agreement. The deferred gain was $23.3 million at December 31, 1986. In connection with the purchase, Citgo entered into a 20-year crude supply agreement with PDVSA to purchase a minimum of 130,000 barrels of crude oil per day at market-related prices, and the Company entered into a 20-year product purchase agreement with Citgo to buy specified quantities of gasoline at market-related prices (see Note 15).

The sale resulted in a gain to the Company during 1986 of $114.7 million before profit sharing expense of $11.4 million and income taxes of $14.7 million, for a net gain of $88.6 million, or $1.84 per primary share.

As a result of the sale of half of Citgo's equity, the Company changed the method of accounting for its investment in Citgo from full consolidation to the equity method of accounting in order to improve the comparability of prior-year results to 1986 and future years. The financial statements for all periods prior to September 30, 1986, have been restated to reflect the Company's ownership of Citgo on the equity method (100% through September 30, 1986). Income taxes and profit sharing contribution through September 30, 1986, are separately provided in the consolidated statements of earnings.

The effect of the restatement was a reduction in consolidated revenues and costs and expenses as follows:

	Nine months ended September 30 1986	Year ended December 31 1985	1984
(Dollars in thousands)			
Revenues	$2,504,086	$4,167,233	$4,064,328
Costs and expenses	2,576,406	4,054,558	4,090,142
Equity in earnings (loss) of Citgo	$ (72,320)	$ 112,675	$ (25,814)

CONSOLIDATION POLICIES

Accounting Research Bulletin No. 51 states in part:

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

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

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

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

TABLE 1-9: CONSOLIDATION POLICIES

	1986	1985	1984	1983
Nature of Subsidiaries Not Consolidated				
Finance related				
Credit	104	107	104	97
Insurance	54	58	54	60
Leasing	21	16	15	18
Banks	7	7	5	5
Real Estate	29	32	26	31
Foreign	10	12	15	17
Number of Companies				
Consolidating all significant subsidiaries	434	423	420	419
Consolidating certain significant subsidiaries	159	172	174	172
Not presenting consolidated financial statements	7	5	6	9
Total Companies	**600**	**600**	**600**	**600**

All Subsidiaries Consolidated

ACME-CLEVELAND CORPORATION (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note A (In Part): Accounting Policies and Practices

Acme-Cleveland Corporation and its subsidiaries' accounting and reporting policies conform to generally accepted accounting principles and to industry practices on a consistent basis for all years presented. Significant accounting policies and practices are described below:

Consolidation—The consolidated financial statements include the accounts of the Corporation and its majority owned subsidiaries. In addition, the Corporation has one joint venture and several minority interest investments in other companies. These affiliates are stated at cost plus the Corporation's equity in undistributed earnings. Upon consolidation all significant intercompany items are eliminated.

At September 30, 1986 and 1985, investments in affiliates included goodwill of $1,963,000 and $4,110,000, respectively. The related accumulated amortization as of September 30, 1986 and 1985 was $1,218,000 and $1,224,000, respectively. The majority of the reduction in goodwill in 1986 was due to the sale of the Corporation's 50% equity interest in Vagle Technology, Inc.

Foreign currency transaction and translation losses of $827,000 in 1986, $947,000 in 1985, and $296,000 in 1984 were included in earnings (loss) from continuing operations.

ALLIS-CHALMERS CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (In Part)

Principles of Consolidation

The consolidated financial statements include the accounts of Allis-Chalmers Corporation and its subsidiaries. All significant intercompany transactions have been eliminated. Certain non-U.S. subsidiaries are included on the basis of years ending November 30. The consolidated financial statements have been prepared showing the operations of the Company on a going concern basis. See the Financing and Subsequent Events notes for comments regarding matters affecting the Company's viability and its ability to continue operations.

BASSETT FURNITURE INDUSTRIES, INCORPORATED (NOV)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Principles of Consolidation: The consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly-owned. All significant intercompany accounts and transactions are eliminated in consolidation. Financial statements of the E. B. Malone Corporation are included in consolidation for its year ended October 31, which is done in order to expedite preparation of financial statements and to coincide with the taxable year of that company.

NATIONAL DISTILLERS AND CHEMICAL CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (dollars in millions) (In Part): Summary of Accounting Policies

Principles of Consolidation

The financial statements include the accounts of all majority-owned companies. Associated companies are accounted for under the equity method, i.e., at cost, increased or decreased by the Company's share of earnings or losses, less dividends. Associated companies include significant companies in which National has at least a 20%, but not more than a 50%, interest. Prior to the sale of the property/casualty insurance business in 1985, subsidiaries engaged in insurance operations were accounted for under the equity method.

Note 7: Foreign Subsidiaries

Summary data with respect to foreign subsidiaries included in the consolidated statements are:

	December 31	
Balance sheet data	1986	1985
Assets	$176.5	$147.4
Liabilities	(10.6)	(10.6)
Net assets	$165.9	$136.8

	Year ended December 31		
Income statement data	1986	1985	1984
Net sales—continuing operations			
—to affiliates	$ 1.8	$ 3.2	$ 1.1
—to others	49.1	42.0	32.3
Total net sales	$50.9	$45.2	$33.4
Income from continuing operations	$ 1.5	$ 2.4	$ 3.7
Income from discontinued operations	$ 6.6	$ 8.7	$10.2

Foreign currency denominated assets, liabilities, revenues and expenses (except for those of the Brazilian subsidiary) included in the consolidated financial statements have been translated into U.S. dollars using current exchange rates with translation adjustments accounted for as an increase or decrease of common shareholders' equity. Because of the highly inflationary economy of Brazil, the nonmonetary accounts (principally inventories, fixed assets and depreciation) of the Brazilian operation have been translated by reference to historic U.S. dollar amounts; other accounts have been translated using current exchange rates with translation adjustments being charged to income.

PARKER HANNIFIN CORPORATION (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Significant Accounting Policies

The significant accounting policies followed in the preparation of the accompanying consolidated financial statements are summarized below. These policies conform to generally accepted accounting principles and have been consistently applied.

Basis of Consolidation—The consolidated financial statements include the accounts of all domestic and foreign subsidiaries. The accounts of the foreign subsidiaries, except for the principal North American subsidiaries, are stated as of May 31 in the consolidated financial statements. All material intercompany transactions and profits have been eliminated in the consolidated financial statements. The excess of the cost of investments in subsidiaries over net assets at the date of acquisition is being amortized over various periods not exceeding 40 years.

Investments in joint venture companies in which ownership is 50% or less are stated at cost plus the Company's equity in undistributed earnings. These investments and the related earnings are not material to the consolidated financial statements.

SPRINGS INDUSTRIES, INC. (DEC)

NOTES TO FINANCIAL STATEMENTS

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

Principles of Consolidation: The accompanying consolidated financial statements include the accounts of Springs Industries, Inc. and all of its subsidiaries (Springs). Intercompany balances and transactions are eliminated in consolidation. Investments in affiliates are recorded on the equity method of accounting.

THE VENDO COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Significant Accounting Policies:

Principles of Consolidaion

The accompanying consolidated financial statements include the accounts of The Vendo Company and all domestic and foreign subsidiaries (the Company). All significant intercompany transactions have been eliminated.

The Company disposed of 74 percent of its wholly-owned foreign subsidiary, Vendo Benelux, on December 31, 1982. After the disposition, the Company continued to account for Vendo Benelux as if it were a wholly-owned unconsolidated subsidiary. Accordingly, the Company recorded all the losses incurred by Vendo Benelux of $535,000 in 1984 as equity in loss on investment in foreign subsidiary in the accompanying statements of income. In February, 1985, the Company reacquired the shares representing the 74 percent interest of Vendo Benelux. Accordingly, Vendo Benelux is included in the consolidated financial statements in 1986 and 1985.

YORK INTERNATIONAL CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

A. Principles of Consolidation

The consolidated financial statements for the year ending December 31, 1986 include the accounts of the Company and its wholly owned subsidiaries. The consolidated financial statements for the periods ending December 31, 1985 and 1984 include substantially all of the same air conditioning operations of Borg-Warner as were transferred on the distribution date. Also included for the periods ending December 31, 1985 and 1984 are general corporate expenses in the amounts of $5,600,000 and $5,175,000, respectively, of Borg-Warner which have been allocated to the Company on a basis considered reasonable by Borg-Warner.

The financial statements include on a consolidated basis the results of all wholly owned operating subsidiaries. Investments in affiliates are carried at cost or on the equity method of accounting.

All significant intercompany transactions have been eliminated.

All Significant Subsidiaries Consolidated

UNITED BRANDS COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Consolidation

The consolidated financial statements include the accounts of the Company and all significant majority-owned subsidiaries. All significant intercompany balances and transactions have been eliminated. Investments in less than majority-owned companies in which there is a 20% or greater ownership are recorded at cost plus equity in their undistributed earnings since acquisition.

WARNER-LAMBERT COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (In Part): Significant Accounting Policies:

Basis of consolidation—The financial statements include the accounts of Warner-Lambert Company and all significant majority-owned subsidiaries ("Warner-Lambert"). Substantially all foreign subsidiaries and branches are consolidated on the basis of fiscal years ending on November 30.

Finance-Related Subsidiaries Not Consolidated

AMERICAN BRANDS, INC. (DEC)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and all subsidiaries other than The Franklin Life Insurance Company (and subsidiaries), a wholly-owned subsidiary, which is accounted for by the equity method. Fiscal year-ends of certain subsidiaries of Gallaher Limited range from September 30 to November 30 to facilitate Gallaher's year-end closing. All information herein with respect to periods prior to January 1, 1986 refers to American Brands, Inc., a New Jersey corporation.

NOTES ACCOMPANYING FINANCIAL STATEMENTS

Investment in The Franklin Life Insurance Company

Summarized financial statements for The Franklin Life Insurance Company and its subsidiaries, principally Southland Life Insurance Company, are as follows:

	1986	1985
	(In thousands)	
Assets		
Investments	$3,864,998	$3,602,178
Other assets	1,068,863	1,018,849
Total	$4,933,861	$4,621,027
Reserves and liabilities		
Insurance reserves and claims	$3,501,759	$3,267,946
General liabilities	191,509	176,818
	3,693,268	3,444,764
Capital	1,240,593	1,176,263
Total	$4,933,861	$4,621,027

	1986	1985	1984
		(In thousands)	
Revenues			
Premiums	$590,047	$577,183	$535,780
Net investment income	358,539	337,723	308,754
Other income	11,677	8,481	13,733
	960,263	923,387	858,267
Benefits paid or provided	657,753	608,328	540,013
Expenses	157,502	142,413	145,505
Net realized gains on investments	(31,127)	(1,434)	(179)
	784,128	749,307	685,339
Operating income	176,135	174,080	172,928
Federal income taxes	51,431	60,401	55,047
Net income	$124,704	$113,679	$117,881
Dividends paid	$ 58,471	$ 66,502	$ 58,890

Undistributed earnings of Franklin included in consolidated retained earnings as of December 31, 1986 amounted to $393,364,000.

Federal income taxes of Franklin for the year 1984 reflect a credit of $6,600,000 related to reduction of deferred income taxes resulting from recomputation of life insurance policy reserves as required by The Tax Reform Act of 1984.

Under insurance tax regulations, a portion of Franklin's accumulated statutory income has not been subject to tax. Should the aggregated untaxed income exceed certain prescribed maximums or cash dividends to the Company exceed the accumulated taxed portion, the excess would be subject to federal income tax. Taxes have not been provided on the untaxed income, which aggregated $195,000,000 at December 31, 1986 and 1985, since Franklin does not contemplate distributing such income in the foreseeable future.

COMMERCIAL METALS COMPANY (AUG)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Consolidation

The consolidated financial statements include the accounts of the Company and all subsidiaries except those of a finance subsidiary, the investment in which is accounted for by the equity method. All material intercompany transactions and balances have been eliminated in consolidation.

B. Foreign Subsidiaries:

Financial information of consolidated subsidiaries outside the United States is summarized as follows (in thousands):

	August 31		
	1986	1985	1984
Current assets	$ 35,381	$ 21,773	$ 25,473
Current liabilities	21,510	13,185	17,410
Net current assets	13,871	8,588	8,063
Investment in unconsolidated subsidiary	15,809	14,709	13,590
Other assets and liabilities (net)	(4,462)	(430)	(112)
Stockholder's equity	25,218	22,867	21,541
Less parent's provision for United States income taxes	9,968	8,901	8,219
Total net investment	$ 15,250	$ 13,966	$ 13,322
Net sales	$201,028	$280,764	$412,466
Earnings before income taxes	$ 2,378	$ 1,192	$ 674
Net earnings	$ 1,284	$ 644	$ 352

Although amounts shown above include estimated United States income taxes on undistributed earnings, net earnings have been reinvested in these subsidiaries.

Since the functional and the reporting currency of the Company's foreign subsidiaries is the U.S. dollar, there are no translation adjustments to be reported as a separate component of stockholders' equity.

D. Investment in Unconsolidated Subsidiary:

During 1984, the Company formed a wholly owned foreign finance subsidiary, CMC Finanz AG. Condensed financial data for the unconsolidated subsidiary at August 31, 1986 and 1985, are as follows (in thousands):

	1986	1985
Loans and advances	$33,008	$23,137
Investment securities and deposits	14,991	11,913
Total assets	$47,999	$35,050
Due to banks	$31,153	$20,056
Other liabilities	1,037	285
Stockholder's equity	15,809	14,709
Total liabilities and stockholder's equity	$47,999	$35,050

Operations for the years ended August 31, 1986 and 1985, and for the period June 14, 1984 (date operations commenced) to August 31, 1984, were as follows (in thousands):

	1986	1985	1984
Total revenues	$2,938	$3,127	$538
Net earnings	$1,100	$1,119	$292

The carrying value of the Company's investment at August 31, 1986 and 1985, was equal to its equity in the net assets. No dividends were paid by the subsidiary.

INTEL CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Accounting Policies (In Part):

Basis of Presentation: The consolidated financial statements include the accounts of Intel Corporation and all of its wholly-owned subsidiaries, except for its banking subsidiary, the investment in which is accounted for under the equity method. Because of the nature of its operations, the assets and liabilities of this offshore subsidiary are not consolidated. Accounts denominated in foreign currencies have been translated in accordance with FASB Statement No. 52, using the U.S. dollar as the functional currency.

Investment in Unconsolidated Subsidiary

During 1985 the Company formed a wholly-owned offshore banking subsidiary which is accounted for under the equity method. Assets of this subsidiary of $57 million as of December 27, 1986 consist primarily of loans to third-party financial institutions. Earnings of the subsidiary in 1986 were $3.5 million.

NCR CORPORATION (DEC)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Consolidation

The consolidated financial statements include the accounts of NCR Corporation and its United States and international branches and majority-owned subsidiaries, except for a wholly-owned finance subsidiary (NCR Credit Corporation). Long-term investments in affiliated companies representing ownership interests of 20% to 50% and the investment in NCR Credit Corporation are accounted for on the equity method. Separate financial statements of the finance subsidiary, and other companies accounted for on the equity method, are not presented since their assets, liabilities and results of operations are not material. Investments of less than 20% are accounted for by the cost method. The consolidated financial statements include the accounts of international organizations based on their fiscal year ending November 30.

QUAKER STATE OIL REFINING CORPORATION (DEC)

NOTES TO FINANCIAL STATEMENTS

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

a. Basis of consolidation:

The consolidated financial statements include the accounts of Quaker State Oil Refining Corporation and all of its wholly-owned subsidiaries (the Company), except for Heritage Insurance Group, a wholly-owned insurance subsidiary, which is accounted for by the equity method (see Note 2). Intercompany accounts and transactions are eliminated.

2 (In Part): Acquisitions:

Effective July 1, 1984, the Company exchanged 2,400,000 shares of its Capital Stock with an approximate market value of $38,100,000 for all of the outstanding capital stock of Heritage Insurance Group, formerly First Heritage Corporation, (Heritage), an insurance holding company principally engaged through its subsidiaries in the business of credit life, accident and health and special indemnity insurance. The acquisition was accounted for as a purchase transaction, with the excess of purchase cost over the fair market value of net assets acquired being amortized over a forty year period.

Due to the dissimilar nature of their respective operations, Quaker State's investment in Heritage is reflected in the financial statements under the equity method of accounting. Heritage's condensed balance sheet as of December 31, 1986 and 1985, and the related condensed income statement for the years ended December 31, 1986 and 1985 and the period July 1, 1984 through December 31, 1984, which reflect purchase accounting adjustments, are presented below:

(in thousands)	1986	1985	1984
Condensed Income Statement for the years ended December 31, 1986 and 1985 and the six months ended December 31, 1984			
Premiums and other income	$ 48,274	$ 39,720	$17,599
Expenses	(44,219)	(36,813)	(15,997)
Realized investment gains	3,777	3,064	584
Income before taxes	7,832	5,971	2,186
Provision for income taxes	(1,075)	(1,175)	(415)
Net income	$ 6,757	$ 4,796	$ 1,771
Condensed Balance Sheet as of December 31 Assets			
Investments	$ 92,624	$ 77,735	
Cash	1,163	443	
Premiums and other receivables (Note 6)	13,900	11,781	
Deferred insurance acquisition costs	34,251	29,819	
Value of insurance in force	108	468	
Other assets	16,623	16,343	
	$158,669	$136,589	
Liabilities and Stockholder's Equity			
Unearned premiums	$ 84,462	$ 70,704	
Policy claims	8,365	6,677	
Due to reinsurance companies	2,661	2,600	
Other liabilities	9,248	8,767	
Stockholder's equity	53,933	47,841	
	$158,669	$136,589	

Investments in equity securities, including common and non redeemable preferred stocks, are carried at market value, with net unrealized appreciation or depreciation, net of related deferred taxes, credited or charged to stockholder's equity.

If the acquisition of Heritage had been effective January 1, 1984, the Company's pro-forma net income for 1984 would have been $20,600,000. Net income per share would not have differed materially from that reported.

SUN CHEMICAL CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Principles of Consolidation

The consolidated financial statements include the accounts of Sun Chemical Corporation and all subsidiaries, except those subsidiaries included in the financial Services Group and Sun's investments in 20%-50% owned companies, which are accounted for by the equity method. Intercompany transactions and accounts with all subsidiaries have been eliminated.

The Consolidated Statements of Income and Changes in Financial Position and the related disclosures have been restated to reflect discontinued operations, except where noted.

Note 7. Financial Services Group

The investment in and advances to (from) the Financial Services Group consists of the following:

	At December 31,	
(Amounts in thousands)	1986	1985
Sun insurance operations	$ 276	$ (712)
Forsun Leasing Corporation	31,948	4,981
Chromalloy American Insurance Group and the Center Company	18,981	—
	$51,205	$4,269

The equity in net earnings (loss) of the Financial Services Group consists of the following:

	Year ended December 31		
(Amounts in thousands)	1986	1985	1984
Forsun Leasing Corporation	$1,934	$ 5	$ —
Sun insurance operations (1)	(5,226)	(11,946)	(2,435)
Other affiliated companies	(33)	(5)	76
	$(3,330)	$(11,946)	$(2,359)

(1) Excludes income of $2,418,000 in 1986, $1,767,000 in 1985 and $1,958,000 in 1984 of intercompany transactions.

(a) Sun Insurance Operations

Sun's insurance operations provide coverage for workers' compensation, general and automotive liability exposures through reinsurance agreements with licensed United States underwriters. Sun has limited its liability under these contracts through the purchase of aggregate stop loss protection. In addition, Sun participates in third-party reinsurance treaty agreements.

Summarized financial information for Sun's insurance operations is as follows:

(Amounts in thousands)	At December 31, 1986	1985
Financial position		
Cash and short-term investments	$29,182	$20,062
Intercompany assets	21,266	15,644
Other assets	7,172	9,195
Total assets	57,620	44,901
Reserve for losses and loss expenses	44,645	35,503
Other liabilities	12,699	10,110
Total liabilities	57,344	45,613
Net assets (liabilities)	$ 276	$ (712)

	Year ended December 31, 1986	1985	1984
Results of operations			
Net premiums earned	$23,279	$ 20,426	$15,239
Underwriting losses	$ (8,757)	$(13,561)	$ (3,755)
Investment income	5,949	3,382	3,278
Pre-tax loss	$ (2,808)	$(10,179)	$ (477)

Investment income includes $2,418,000 in 1986, $1,767,000 in 1985 and $1,958,000 in 1984 relating to intercompany transactions and $1,400,000 of capital gains realized in the first quarter of 1986. The Company increased its investment in insurance operations by $3,796,000 in 1986 and $2,105,000 in 1985.

(b) Forsun Leasing Corporation

In 1985, the Company formed a wholly-owned leasing subsidiary, Forsun Leasing Corporation (Forsun), which is the lessor in a series of leveraged and finance lease agreements. Summarized financial information is as follows:

(Amounts in thousands)	At December 31, 1986	1985
Financial position		
Investments in leasing assets	$ 66,638	$ 5,160
Tax benefits due from Sun	25,466	4,567
Other assets	8,115	2,779
Total assets	100,219	12,506
Long-term debt	29,484	1,065
Deferred taxes	10,768	1,832
Other liabilities	2,553	61
Total liabilities	42,805	2,958
Net assets, including advances	$ 57,414	$ 9,548

	Year ended December 31, 1986	1985
Results of operations		
Leveraged lease earnings (loss)	$ 417	$(34)
Finance and other lease earnings	1,706	43
Interest expense	(751)	(50)
Operating costs	(1,585)	(134)
Net income	1,934	5

Forsun leases equipment having estimated economic lives of 6 to 30 years for terms ranging from 3 to 20 years. The types of equipment placed under lease consist of: 39% aircraft; 22% transportation; 17% energy-related; 7% computer-related; and 15% various. About 80% of all equipment has been leased under leveraged leases. The balance has been leased principally under direct-finance leases. Forsun's investment in leveraged leases represents approximately 25% of the purchase price of the leveraged leased equipment; the balance was provided by third-party financing in the form of nonrecourse long-term debt, which is secured by the property and deferred equity payments to be made during the term of the lease.

Forsun's investment in equipment leased under direct-finance lease agreements represents approximately 33% of the purchase price. The remainder was provided by third parties with long-term debt, which is also secured by the property.

(c) Chromalloy American Insurance Group

Chromalloy American Insurance Group (CAIG) consists of property/casualty insurance subsidiaries. The following condensed balance sheet information at December 31, 1986 has been prepared on a historical basis and, accordingly, does not reflect any adjustments arising from the merger of Chromalloy and Sun:

Condensed Consolidated Balance Sheet (Amounts in thousands)	December 31, 1986
Investments	$156,568
Reinsurance deposits	35,018
Other assets	67,472
Total assets	259,058
Reserves for losses and loss adjustment expenses	150,931
Unearned premiums	53,170
Advances from parent	22,146
Other liabilities	40,628
Total liabilities	266,875
Net liabilities	$ (7,817)

Chromalloy made advances to the holding company of CAIG in 1986, and additional advances to the holding company of CAIG in 1987 may be required to meet its cash requirements.

In the first quarter of 1987, the Company contributed $20,000,000 of previous advances to shareholders' equity. Other liabilities in 1986 include $10,000,000 of demand notes guaranteed by the Company.

TRINITY INDUSTRIES, INC. (MAR)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Summary of Accounting Policies (In Part)

The consolidated financial statements include the accounts of all subsidiaries except the Company's two wholly-owned leasing subsidiaries, Trinity Industries Leasing Company ("TILC") and Trinity Railcar Leasing Corporation ("TRLC"). Other than the two unconsolidated leasing subsidiaries' accounts, all significant inter-company accounts and transactions have been eliminated.

The Company has sold equipment to TILC and TRLC at market prices. The investment in the unconsolidated leasing subsidiaries is presented in the Company's financial statements on the equity method.

For financial accounting, profits on long-term contracts are recorded on the basis of the percentage of completion method. Allocation of profits to various periods is based on costs incurred, units delivered, or other appropriate measures. Provision is made for losses when they become known. Intercompany profit on sales to TILC and TRLC is deferred and recognized on a straight-line basis over the life of the equipment.

Condensed Combined Financial Information of Unconsolidated Leasing Subsidiaries

(In thousands)

	March 31 1986	1985
Assets		
Total assets (principally railcars and barges)	$355,725	$363,214
Liabilities and Stockholder's Equity		
Total liabilities (principally long-term debt)	$273,284	$288,129
Stockholder's equity (including retained earnings of $57,156,000 and $49,800,000 in 1986 and 1985, respectively)	82,441	75,085
	$355,725	$363,214

	Year Ended March 31 1986	1985	1984
Income			
Revenues	$64,126	$55,775	$52,556
Provision for income taxes	$ 5,944	$ 4,745	$ 4,175
Net income	$ 7,356	$ 6,321	$ 6,320

The long-term debt agreements provide, among other things, for leasing subsidiaries to maintain certain financial ratios. Principal payments due during the next five years are: 1987—$8,298,000; 1988—$8,603,000; 1989—$8,948,000; 1990—$9,338,000 and 1991—$9,776,000.

Trinity is required to pay fees to a leasing subsidiary to maintain net earnings, as defined, at 150 percent of fixed charges, as defined. Pursuant to the agreement, $9,866,000, $3,135,000, and $8,308,000 in 1986, 1985, and 1984, respectively, was included in revenues in the leasing subsidiary's income statement and in Trinity's expenses. Trinity is also required to pay to the leasing subsidiaries the current tax benefit which results from inclusion of the subsidiaries in Trinity's consolidated federal income tax return.

A substantial portion of the subsidiaries' assets have been pledged as collateral under long-term debt agreements.

TILC has outstanding $60,000,000 of 10 percent debentures which are convertible, subject to prior redemption, into shares of common stock of Trinity at $27 per share at any time up to and including the maturity date of January 15, 2006. Annual sinking fund requirements to redeem seventy-five percent of the principal balance outstanding in amounts not less than $3,000,000 nor more than $6,000,000 annually are required beginning January 15, 1991. The debentures are redeemable at prices decreasing annually from 105 percent in 1986 to 100 percent in 1991.

Combined Financial Statements

AMP INCORPORATED (DEC)

	1986 ($000)	1985
Shareholders' Equity:		
AMP Incorporated—		
Common stock, without par value—Authorized 150,000,000 shares, issued 112,320,000 shares	$ 12,480	$ 12,480
Pamcor, Inc.—		
Common stock, par value $1.00 per share—Authorized and issued, 20,000 shares	20	20
Other capital	34,804	31,748
Cumulative translation adjustments	27,100	(20,994)
Retained earnings	1,100,957	1,016,571
	1,175,361	1,039,825
Less—Treasury stock, at cost	40,496	42,965
Total shareholders' equity	$1,134,865	$ 996,860

NOTES TO COMBINED FINANCIAL STATEMENTS

1 (In Part): Summary of Accounting Principles

Principles of Combination—The financial statements of AMP and its subsidiaries (all wholly owned) and Pamcor are combined, as each company is owned beneficially by identical shareholders. Intercompany and affiliated company accounts and transactions are eliminated in the combination.

Investee Financial Statements

CURTISS-WRIGHT CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

A. Principles of Consolidation. The financial statements present the consolidated accounts of Curtiss-Wright Corporation and all majority owned subsidiaries (the Corporation). Certain of Teledyne, Inc. subsidiaries own approximately 45% of the common stock of the Corporation. An additional 8% is owned by subsidiaries of a company, the shares of which have been spun off by Teledyne, Inc. to its shareholders.

Consolidated Financial Statements No Longer Presented

FOOTE MINERAL COMPANY (DEC)

NOTES TO FINANCIAL STATEMENTS

2 (In Part): Summary of Significant Accounting Policies

Consolidation Policy. During 1985, steps were taken to terminate the separate existence of the two inactive subsidiaries of the Company. As of December 31, 1985, Lorraine Quartzite, Ltd. was the only subsidiary where such liquidation had not been completed. During 1986, the liquidation of this subsidiary was completed. The presentation of the

Statements of Operations and Statements of Changes in Financial Position have been changed from that of the prior year to conform with required current year presentation of plant closing and plant writedown amounts and reporting of long-term debt payments, respectively.

Composition of Segments Changed

FOSTER WHEELER CORPORATION (DEC)

NOTES TO FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Principles of Consolidation—The consolidated financial statements include the accounts of Foster Wheeler Corporation and all significant domestic and foreign subsidiary companies.

Commencing in 1986, the Corporation has changed the composition of its segments (groups) and presentation of its financial statements to reflect the changing nature of its business. The Real Estate Development Group now includes development, sale and rental of real estate. The Corporation's insurance operation and countertrade activities are now included in the "Corporate and Unallocated" column of its segment footnote. In addition, a separate Facilities Investment and Operations Group, engaged in the owning/leasing to or operation for third parties of solid waste-to-energy and cogeneration plants, has been established. In prior years, all of the long-term assets of the Real Estate Development and Financial Services group had been aggregated on the Statement of Financial Condition as real estate and financing assets. These assets have been disaggregated and are now included with the other long-term assets of the Corporation. Prior year financial statements have been reclassified to reflect these changes, without any effect on net assets and net earnings.

Effective January 1, 1985 the Corporation changed its annual accounting period to a fiscal year ending the Friday closest to December 31 for domestic operations and December 31 for foreign operations. Each quarter consists of 13 weeks except for those years which will contain 53 weeks. In 53 week years one quarter will contain 14 weeks. The changes did not materially affect the results of operations.

50% Owned Company Consolidated

FREEPORT-MCMORAN INC. (DEC)

NOTES TO FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Basis of Consolidation. Freeport-McMoRan Inc. (the Company) proportionately consolidates majority owned subsidiaries in its financial statements, except for Freeport Indonesia, Incorporated (FI) and Freeport Queensland Nickel, Incorporated (FQN), whose operations are located in foreign countries and are accounted for under the equity method (Note 10). FPCO Inc. (FPCO), a 50-percent-owned subsidiary, is fully consolidated, as the Company currently exercises financial control over FPCO and intends in the near future to acquire the remaining equity interest in FPCO at nominal cost (Note 5).

Fiscal Period of Foreign Subsidiaries Changed

RORER GROUP INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in Thousands except per share data)

Note 1 (In Part): Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of United States and international subsidiaries. All intercompany accounts and transactions are eliminated. In 1986, the Company changed the reporting period of certain international subsidiaries from November 30 to December 31. Accordingly, an additional month of operating results are included in the financial statements. The cumulative effect of the change, which was December 1985, was not material and, accordingly, no separate financial presentation is made. The effect of the change in 1986, which was to include December, 1986, increased income from continuing operations and net income by $6,218 and earnings per share by $.29 (which includes a $3,857 or $.18 per share restructuring gain on the sale of certain international assets). All remaining subsidiaries are consolidated on the basis of twelve-month periods ending December 31.

Subsidiary To Be Spun Off Not Consolidated

TANDY CORPORATION (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Basis of Reporting (In Part)

Tandy Corporation ("Tandy" or the "Company") is engaged in consumer electronics retailing through its Radio Shack store system and its Tandy Name Brand Retail stores. The consolidated financial statements include the following: (1) Tandy Corporation, (2) Tandy's 100% owned subsidiaries; and (3) Tandy's investment in and share of net earnings or losses of 20% to 50% owned companies.

On June 7, 1986, Tandy's Board of Directors approved a plan to separate the business of the Company into two distinct publicly held companies. The Canadian, European and Australian retail operations are being reorganized into a new company, InterTAN Inc. This company is expected to be spun off to the stockholders of Tandy in the form of a tax-free dividend. It is contemplated that stockholders who, as of the record date, own ten shares of Tandy, will receive one share of stock of InterTAN. Tandy's investment in and the results of operations of InterTAN are reflected in Tandy's consolidated financial statements on the equity method as InterTAN is now a temporary investment that Tandy anticipates distributing to its stockholders during fiscal 1987. Prior years' financial statements have been restated accordingly. The following statements and notes relate to the operations of Tandy as it will be configured after the spin off of InterTan is completed. As a part of the spin-off transaction ("spin off"), assets of certain divisions of Tandy will be transferred to InterTAN at net book value in exchange for notes receivable. The terms and amounts of these notes will be finalized before the spin off is completed. These notes will reduce Tandy's investment in InterTAN thus reducing InterTAN's equity that will be distributed to the stockholders. If Tandy should contribute additional cash or other assets to InterTAN prior to the spin off, it would increase the amount to be distributed. Summary financial information for the InterTAN operations is shown on pages 46 and 48 with a brief discussion of the financial condition and results of operations of InterTAN. Tandy has requested a ruling from the Internal Revenue Service to determine that this dividend will not be taxable to the Tandy stockholders. A reply to this ruling request is not expected for several months. While the spin-off plans are not yet formalized, the significant matters have been agreed upon by the Tandy and InterTAN managements.

BUSINESS COMBINATIONS

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

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

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

Table 1-10 shows that in 1986 the survey companies reported 22 business combinations accounted for as a pooling of interests of which 9 such business combinations did not result in a restatement of prior year financial statements. Those companies not restating prior year financial statements for a pooling of interests usually commented that the reason for not doing so was immateriality.

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

TABLE 1-10: BUSINESS COMBINATIONS

	1986	1985	1984	1983
Poolings of Interests				
Prior year financial statements restated	13	10	12	11
Prior year financial statements not restated	9	14	11	15
Total	**22**	**24**	**23**	**26**
Purchase Method	**239**	**200**	**194**	**154**

POOLINGS OF INTERESTS

DEAN FOODS COMPANY (MAY)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Business Combinations:

Shareholders of the Company and The Larsen Company (Larsen), a processor and marketer of canned and frozen vegetables, approved a merger agreement on April 28, 1986, whereby Larsen became a wholly-owned subsidiary. The Company exchanged 5,965,752 shares of the Company's common stock (adjusted for the stock split on May 28, 1986) for all outstanding shares of Larsen. The merger has been accounted for as a pooling-of-interests and, accordingly, the accompanying financial statements for all years presented have been restated to include the financial position and results of operations of the combined companies.

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

	Dean Foods	Larsen	Combined
	(In thousands)		
Net Sales: (Unaudited)			
Fiscal Year Ended May 27, 1984	$842,702	$177,848	$1,020,550
Fiscal Year Ended May 26, 1985	973,744	181,128	1,154,872
Eleven Months Ended April 26, 1986	985,056	168,073	1,153,129
Net Income: (Unaudited)			
Fiscal Year Ended May 27, 1984	$ 24,344	$ 7,016	$ 31,360
Fiscal Year Ended May 26, 1985	27,371	9,393	36,764
Eleven Months Ended April 26, 1986	30,281	6,851	37,132

During the 1986 and 1985 fiscal years the Company acquired a number of small food operations, a transportation operation and a dairy specialty products operation for cash. The impact of these acquisitions on the Company's consolidated earnings was not significant. Results of operations of these companies from their respective dates of acquisition have been included in the Consolidated Statements of Income.

THE MAY DEPARTMENT STORES COMPANY (JAN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Merger. On October 3, 1986, shareholders approved the merger of the company with Associated Dry Goods Corporation (ADG), whereby each share of ADG common stock was exchanged for 1.72 shares of the company's common stock (69.7 million shares). This merger has been accounted for as a pooling-of-interests.

The pooling-of-interests method requires the recognition of merger-related costs in the period the merger is consummated. During the third quarter of 1986, the company recorded a pretax charge for merger-related costs of $124 million ($.50 per share; see Unusual Items on this page). Merger-related costs include investment banking fees, legal and accounting fees, severance and benefit-related costs, and other costs of consolidating.

The effect of the restatement is summarized as follows:

(millions, except per share)	Net Sales and Rental Revenues	Net Earnings	Net Earnings Per Share
1986			
May prior to merger	$ 3,401	$129	$1.47
Effect of ADG pooling, prior to merger	2,829	17	(.55)
Combined subsequent to merger	4,146	235	1.52
Combined	$10,376	$381	$2.44
1985			
May as previously reported	$ 5,080	$235	$2.69
Effect of ADG pooling	4,462	112	(.49)
Combined	$ 9,542	$347	$2.20
1984			
May as previously reported	$ 4,663	$214	$2.48
Effect of ADG pooling	4,172	113	(.38)
Combined	$ 8,835	$327	$2.10

In connection with the restatement, a number of adjustments were made to conform accounting policies. These adjustments consisted of consolidating the credit subsidiary, classifying finance charge revenues as sales, reflecting the deferred method of accounting for ITC, and reflecting various expenses consistently.

SCHERING-PLOUGH CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in millions, except per share figures).

Merger

On June 26, 1986, the Company consummated its merger with Key Pharmaceuticals, Inc. (Key). In connection with the merger, .265625 shares of the Company's common stock were exchanged for each share of Key common stock outstanding, resulting in the issuance of approximately 9.5 million common shares. In the second quarter of 1986, the Company recorded a $27.6 pre-tax provision in conjunction with the merger and integration of Key into the Company's U.S. pharmaceuticals business.

The merger was accounted for as a pooling of interests and, accordingly, the consolidated financial statements of the Company for all periods prior to the merger have been restated to include the accounts and results of operations of Key. Sales and net income of the separate companies for the years ended December 31, 1985 and 1984 were as follows:

	1985	1984
Sales:		
Schering-Plough	$1,927.1	$1,874.3
Key	152.1	151.1
Combined	$2,079.2	$2,025.4
Net Income:		
Schering-Plough	$ 192.6	$ 177.2
Key	(.8)	22.1
Combined	$ 191.8	$ 199.3

For the quarter ended March 31, 1986, the sales and net income of Schering-Plough were $562.3 and $65.0, respectively, and the sales and net income of Key were $50.4 and $6.8, respectively.

THE MAYTAG COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Merger

On May 30, 1986, the Company issued 16,072,000 shares of its Common stock for all of the outstanding Common stock of Magic Chef, Inc., a manufacturer of home appliances and soft drink vending equipment. This merger 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 to include the accounts and operations of Magic Chef. Magic Chef was on a June fiscal year. The restated financial statements for the years ended December 31, 1986 and 1985 include both companies on a calendar year basis. The financial statements for the year ended December 31, 1984 include the operations of Magic Chef for the twelve months ended June 29, 1985 and as a result, sales and net income of Magic Chef for the six months ended June 29, 1985 amounting to $496,968,000 and $28,436,000, respectively, are included in the restated results of operations for both 1984 and 1985, and accordingly, retained earnings have been adjusted.

Separate sales, net income and dividends of Maytag and Magic Chef prior to the restatement are as follows (in thousands):

	Five Months Ended May 31, 1986 (Unaudited)	Year Ended December 31 1985	1984
Net Sales			
Maytag	$297,918	$ 683,721	$ 642,561
Magic Chef	398,677	975,084	963,526
Combined	$696,595	$1,658,805	$1,606,087
Net Income			
Maytag	$ 30,677	$ 71,840	$ 63,140
Magic Chef	12,169	53,052	53,564
Combined	$ 42,846	$ 124,892	$ 116.704
Cash Dividends			
Maytag	$ 26,418	$ 44,788	$ 40,870
Magic Chef	2,688	9,924	8,696
Combined	$ 29,106	$ 54,712	$ 49,566

USX CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. Business Combination–Texas Oil & Gas Corp.

On February 11, 1986, a subsidiary of USX merged with Texas Oil & Gas Corp. (TXO) and TXO became a wholly owned subsidiary of USX. The merger agreement provided for the exchange of each share of outstanding TXO common stock into .6333 of a share of USX's common stock, resulting in issuance of 133 million common shares of USX. The merger was accounted for as a pooling of interests.

TXO historically accounted for costs of oil and gas producing activities under the "full cost" method and amortized such costs using the gross revenue method. To conform to USX's method of accounting for oil and gas producing activities, TXO's historical data has been adjusted to the "successful efforts" method with amortization based on units of production. In addition, certain items in TXO's historical financial statements were reclassified to conform to USX's reporting format. The following data presents the separate results of operations for USX and TXO, for the periods prior to the merger:

(In millions)	1985(a)	1984(a)
Sales:		
USX (as previously reported)	$19,283	$19,104
Effect of TXO	1,496	1,988
Combined	$20,779	$21,092
Total income before extraordinary items and cumulative effect of change in accounting principle:		
USX (as previously reported)	$ 313	$ 414
Effect of TXO(b)	189	300
Combined	$ 502	$ 714
Extraordinary items:		
USX (as previously reported)	$ 51	$ 79
Cumulative effect of change in accounting principle:		
USX (as previously reported)	$ 45	$ —
Net income:		
USX (as previously reported)	$ 409	$ 493
Effect of TXO(b)	189	300
Combined	$ 598	$ 793

(a) The data for USX is based on calendar years. TXO data for 1985 and 1984 is based on 12-month periods ended November 30, 1985, and August 31, 1984, respectively. TXO's results of operations for the periods of December 1985 and September through November 1984 are excluded from the above data and reported as adjustments to net income reinvested in business. TXO's sales, net income and dividends for these excluded periods amounted to $549 million, $49 million and $19 million, respectively.

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

PURCHASES

AM INTERNATIONAL, INC. (JUL)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share amounts)

Note 2: Business Combinations

In June 1986, the Company acquired all of the outstanding shares of Harris Graphics Corporation (Harris Graphics), a manufacturer of large offset web presses, bindery equipment and business forms presses, for a cost of approximately $246,000 in cash and Nicolet Zeta Corporation (Zeta), a manufacturer and distributor of pen plotters, for approximately $22,000 in cash.

The acquisitions have been accounted for as purchases and accordingly, the acquired assets and liabilities have been recorded at their estimated fair values at dates of acquisitions. The operating results of the acquired companies are included in the Consolidated Statement of Operations from the respective acquisition dates. The excess of the purchase prices over the preliminary valuation of the net assets acquired is classified in the Consolidated Balance Sheet as Cost in Excess of Fair Value of Net Assets Acquired and is being amortized on a straight-line basis over 40 years with respect to Harris Graphics and 10 years with respect to Zeta. The preliminary purchase cost allocation is subject to change when additional information concerning asset and liability valuations is obtained. Therefore, the final allocation may differ from the preliminary allocation.

Summarized below are the unaudited pro forma results of operations of the Company as though Harris Graphics had been acquired at the beginning of the fiscal years presented. Adjustments have been made for interest attributable to the financing for these transactions, the estimated increases in depreciation and amortization of the revalued assets and other appropriate pro forma adjustments. It was assumed for income per share amounts that the ten million common shares sold in July 1986 were outstanding as of the beginning of fiscal 1985. The pro forma results do not include Zeta since the change from the reported pro forma amounts would not be material.

	Pro forma (Unaudited)	
	1986	1985
Revenues	$1,145,742	$1,107,885
Income (loss) before extraordinary items	(14,391)	15,674
Extraordinary items, net	2,482	16,512
Net income (loss)	(11,909)	32,186
Income per share:		
Income (loss) before extraordinary items	(.41)	.17
Extraordinary items	.05	.33
Net income (loss)	$ (.36)	$ .50
Weighted average shares of common stock and common stock equivalents outstanding	51,653,472	50,808,767

The pro forma financial information presented above is not necessarily indicative of either the results of operations that would have occurred had the acquisition taken place at the beginning of the periods presented or of future results of operations of the combined operations.

AMAX INC (DEC)

NOTES TO FINANCIAL STATEMENTS

(in millions of dollars unless otherwise indicated and except share and per share amounts)

2. Acquisition of Alumax Inc.

On November 24, 1986, AMAX completed the acquisition of the 50 percent interest in Alumax Inc. (Alumax) which it did not own.

Alumax is a major U.S. integrated aluminum and building and architectural products company with manufacturing plants in North America and Western Europe.

Under the terms of the acquisition agreement, Alumax acquired a portion of its common stock in exchange for a new issue of four million shares of Alumax preferred stock having a par value of $100 million and paying an annual dividend of 8½ percent. Each such share is exchangeable into 1.5147 shares of AMAX common stock. AMAX acquired the remaining Alumax common stock for $335 million in cash, funded by cash on hand and bank drawings. In the fourth quarter AMAX received one-half of the special dividends of $130 million previously declared by Alumax on its common stock.

The Company's financial statements include the results of Alumax on a consolidated basis from the acquisition date. The acquisition has been accounted for as a purchase and accordingly the excess purchase price over net assets acquired of $86 million has been allocated to the net assets acquired based upon the fair value of such assets and liabilities at the date of acquisition. The following table presents the adjusted net assets of Alumax acquired:

Cash and equivalent	$ 16.6
Other net working capital	514.7
Property, plant and equipment, net	849.1
Other assets	23.4
Long-term debt including current maturities	(473.4)
Other long-term liabilities	(146.4)
Preferred stock	(100.0)
Total net assets	684.0
Less AMAX investment in Alumax	349.0
AMAX expenditure for Alumax	$335.0

The following table presents unaudited, pro forma operating results as if the acquisition had occurred on January 1, 1985 and 1986:

	1986	1985
Net sales	$3,132	$3,065
Loss from continuing operations before income taxes	(25)	(284)
Net earnings (loss)	45	(557)
Net earnings (loss) per share	.36	(8.53)

The pro forma results are based upon certain assumptions and estimates which the Company believes are reasonable. The pro forma results do not purport to be indicative of results that actually would have been obtained had the acquisition occurred on January 1 of the years presented, nor are they intended to be a projection of future results.

ALUMINUM COMPANY OF AMERICA (DEC)

NOTES TO FINANCIAL STATEMENTS

(In millions, except share amounts)

Q. Acquisition

In December 1986 Alcoa acquired approximately 91 percent of the outstanding stock of TRE Corporation which was accounted for as a purchase transaction. TRE is principally engaged in the design and manufacture of metallic and composite parts and structures for aerospace and marine applications. Through a merger completed in January 1987, TRE became a wholly owned subsidiary of Alcoa.

The purchase price was $326, of which $239 was paid in cash in December. The balance, to be paid in early 1987, is reflected as a liability on Alcoa's 1986 consolidated balance sheet. The purchase price was allocated to the acquired assets and assumed liabilities based on a preliminary determination of their respective fair values.

Since TRE was acquired in late December, its operating results for the few days of Alcoa ownership were not material and are not included in Alcoa's 1986 income. TRE's revenues were $166 for 1986 and $157 for 1985. Had the acquisition taken place on January 1, 1985, Alcoa's 1986 and 1985 net income would not have been materially different, after adjusting for interest and additional depreciation and amortization resulting from the acquisition.

AVON PRODUCTS, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Acquisitions and Disposals

During April 1986, the Company acquired all of the outstanding common stock of The Mediplex Group, Inc. ("Mediplex") for $216.9 million in cash and a $25.0 million note. The purchase agreements provide for contingent payments of up to $48.6 million based on the annual pre-tax income of Mediplex over the next two years. Any such payments will be allocated to the assets of Mediplex, if applicable, or recorded as additional excess of cost over net assets acquired. Mediplex operates nursing homes, alcohol and drug abuse treatment centers, and a psychiatric hospital. It develops retirement living facilities and also builds medical facilities for its own account and for others. The acquisition was accounted for as a purchase. The net assets of Mediplex have been included in the financial statements at values representing a preliminary allocation of the purchase price. Although final valuations will affect this allocation, they are not expected to have a material effect on the financial statements. The purchase price exceeded the preliminary fair values assigned by $105.5 million. Any excess will be amortized over 40 years on the straight-line basis. The results of operations of Mediplex from April 1, 1986 have been included in the consolidated financial statements.

The effects of the acquisition of Mediplex on the Consolidated Statement of Changes in Financial Position for the year ended December 31, 1986 follow:

Property	$161.1
Excess of cost over net assets acquired	105.5
Other noncurrent assets	39.0
Long-term debt	(71.3)
Other noncurrent liabilities	(6.0)
Use of working capital	228.3
Working capital acquired	13.6
Total purchase price	$241.9

Pro forma combined results of operations of Avon and Mediplex for the years ended December 31, 1986 and 1985, as if the merger had been consumated on January 1 of each period, follow:

Year Ended December 31	1986	1985
Net sales	$2,901.4	$2,546.1
Earnings from continuing operations before taxes	275.2	236.4
Earnings from continuing operations	159.5	135.3
Net earnings (loss)	159.5	(52.8)
Earnings per share	2.23	(.67)
Average shares outstanding	71.65	79.35

Pro forma adjustments included in the table above are the depreciation and amortization of the fair value of assets acquired, interest expense on the note given as part of the purchase price and reduced interest expense that resulted from the refinancing at lower interest rates of a portion of Mediplex's debt. Pro forma earnings per share of common stock are based on the average number of shares outstanding during each period.

BRUNSWICK CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6. Acquisitions

On December 8, 1986, the Company acquired all of the outstanding stock of Bayliner Marine Corporation ("Bayliner") and its affiliates, a manufacturer of pleasure boats, outboard motors, small aluminum boats and boat trailers, for $424.6 million. The purchase price consisted of approximately $374.0 million in cash and 1.5 million shares of the Company's common stock with a market value of $50.6 million. The Company also acquired all of the outstanding stock of Ray Industries, Inc. ("Sea Ray") and its subsidiaries, a manufacturer of pleasure boats, for 349.4 million on December 30, 1986. The purchase price consisted of approximately $297.3 million in cash and 1.5 million shares of the Company's common stock with a market value of $52.1 million. Prior to the acquisition, Sea Ray paid $12.7 million to certain of its employees to cancel all outstanding Sea Ray stock options. The Company loaned Sea Ray the funds necessary for the cancellation of these options.

The Bayliner and Sea Ray acquisitions have been accounted for as purchases and their results of operations have been included with those of the Company since the dates of acquisition. Bayliner's and Sea Ray's assets and liabilities have been recorded in the Company's consolidated financial statements at their fair values at the acquisition dates, based on preliminary estimates of fair value. These estimates of fair value are subject to change when final information concerning asset and liability valuations is obtained.

The preliminary purchase price allocation for Bayliner and Sea Ray, which includes $5.0 million of other capitalized acquisition costs, is summarized as follows:

(dollars in thousands)	
Accounts and notes receivable	$ 33,401
Inventories	100,615
Property	108,941
Other assets	13,263
Dealer networks, trademarks and other intangibles	451,645
Excess of cost over net assets of businesses acquired	211,417
Accounts payable	(45,820)
Accrued expenses	(29,607)
Income taxes	(24,981)
Debt	(39,890)
Total allocation	$778,984

The following unaudited pro forma financial information shows the results of operations for the years ended December 31, 1986 and 1985 as if the acquisitions of Bayliner and Sea Ray had occurred at the beginning of each period presented, but at the purchase prices paid in December, 1986. The results are not necessarily indicative of what would have occurred had the acquisitions actually been made on January 1 of the years presented or of future operations of the combined companies. The pro forma results include the effects of preliminary purchase accounting adjustments and additional interest expense as if debt incurred in connection with the acquisitions had been outstanding from the beginning of each period. Based upon the preliminary purchase accounting adjustments, the pro forma information includes the straight-line amortization of dealer networks, trademarks and other intangibles over their average estimated useful lives of approximately 9 years and the excess cost of the acquisitions over the estimated fair value of the net assets acquired over 40 years. The pro forma results also reflect the effect on earnings per share of the issuance of approximately 3.0 million shares of the Company's common stock associated with the acquisitions.

(dollars in thousands, except per share data)	(Unaudited) 1986	1985
Revenues	$2,437,139	$2,107,827
Net earnings	114,781	87,476
Earnings per share	$ 2.56	$ 1.90

The Company has made several other acquisitions, each of which has been accounted for as a purchase. The results of operations of such acquisitions have been included in the consolidated financial statements from their respective dates of acquisition. The effect of these acquisitions on the Company's consolidated results of operations was not significant.

During 1986, the Company acquired from different companies, certain assets relating to the following product lines: golf club shafts, valves, and air conditioning and heating systems. The consideration for these acquisitions totaled $12.8 million in cash plus the assumption of certain liabilities.

In 1985, the Company acquired certain assets of a company which provides advanced materials design, engineering and manufacturing services to defense and aerospace contractors, for approximately $10.0 million in cash and notes.

In 1984, the Company acquired two companies which manufacture bowling equipment and general purpose industrial valves, respectively, for approximately $12.2 million in cash. The Company also acquired certain assets from a manufacturer of electric trolling motors for $12.6 million in cash.

BURLINGTON INDUSTRIES, INC. (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note B: Acquisition

During the September quarter of fiscal 1986, the company acquired all of the common stock of C. H. Masland & Sons, a manufacturer of carpet and interior trim parts for the automotive industry and carpet for residential and commercial use, for an aggregate cost of approximately $132,565,000 which includes approximately $10,508,000 of acquisition costs and recapture of income taxes relating to anticipated election under Section 338 of the Internal Revenue Code. The acquisition has been accounted for as a purchase and, accordingly, the net assets and operations of Masland are included in the company's consolidated financial statements beginning with the September quarter of fiscal 1986.

The purchase price has been assigned to the net assets acquired based on the fair values of such assets and liabilities at date of acquisition. The excess of cost over the net tangible assets acquired of $48,863,000 is included in intangible assets consisting primarily of contracts, customer lists, product designs and favorable leases and is being amortized on a straight-line basis over an average of approximately 8 years. The amortization of intangible assets for 1986 was $836,000.

The following unaudited combined pro forma information shows the results of the company's operations for the fiscal years presented as though the purchase of Masland had been made at the beginning of each year (in thousands, except per share data):

	1986	1985
Net sales	$2,952,013	$2,996,136
Net earnings	55,423	9,900
Net earnings per share	1.97	.35

The pro forma results of operations are not necessarily indicative of the actual results of operations that would have occurred had the purchase been made at the beginning of the respective periods, or of results which may occur in the future.

DESIGNCRAFT INDUSTRIES, INC. (FEB)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Acquisitions (In Part)

In January 1986, the Company acquired substantially all the assets of Howard H. Sweet & Son, Inc. (Sweet), subject to substantially all of its liabilities, for $3,000,000. Sweet is engaged in the manufacture of gold chains and beads and findings used in jewelry. The acquisition has been accounted for as a purchase. In connection with this transaction, the excess of the net assets acquired over the purchase price of approximately $1,300,000 was allocated to property, plant and equipment. The consolidated statement of income for the year ended February 28, 1986, includes the operating results of Sweet from December 1, 1985, the effective date of the acquisition. The following unaudited consolidated pro forma information shows the results of the Company's operations for the years ended February 28, 1986 and 1985 as though the purchase of Sweet had been made as of the beginning of each period presented:

	1986	1985
Net sales	$62,333	$62,858
Income before extraordinary item	306	1,877
Net income	410	1,877
Net income per share	$.28	$1.37

In thousands, except per share amounts

The pro forma results of operations are not necessarily indicative of the actual operating results that would have occurred had the transaction been consummated at the beginning of the respective periods, or of the future operating results of the combined companies.

INTERNATIONAL MINERALS & CHEMICAL CORPORATION (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in millions except per share amounts)

Acquisition

As of February 28, 1986, IMC purchased Mallinckrodt for $675 million in cash plus approximately $37.5 million of acquisition-related liabilities. Mallinckrodt is composed of a number of businesses which operate in three major areas: medical products, specialty chemicals, and flavors and fragrances.

Based on estimated fair values, $531.8 million of the purchase price was allocated to net tangible assets. The remainder of the purchase price, $180.7 million, will be allocated to identifiable intangible assets upon completion of an appraisal during fiscal 1987. Pending completion of that appraisal, the excess attributable to intangible assets is being amortized on a straight-line basis primarily over 15 years.

The results of operations of Mallinckrodt from March 1, 1986, were included in the consolidated financial statements. Unaudited pro forma combined information for continuing operations assuming a July 1, 1984, acquisition is as follows:

	1986	1985
Net sales	$1,568.5	$1,715.9
Earnings (loss) from continuing operations	(65.1)	65.6
Earnings (loss) from continuing operations per common share	$ (2.77)	$ 2.41

This information does not necessarily indicate either what would have occurred had the acquisition been consummated on July 1, 1984, or what future operating results of the combined operations might be.

THE RYMER COMPANY (OCT)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Murry's and Sea Watch Acquisitions

Effective October 27, 1985, a subsidiary of the Company acquired all of the capital stock of Murry's, Inc. ("Murry's") for a recorded purchase price of $57,490,000 (plus acquisition-related costs). The excess investment over net assets acquired was $28,211,000. Terms of the purchase agreement called for a cash payment at closing of approximately $43,864,000, a $4,870,000 promissory note (which was prepaid subsequent to the closing) and the issuance of 200,000 shares of the Company's common stock recorded at $3,000,000, the fair market value. Commencing on October 27, 1986, the Company has guaranteed, for one year, that the sellers of Murry's will be able to sell the Company's common shares at a minimum of $15 per share. Any shortfall will be paid by the Company to the sellers. In addition, the Company has agreed to make further payments through 1991, based upon future earnings of Murry's, with a guaranteed aggregate minimum of $8,400,000. The minimum amount has been recorded at its estimated present value (approximately $5,756,000) as part of the initial recorded purchase price. In addition, the Company may need to make further payments, which are not guaranteed, equal to 10% of Murry's pretax income, as defined, exceeding $7,000,000 in each year until 1991. This additional purchase price earned in excess of the guaranteed amount (approximately $86,000 in 1986) has been and will be reflected as increases in the excess investment over net assets acquired.

The cash portion of the purchase price was substantially provided from the proceeds of the sale of the Company's 13% Senior Subordinated Sinking Fund Debentures with detachable warrants (see Notes 7 and 11).

The shares of Murry's stock are pledged and held in escrow to collateralize the $15 guaranteed stock price with respect to the Company's common shares and the guaranteed earnout payments.

Effective June 5, 1986, a subsidiary of the Company acquired substantially all of the assets, subject to certain liabilities of Old Salt Seafood Company, now Sea Watch International, Ltd. ("Sea Watch"), for a recorded purchase price of $15,825,000 (plus acquisition-related costs). The excess investment over net assets acquired was $7,143,000. The terms of the purchase agreement called for a cash payment at closing of $9,000,000, a $4,000,000 promissory note (at 10% interest maturing June 1991) and the issuance of 100,000 shares of the Company's common stock recorded at $1,764,000, the fair market value. In addition, the Company has agreed to make further payments through 1991, based upon the future earnings of Sea Watch, with a guaranteed aggregate minimum of $1,400,000. The minimum amount has been recorded at its estimated present value (approximately $1,061,000) as part of the initial recorded purchase price. The purchase price earned in excess of the guaranteed amount (none in 1986) will be reflected as an increase in the excess investment over net assets acquired. The maximum amount of such future contingent payments is $10,100,000. The cash payment at closing was substantially financed through one of the Company's existing lines of credit.

The results of operations of Murry's and Sea Watch have been included in the consolidated financial statements from October 27, 1985 and June 5, 1986, respectively.

The acquisitions were accounted for using the purchase method. The unaudited pro forma consolidated results of operations, as if Murry's and Sea Watch had been acquired as of the beginning of 1985, are as follows:

	1986	1985
	(in thousands except per share amounts)	
Net sales	$286,233	$280,329
Earnings before income taxes and extraordinary item	7,544	5,783
Earnings before extraordinary item	2,657	2,298
Net earnings	7,098	5,268
Earnings per share of common stock:		
Earnings before extraordinary item	$ .28	$ .43
Net earnings	$1.78	$1.52

The above pro forma data reflects adjustments primarily for interest on borrowed funds, amortization of excess investment over net assets acquired and utilization of the Company's net operating losses to offset income of the acquirec businesses.

LEVERAGED BUYOUT

FRUEHAUF CORPORATION (THE SUCCESSOR)

NOTES TO FINANCIAL STATEMENTS

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

Organization

On December 23, 1986, Fruehauf Corporation ("Old Fruehauf" or the "Predecessor") was acquired in a leveraged buyout (the "Acquisition") by Fruehauf Holdings, Inc. Fruehauf Holdings, Inc. was formed to effect the Acquisition. Immediately after the Acquisition, Fruehauf Holdings, Inc. changed its name to Fruehauf Corporation (the "Corporation" or the "Successor").

As explained in Note 2, the Acquisition has been treated as a purchase in accordance with generally accepted accounting principles. The Acquisition, for financial statement purposes, became effective on December 31, 1986. Accordingly, the Consolidated Statement of Operations includes only interest incurred and commitment fees paid on the borrowings to effect the Acquisition and the related income tax benefit for the period from June 24, 1986 to December 31, 1986.

The significant accounting principles used by the Corporation are described below, and are in accordance with generally accepted accounting principles.

Note 2: Acquisition of Business

Based upon discussions with the staff of the Securities and Exchange Commission (the "S.E.C."), the Acquisition was accounted for in a Proxy Statement/Prospectus dated as of November 24, 1986, and in a Prospectus dated as of December 17, 1986, relating to the issuance of $510,000,000 principal amount of the Corporation's Senior Subordinated Debt as a treasury stock acquisition and recapitalization. During the first quarter of 1987, the Emerging Issues Task Force of the Financial Accounting Standards Board continued to discuss the accounting treatment appropriate to transactions of this type. In conjunction with further review with the S.E.C. staff of the Corporation's specific facts and circumstances, the S.E.C. staff concluded that it would not object to the recording of the Acquisition using purchase accounting treatment. Under the purchase method, the cost of the Acquisition has been allocated to the net assets acquired based upon preliminary estimates of asset and liability values. The table below sets forth the determination of the purchase price and its allocation to the net assets acquired:

Purchase Price:	Shares	Amount
Common shares purchased at $49.00	2,131,077	$ 104,422,773
Common shares purchased at $49.50	14,575,000	721,462,500
Common shares exchanged at $42.384	6,089,112	258,080,994
Shares exchanged by management at $49.50	36,921	1,827,589
Transaction costs		23,658,834
Total purchase price	22,832,110	$1,109,452,690

CORPORATE REORGANIZATIONS

LUCKY STORES, INC. (JAN)

FINANCIAL REVIEW

Restructuring (In Part)

In October 1986, the Company's Board of Directors authorized a restructuring (the Restructuring) designed to focus the Company on its core food business. The Restructuring consisted of the reincorporation of the Company from California to Delaware, the repurchase of 14,375,000 common shares, the disposition of the Gemco department store division (Gemco), the sale of Checker Auto Parts, Inc. (Checker), the sale of Yellow Front Stores, Inc. (Yellow Front) and the tax free distribution of the stock of Hancock Fabrics, Inc. (Hancock) to the Company's stockholders in a pro rata distribution.

Reincorporation

On December 22, 1986, the Company's stockholders, at a special meeting of stockholders, approved the reincorporation of the Company from California to Delaware. Pursuant to the reincorporation, each outstanding share of Lucky California $1.25 par value common stock became one share of Lucky Delaware common stock, par value $.01 per share.

Repurchase of Common Shares

As part of the Restructuring, the Company repurchased 14,375,000 of its common shares. The repurchase was made pursuant to a tender offer made by the Company on November 21, 1986 to purchase up to 14,375,000 of its common shares for $40 in cash per share. The expiration date of the offer was December 23, 1986, and the shares were purchased in early January for $575 million.

OCCIDENTAL PETROLEUM CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Principles of Consolidation—The consolidated financial statements include the accounts of Occidental Petroleum Corporation, all majority-owned subsidiaries (except a wholly owned finance subsidiary and certain insignificant subsidiaries), and Occidental's interests in oil and gas exploration and production joint ventures. All material intercompany accounts and transactions have been eliminated. Investments in affiliates, including joint-interest pipelines, are accounted for by the equity method (see Note 15).

Occidental was organized as a Delaware corporation in April 1986 in connection with a reorganization, effective May 21, 1986, of a California corporation of the same name (Occidental California), in which, among other things: a wholly owned subsidiary of Occidental was merged into Occidental California; Occidental California's outstanding shares of preferred stock and outstanding common shares were converted on a share-for-share basis into shares of preferred stock and common stock of Occidental; and Occidental California became a subsidiary of Occidental. On August 1, 1986, Occidental California merged with and into Occidental, with Occidental being the surviving corporation. As a result, Occidental succeeded to all of the property of Occidental California and became subject to all of its obligations and liabilities. References to Occidental include Occidental California prior to May 21, 1986, and these consolidated financial statements give effect to the operations of and transactions by Occidental California during the periods presented as if they were those of Occidental.

Certain statements, notes, and supplementary data for prior years have been changed to conform to the 1986 presentation.

MANPOWER INC. (FEB)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Corporate Reorganization

On February 1, 1986, The Parker Pen Company's 98.5% owned subsidiary, Manpower, Inc., was merged into the Company and the Company name was changed to Manpower Inc. As a result of the merger, the Company acquired the remaining 1.5% of the subsidiary from the two minority stockholders, who are also officers and directors of the Company, for 300,000 shares of treasury stock resulting in an increase in intangible assets of $6,200,000. The continuing business of the Company is now solely temporary help services.

OWENS-CORNING FIBERGLAS CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Recapitalization and Restructuring

In November, 1986 the Company's stockholders approved a plan of recapitalization whereby most stockholders received for each of their common shares $52 cash, $35 principal amount of junior subordinated discount debentures and one share of the recapitalized Company's new common stock. Each of the common shares held by four of the Company's employee benefit plans received seven new common shares rather than the combination of cash, discount debenture and new stock. The Company retired the stock acquired under the recapitalization and all treasury stock. The Company financed the cash payments to its stockholders through borrowings under a credit facility provided by a group of commercial banks and from the issuance of senior subordinated debentures (Note 7). As a result of the new debt, the Company's balance sheet is now highly leveraged and investment in the Company's equity or debt securities entails more risk than prior to the recapitalization.

The Company has accounted for the distribution of cash, discount debentures and stock to its stockholders as a dividend.

In order to generate funds required to make scheduled interest and principal payments on indebtedness incurred in the recapitalization the Company implemented a comprehensive restructuring plan in September, 1986. There are three principal features of the restructuring plan. One, the Company is selling certain businesses, including the Aerospace and Strategic Materials Group. Two, the Company is discontinuing products and channels of distribution which do not meet minimum return on investment criteria and is reducing excess production capacity through the closing and consolidation of certain existing facilities and sections of facilities. Three, substantial reductions are being made in overall operating expenses, including research and development, and in capital expenditures. The Company plans to complete the restructuring by the end of the third quarter of 1987.

PREMARK INTERNATIONAL, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 1:

Effective October 31, 1986, one share of Premark International, Inc. (Premark) common stock was issued for every four shares of Kraft, Inc. (formerly Dart & Kraft, Inc.) common stock then outstanding to Kraft, Inc. shareholders of record as of that date (the Distribution). Premark became a publicly held company listed on the New York Stock Exchange and its operations ceased to be owned by Kraft, Inc.

As part of the reorganization, Kraft, Inc. was paid dividends and other cash amounts totaling $356.8 million with funds borrowed under a revolving credit facility. (See Note 5.)

Note 5 (In Part):

Prior to the Distribution, Kraft, Inc. provided financing and working capital for Premark's operations. These transactions are included in "Investment by and Advances from Kraft, Inc." in the Consolidated Financial Statements. No interest income or expense had been allocated on intercompany balances. Interest expense included in the Consolidated Statement of Income relates to borrowings of Premark's foreign subsidiaries to meet local financing requirements, certain domestic borrowings which continue to be outstanding after the Distribution and interest on the funds borrowed under the revolving credit facility at the Distribution date. It is expected that in the future Premark will incur more interest expense than is reflected in the historical financial statements.

The short-term borrowings and the long-term debt are presented on the following page.

RAYTECH CORPORATION (FORMERLY RAYMARK CORPORATION)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(000's omitted, except share data)

Note A: Formation of Raytech Corporation

On October 10, 1986, the shareholders of Raymark approved a plan of merger whereby Raymark became a wholly owned subsidiary of Raytech Corporation. Management believes that the formation of the holding Company is intended to provide a means to gain access to new sources of capital and borrowed funds which could be used to finance the acquisition and operation of new businesses in a corporate structure that should not subject Raytech or such acquired businesses to the asbestos-related liabilities of its principal subsidiary, Raymark. Additionally, the shareholders approved a proposal to amend Raymark's Restated Certificate of Incorporation to reduce the par value of Raymark common stock from $12.50 to $1.00. Accordingly, the shareholders' equity section in the accompanying 1986 balance sheet was adjusted to reflect the par value reduction by reducing common stock and increasing additional paid in capital by $34,348. Effective October 15, 1986, each share of common stock of Raymark was automatically converted into both a share of Raytech common stock and a right to purchase a warrant for Raytech common stock. Each Warrant entitles the holder to purchase one share of Raytech common stock at a price of $9.00 at any time, subject to certain limitations, prior to October 1, 1991. At December 28, 1986, 3,072,135 of these warrants were purchased for $1.00 each and the amount of $3,072 is included in the shareholders' equity section in the accompanying 1986 balance sheet. After giving effect to the merger, Raytech now has an authorized capital structure consisting of 11,000,000 shares of Raytech common stock with a par value of $1.00, and 800,000 shares of preferred stock without par value. Raytech is now reserving approximately 4.5 million shares of its authorized stock for possible issuance upon exercise of the warrants and employee stock options.

CONTINGENCIES AND COMMITMENTS

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

Table 1-11 summarizes the various contingencies and commitments (except leases which are summarized in Table 2-28) disclosed in the 1986 annual reports of the survey companies. The balance sheets of 192 survey companies showed a caption, without an amount, for contingencies and/or commitments. As indicated in Table 1-11, 51 survey companies disclosed that they were self insured either as a result of company policy or because of not being able to obtain adequate insurance.

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

LOSS CONTINGENCIES

Litigation

AMAX INC. (DEC)

NOTES TO FINANCIAL STATEMENTS

21 (In Part): Contingencies and Commitments

Anamax Mining Company, in which AMAX is a 50 percent partner, AMAX and others are defendants in a lawsuit brought by the U.S. Government in its own right and on behalf of the Papago Indian Tribe and others alleging withdrawal of excessive amounts of surface and groundwater from the Santa Cruz River Basin in derogation of their rights. Mining operations have ended and agreements to settle this action have been executed. It is anticipated that litigation will be dismissed.

TABLE 1-11: CONTINGENCIES AND COMMITMENTS

	Number of Companies			
	1986	1985	1984	1983
Loss Contingencies				
Litigation	361	347	339	340
Guarantees				
Debt	133	127	118	121
Support agreements	26	30	22	19
Lease payments	22	17	17	24
Other	33	N/C	N/C	N/C
Sale of receivables with recourse	96	95	85	75
Possible tax assessments	65	68	65	74
Insurance	51	24	N/C	N/C
Letters of credit	51	30	17	24
Government regulations	47	52	40	39
Renegotiation of government contracts	3	6	7	6
Other—described	25	30	24	30
Gain Contingencies				
Operating loss carryforward	167	169	135	131
Investment credit carryforward	128	150	121	123
Plaintiff litigation	22	22	19	28
Other—described	6	11	3	5
Commitments				
Dividend restrictions	395	398	413	418
Hedge contracts	88	59	N/C	N/C
Plant expansion	80	87	89	97
Purchase agreements	66	70	66	63
Additional payments in connection with an acquisition	34	22	10	14
Employment contracts	26	26	29	22
Sale agreements	13	19	7	11
Other—described	36	33	27	24

N/C—Not Compiled.

A subsidiary of the Company is one of a number of defendants in five suits in which plaintiffs seek substantial damages arising out of losses they claim to have sustained in connection with the trading of silver futures contracts during 1979 and 1980 allegedly as a result of actions of commodity exchanges, their Boards of Governors and companies associated with their members. A retired officer of the subsidiary, who was then a member of the Board of Governors of The Commodity Exchange, Inc., is also a defendant in two of these actions. It is not possible to assess the potential liability, if any, of the Company. In the opinion of the Company's General Counsel, the facts relevant to these actions which have been brought to his attention do not support the plaintiff's claims.

In 1986, an action was commenced in the United States District Court for the District of New Jersey under the Federal Water Pollution Control Act and seeks a declaratory judgment, injunctive relief, the imposition of civil penalties and costs for alleged violations of AMAX's New Jersey Pollutant Discharge Elimination System water permit covering the Carteret facility. If the maximum civil penalties are assessed, the potential liability to AMAX would exceed $3 million. AMAX is defending this action while pursuing a settlement agreement with the plaintiffs. AMAX has improved its water treatment system at the Carteret facility and will eliminate some of the discharges upon cessation of smelting and refining operations.

AMOCO CORPORATION (DEC)

NOTES TO FINANCIAL STATEMENTS

20. Litigation

Suits are pending in various state and federal courts in Illinois against Amoco and certain subsidiaries seeking damages for pollution, and in some cases punitive damages, arising out of the stranding of the *Amoco Cadiz* on March 16, 1978, off Portsall, France. The actions allege negligence, and in some cases unseaworthiness, as the cause. The suits are by the Republic of France on its own behalf and on behalf of its citizens, by various French municipalities and governmental departments, by labor and other organizations, and by private citizens. Amounts originally claimed for pollution damage aggregated about $1.9 billion, but the amount of claims (exclusive of interest) being asserted currently is estimated at 1.8 billion French francs (or approximately $300 million if the year-end exchange rate is used). It is believed that the claims exceed actual damages and are duplicative to some extent. On April 18, 1984, the federal court entered an order in favor of all claimants against Amoco and two of its subsidiaries on a joint and several basis with respect to liability. The court also held that Amoco is entitled to damages against the shipbuilder, Astilleros Espanoles, S.A., to the extent that Amoco's liability was contributed to by the negligence and fault of the shipbuilder. The court retained jurisdiction for the purpose of resolving the damage issues, and trial on these issues commenced on April 16, 1986, and will end in the spring of 1987. The suits are not expected to have a material adverse effect on the corporation's consolidated financial position.

ANDERSON, CLAYTON & CO. (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 20. The Company was sued by Continential Fidelity Life Insurance Company ("CFLIC") and its parent on May 19, 1986 in the United States District Court of Arizona in connection with its sale of American Founders Life Insurance Company to CFLIC. In the suit, plaintiffs allege that $3.4 million is due as a post-closing adjustment in the purchase price pursuant to the contract of sale. Under the contract, the post-closing adjustment will be based upon audited financial statements which have not yet become available. Approximately $2 million is on deposit in escrow with a bank awaiting determination of the purchase price adjustment. The complaint also asserts various theories of damages, each of which equals $6 million in actual damages (including the $3.4 million adjustment) and various theories of treble and punitive damages. Based on available information, the Company believes the plaintiffs' claims in this commercial dispute are exaggerated. When the audited financial statements become available, the Company intends to vigorously defend its position.

BIRD INCORPORATED (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

11. (In Part): Commitments and Contingencies

Litigation

A competitor has filed a civil complaint against the Company. The complaint alleges that the Company's Industrial Group has manufactured, used and sold centrifuge apparatus that infringes the competitor's patent. The complaint seeks compensatory damages of an unspecified amount, treble damages and attorney's fees, and an injunction enjoining the Company from infringing the patent. The Company intends to vigorously contest this lawsuit which is currently awaiting trial.

On September 30, 1986, the Company and numerous other parties entered into an Administrative Order on Consent (No. 11 CERCLA-60209) issued by the U.S. Environmental Protection Agency, regarding the removal of hazardous wastes from certain properties in Fulton, New York, certain of which are, or were formerly, owned by the Company. These properties have been designated as priority sites under the federal "Superfund" statute, 42 U.S.C. 9601, *et seq.* Pursuant to the Administrative Order, the Company has paid approximately $75,000 for removal of waste on site and the Company may be liable for additional costs associated with the removal of contaminated soil and groundwater. The EPA's investigation and report on the nature and extent of the contamination and proposal for remedial action have not been promulgated. However, on the basis of limited preliminary data and other information currently available, the Company believes that such costs will not be material in amount.

The Company is also exposed to a number of asserted and unasserted potential claims encountered in the normal course of business. In the opinion of management, the resolution of these matters will not have a material adverse affect on the Company's financial position or results of operations.

BROWN & SHARPE MANUFACTURING COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7. Contingencies

In December, 1983, the Regional Director of the National Labor Relations Board (NLRB), at the direction of the NLRB's General Counsel, issued a consolidated complaint which in substance alleged that the Company had committed certain unfair labor practices and that the International Association of Machinists strike at its Rhode Island operations, which began in October, 1981, was therefore an unfair labor practice, rather than an economic strike. Pursuant to the Company's motion to dismiss numerous counts of that complaint, an NLRB Administrative Law Judge dismissed certain of the charges on April 16, 1986. The unions and General Counsel have appealed this decision to the NLRB. Any final decision by the NLRB may be appealed to the United States Court of Appeals for the First Circuit. The Company is unable, at this time, to estimate with any degree of certainty the total damages, if any, which could result from any adverse decisions to the Company in this litigation. The Company intends to continue to vigorously defend the complaint and management believes the Company will ultimately prevail and that the final resolution of this complaint will not have a material adverse effect on the Company's financial position.

CPC INTERNATIONAL INC. (DEC)

NOTES TO FINANCIAL STATEMENTS

Litigation

Prior to November 4, 1986, entities controlled by Ronald O. Perelman (the "Perelman Group") acquired 3,680,645 shares, or approximately 7.6%, of the Company's then outstanting common stock. On November 4, 1986, the Company's investment banker, Salomon Brothers Inc ("Salomon"), was asked to make definitive recommendations for restructuring the Company to maximize values to stockholders, and the Board of Directors authorized the repurchase of up to 10 million of the 48.7 million shares of common stock then outstanding. On November 5, 1986, Salomon purchased 4,030,645 shares of the Company's common stock, including all of the shares held by the Perelman Group, at a price of $88.50 per share (equivalent to 8,061,290 shares at a price of $44.25 per share, giving effect to the two-for-one split in January 1987). Later on November 5, 1986, the Company acquired the 4,030,645 shares from Salomon at the same price. In November and December 1986, five stockholder derivative suits and one class action were instituted in the United States District Courts for the District of Delaware, the Southern District of New York and the District of New Jersey. The defendants in the derivative suits are the Companyand its directors, Salomon, Mr. Perelman and entities controlled by him. The defendants in the class action are the Company, Salomon and Mr. Perelman. The plaintiffs variously allege that the Perelman Group purchased large blocks of the common stock in an attempt to acquire control of the Company, that the Company purchased the shares which Salomon had acquired from the Perelman Group at an artificially inflated price, and that the defendant's actions constitute violations of Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5 thereunder, breach of fiduciary duties of directors and waste of corporate assets. The plaintiffs seek unspecified damages, injunctive relief, rescission of the transactions and the return of amounts paid by the Company to the Perelman Group or to Salomon. The defendants deny all allegations of improper conduct and are defending the suits.

CSP INC. (AUG)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9. (In Part): Commitment and Contingency:

Litigation:

In October 1986, an action was brought against the Company and its President by a former officer for an alleged wrongful termination of his employment agreement with the Company. The suit seeks $34,000,000 in damages. The Company and its President have responded by denying any wrongful termination and asserting that the former employee has been paid all amounts pursuant to the agreement. Management believes this suit is without merit and that the outcome of this matter will not materially affect the Company's financial position.

EASTMAN KODAK COMPANY (DEC)

NOTES TO FINANCIAL STATEMENTS

Legal Notes

The trial of the action filed by Polaroid Corporation in 1976, charging that Kodak's instant cameras and print film infringe certain Polaroid patents and seeking an injunction and treble damages, was completed in 1982. On October 11, 1985, the U.S. District Court in Boston entered a judgment holding that Kodak's instant film, PR-10, and EK4 and EK6 instant cameras infringed seven patents of Polaroid Corporation and issued an injunction, effective January 9, 1986, prohibiting further manufacture or sale of such products in the United States. Kodak appealed to the U.S. Court of Appeals for the Federal Circuit and moved for a stay of the injunction during pendency of the action. Kodak's motion to stay the injunction was denied by the Court of Appeals on January 7, 1986, and by the Supreme Court on January 8, 1986. The injunction accordingly became effective on January 9, 1986. The Court of Appeals for the Federal Circuit affirmed the decision of the District Court on April 25, 1986 and the United States Supreme Court denied Kodak's petition for certiorari on October 6, 1986. Trial of the issue of damages will be in the U.S. District Court in Boston. Based on the advice of counsel retained to represent it in the case, the company does not believe that it is likely the amount of damages will have a material adverse effect on the financial condition of the company. Damages will be charged against earnings of the year of final resolution.

Kodak was involved in other litigation, investigations of a routine nature, and various legal matters during 1986 which are being defended and handled in the ordinary course of business.

EVEREST & JENNINGS INTERNATIONAL (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Legal Proceedings:

In 1982 a competing wheelchair manufacturer filed complaints in the United States District Court for the Northern District of Ohio, Eastern Division against the Company and a subsidiary. The complaints allege that the Company has monopolized the manufacture of wheelchairs, that the Company has conspired with others in restraint of trade, that the Company has violated antitrust laws, that the Company has engaged in price discrimination and in unfair competition and that it has interfered intentionally in the plaintiff's business. The complaint seeks damages in excess of $13,500,000. The Company denies all charges and has filed a counterclaim charging the competing manufacturer with price and other discriminations in violation of the Robinson-Patman Act. The Company seeks damages in excess of $19,500,000.

The same competing manufacturer filed a complaint in the United States District Court for the Northern District of Illinois, Eastern Division against a subsidiary of the Company alleging patent infringement with no specific amounts claimed. The subsidiary has filed an answer denying all substantive charges and a counterclaim seeking a declaration that plaintiff's patents involved are invalid and not infringed.

In addition, the competing manufacturer filed a similar lawsuit against a foreign subsidiary of the Company, under that nation's jurisdiction. The case was tried in the spring of 1984, and in the spring of 1987 the Court reached a decision in favor of the plaintiff, with the amount of damages, if any, to be determined pursuant to subsequent proceedings. The Company and the subsidiary are currently considering an appeal of the Court's decision.

A complaint was filed in the United States District Court for the Central District of California against a subsidiary of the Company seeking injunctive relief and claiming damages of $4,500,000 for nuisance and trespass arising out of vibrations allegedly caused by operations at the subsidiary's neighboring plant. The District Court subsequently dismissed the case for lack of jurisdiction. The complainant has appealed the District Court's decision to the Ninth Circuit Court of Appeals and has filed (but not yet served) a similar complaint in the Los Angeles County, California Superior Court.

On March 4, 1985, the Attorney General for the State of Missouri filed a petition for injunction and other court orders against a subsidiary of the Company seeking, among other reliefs, a permanent injunction requiring the subsidiary to recall its Model 3P motorized wheelchairs sold to Missouri consumers, for inspection and repair of an alleged defect in the motor. The subsidiary has filed an answer to the complaint denying all substantive allegations and has filed a third party complaint against the manufacturer of the allegedly defective motor. Certain discovery proceedings have taken place, and the subsidiary, the motor manufacturer and the Attorney General are exploring the possibility of resolving their differences without protracted litigation.

A complaint for alleged breach of contract was filed in the United States District Court for the Central District of California against a subsidiary of the Company claiming damages of $1,005,700 arising out of the subsidiary's acquisition of rights to a new product line and to future development of additional new products. The matter was settled, and the complaint dismissed with prejudice in exchange for payment by the subsidiary of a cash amount and delivery of certain tooling and inventory with respect to the proposed new product line. The amounts involved are not considered material by the Company.

The Company and the subsidiaries involved intend to vigorously defend themselves and to vigorously prosecute their counterclaims in all pending actions, but the Company is unable to predict their eventual outcome.

FLEMING COMPANIES, INC. (DEC)

NOTES TO FINANCIAL STATEMENTS

Contingency

In 1986, two retail customers filed separate suits against the company alleging fraud, misrepresentation, breach of contract, conspiracy to violate federal laws and state antitrust violations arising out of their purchase of retail grocery stores through the company from a third party. Damages sought range up to $45 million in each suit for actual or treble damages and punitive damages of $5 million in one suit and $45 million in the other. The company is vigorously defending the actions and management believes there will be no adverse financial effect.

THE GILLETTE COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Contingencies

Gillette is subject to lawsuits and claims arising out of its business. In addition, a number of derivative and class action lawsuits have been filed against the Company and its directors alleging breaches by the directors of their fiduciary duties, vilolations of the Federal securities laws, wrongful interference with the rights of shareholders and other wrongful actions in connection with the purchase by the Company of its stock from Revlon Group described in the Note entitled "Stockholders' Equity" and the issuance of rights in December 1985 which were redeemed in 1986 as described in the Note entitled "Preferred Stock Purchase Rights." The steps taken by the Company and the directors which are the subject of the litigation were taken after consultation with their legal and financial advisors. These lawsuits are still in the very early stages of litigation, but management, after review and consultation with counsel, believes that both the Company and the directors have meritorious defenses to the allegations. Management, after review and consultation with counsel, considers that any liability from all of these matters would not materially affect the consolidated financial position of the Company.

The Company has guaranteed borrowings of certain companies in which it holds minority interests. Such guaranteed borrowings amounted to approximately $6 million at December 31, 1986.

KERR GLASS MANUFACTURING CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 11 (In Part): Commitments and Contingencies

On June 18, 1986, the Foster-Forbes Division of National Can Corporation ("NCC") filed suit against the Company in Superior Court for Wilson County, North Carolina for an unspecified sum in excess of $250,000 resulting from a fire that occurred on June 24, 1984 in a glass container plant in Wilson, North Carolina which had been sold by the Company to NCC on September 19, 1983. NCC had previously advised the Company that total damages exceeded $25 million. The complaint seeks treble damages and attorney's fees. On September 10, 1986, the Company filed a motion to dismiss the NCC complaint. A hearing on the Company's motion had not yet been scheduled. Counsel for the Company believes the NCC claim is without merit.

KOPPERS COMPANY, INC. (DEC)

NOTES TO FINANCIAL STATEMENTS

11. Litigation

In 1981, Inland Steel Company filed an action against the Company asserting a claim in the amount of $100 million for damages under a construction contract. The Company filed a counterclaim against Inland to recover $17 million representing fees on the contract. A jury verdict was rendered on February 21, 1984 for Inland on its claim, in the amount of $74 million, and for the Company on its counterclaim, in the amount of $10 million. The verdict was affirmed by the Court of Appeals of Indiana. The Company has filed a request for rehearing with the Court of Appeals. If the request is denied, the Company will request transfer of the case to the Indiana Supreme Court. While the ultimate outcome of this litigation is not currently determinable, the Company believes that it has meritorious defenses to Inland's claim and it will take all legal action to set aside this verdict or obtain a new trial.

MERCK & CO., INC. (DEC)

NOTES TO FINANCIAL STATEMENTS

9. Contingent Liabilities

There are various legal proceedings against the Company, including one group of product liability cases brought against the Company and varying numbers of other pharmaceutical companies seeking in excess of $3.5 billion in damages, alleging injury from the use of certain synthetic estrogen drugs, including diethylstilbestrol (DES), manufactured by the defendant companies. While it is not feasible to predict or determine the outcome of any of these cases, it is the opinion of management that their outcome will have no material adverse effect on the financial position of the Company.

THE NEW YORK TIMES COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5. Cable Litigation

In June 1986 the Appellate Division of the New York State Supreme Court rendered a decision relating to the 1981 acquisition of two cable television systems. At issue in the litigation is when the Company may offset construction-cost overruns against the purchase price. As a result of the decision, the Company recorded a non-recurring interest charge of $8.5 million, or $.05 per share, in the second quarter of 1986.

The litigation arose from the terms of the Purchase Agreements (the "Agreements") under which the Company acquired two cable television systems that were still under construction. The Agreements provided that to the extent the construction costs exceeded $36,500,000, the purchase price was to be reduced by offsets against certain non-negotiable notes payable through March 2, 1987. The Company's position is that under the Agreements it is entitled to offset the construction-cost overruns as they are incurred and the notes come due. The sellers claim that the Company is not entitled to offset the costs until a final determination has been made of the amount of the overruns. The Appellate Division's order, entered September 30, 1986, upheld the sellers' interpretation. The Company is seeking permission to appeal the Appellate Division's order and at the same time trying to expedite the arbitration process which, as set forth in the Agreements, will ultimately determine the amount of the offsets.

From the acquisition date through December 31, 1986, the originally-issued negotiable and non-negotiable notes of $67,000,000 (exclusive of a contingent amount of $10,000,000, the maximum amount payable had certain specific operating results been achieved in the last six months of 1982), have been reduced by approximately $63,600,000, which includes approximately $28,400,000 related to offsets against the non-negotiable notes for actual construction-cost overruns. The Company anticipates that there will be further construction-cost overruns.

THE STOP & SHOP COMPANIES, INC. (JAN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

11. Litigation

In October, 1985 the Commonwealth of Massachusetts on behalf of its citizens filed suit against the Company and two other supermarket operators. This civil antitrust suit claims violations of Sections four and sixteen of the Clayton Act. The complaint alleges that the defendants conspired to fix the price of grocery products, meat items and dairy products for which manufacturers' coupons were distributed in Massachusetts and Connecticut from March, 1982 until late 1982. The Company has denied the allegations.

The plaintiff seeks as yet undetermined damages, which it estimates to be in excess of $1,000,000, plus attorneys fees. Plaintiff also asks that the damages be trebled. The litigation is in discovery.

In June, 1986 the State of Connecticut, on behalf of its citizens, filed civil antitrust suits in the U.S. District Court for the District of Connecticut and in the Superior Court of Connecticut against the Company and one other supermarket operator. The Federal action claims violations of Sections four and sixteen of the Clayton Act. The State action claims violations of Chapter 624 of the General Statutes of Connecticut. The complaint alleges that the defendants and their co-conspirators fixed prices of grocery products and meat items for which manufacturers' coupons were published and distributed in Connecticut between 1978 and 1982.

In the Federal action, plaintiff seeks as yet undetermined damages which it estimates to be in excess of $1,000,000, plus attorneys fees. Plaintiff also asks that the damages be trebled. The litigation is in discovery. In the State action, plaintiff seeks civil penalties of $250,000 per violation, plus attorney's fees. The parties have agreed to stay the State court action (until April 24, 1987).

The Company believes it has meritorious defenses to all three lawsuits. Moreover, the Company does not believe that these suits are material to its operations or net assets. Nevertheless, settlement discussions have been held in an attempt to avoid the cost of protracted litigation.

TEMTEX INDUSTRIES, INC. (AUG)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note M (In Part): Contingencies

In 1984, the Company was named as a defendant in a counterclaim by a railway company on the matter of a truck-train collision. The counterclaim was a response to the primary action brought by the estate of the driver of the truck against the railway company. In 1986, the primary action was tried and the jury exonerated the railway company from liability for the accident. The railway company requested the driver's fault be imputed to the owner of the truck and the Company, who leased the truck. The railway company has submitted a proposed judgment of approximately $3.2 million. The Company is insured by a primary liability policy as well as an excess liability policy. The judgment is within the combined amount of the primary and excess policies. However, the excess carrier has stated that coverage is not provided because the primary carrier failed to keep the excess carrier advised of the litigation. The Company, which believes that it has meritorious claims against one or more of the insurance carriers, intends to vigorously pursue its claims against the insurance companies. Additionally, the Company intends to assist the insurance carriers in vigorously pursuing any appeals or other steps which the carriers may undertake in connection with defense of the actions.

MURPHY OIL CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note N—Litigation Settlements—Excess of insurance proceeds over carrying value of the ODECO drilling barge Ocean Ranger, which sank in 1982, increased fourth quarter 1984 net income $26,815,000, $.73 a share. All remaining litigation arising from loss of this barge was resolved in 1986 within the limits of ODECO's applicable liability insurance.

In the fourth quarter of 1986, the Company and a subsidiary entered into a Settlement Agreement with the Iranian government and the National Iranian Oil Company under the terms that all claims and counterclaims before the Iran-United States Claims Tribunal (all of which related to the subsidiary's former operations in Iran) were dismissed in consideration of receipt by the subsidiary of $36,110,000, net of certain expenses. The settlement increased net income $26,371,000, $.78 a share.

Guarantee of Indebtedness of Others

AIR PRODUCTS AND CHEMICALS, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

12. Other Commitments and Contingencies

The company has guaranteed repayment of borrowings of unconsolidated companies accounted for on the equity method, in the amount of $4.1 million at year end.

In the normal course of business, the company has commitments, lawsuits, contingent liabilities, and claims (including the claims relating to a fire at a facility of Syncrude Canada Ltd.). However, the company does not expect that any sum it may have to pay in connection with any of these matters would have a materially adverse effect on its consolidated financial position.

ASHLAND OIL, INC. (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note G (In Part): Leases and Other Commitments

Ashland Coal has a contingent liability of $26,600,000 for its share of the indebtedness of a 20% owned joint venture operating a coal loading terminal at Newport News, Virginia. Venture partners are required to pay their share of the venture's operating and debt service costs in exchange for the right to use their share of the terminal's loading capacity. Ashland Coal's share of such payments amounted to

$5,170,000 in 1986, $4,730,000 in 1985 and $1,644,000 in 1984. Payments for fixed operating and debt service costs will approximate $4,400,000 annually through 2012 under current economic conditions.

COLT INDUSTRIES INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. (In Part): Discontinued Operations

In December 1985, the company sold its Crucible Materials Corporation and Crusteel Limited subsidiaries to the management and employees of Crucible in a leveraged buyout. Accordingly, the financial statements of the company for 1985 and 1984 have been restated to account for the operations of Crucible Materials Corporation and Crusteel Limited as discontinued operations.

As part of the sale, the company has a $21,000,000 minority investment in Crucible Materials Corporation, principally nonvoting, which is included in Other Assets in the Consolidated Balance Sheet, and a contingent liability as guarantor of $40,250,000 of debt, which has been cash collateralized. In addition, the company is contingently liable for $13,150,000 in industrial revenue bonds that were assumed by Crucible. Net sales of the discontinued operations were $259,696,000 in 1985 and $288,033,000 in 1984.

12. (In Part): Commitments and Contingencies

The company and certain of its subsidiaries are contingently liable as guarantors of certain debt and leases and as defendants in various lawsuits, including actions involving asbestos-containing products. The guaranteed debt, including debt described in Note 4, amounted to $73,373,000 at December 31, 1986 compared with $75,373,000 at the end of 1985. In the opinion of management, the contingent liabilities will not have a significant effect on the financial position of the company and its subsidiaries.

COPPERWELD CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 8 (In Part): Commitments and Contingencies

With the distribution of the common stock of CSC Industries, Inc. to Copperweld Corporation stockholders, CSC Industries, Inc. (CSC) became a separately established publicly held company. As such, it is no longer a part of Copperweld Corporation. The Corporation is still contingently liable, however, for certain obligations of CSC. Principal among these contingencies is the Corporation's guarantee of certain long-term debt commitments of CSC. Including the current maturities of this debt, the total at December 31, 1986, was $8,200,000. The debt is payable through the year 2002 with interest rates between 7¾% and 13%.

CUMMINS ENGINE COMPANY, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 12 (In Part): Guarantees and Contingent Liabilities:

The company has guaranteed loans and leases of independent distributors approximating $17 million as of December 31, 1986. The company's commitment under outstanding letters of credit was $.6 million at December 31, 1986. Cummins is also senior guarantor under terms of Eurodollar borrowings of its Brazilian subsidiary. The Brazilian company had deposited $15.2 million with the Central Bank of Brazil at December 31, 1986, to satisfy all of the loan obligations as they came due.

THE DORSEY CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5 (In Part): Contingent Liabilities and Commitments:

Contingent Liabilities

During 1984, the Company entered into a joint venture to develop the technology for producing a can-shaped plastic container (Petainer). The Company uses the equity method of accounting for its investment in the joint venture. The Company has committed to guarantee up to a maximum of $10,350,000 of indebtedness for funding capital expenditures and operations of the venture of which $5,867,000 were outstanding at December 31, 1986. The Company's share of losses from operations of the joint venture, net of tax benefits, recognized in the financial statements was $799,000, $251,000 and $84,000 in 1986, 1985 and 1984, respectively.

During 1982, the Company sold substantially all of the net assets of its glass container business. Relative to this disposition, certain continuing liabilities remain for which, in the opinion of management, adequate accruals have been provided.

IPCO CORPORATION (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 10 (In Part): Commitments and Contingencies

Guarantee: The Company is contingently liable for a mortgage of approximately $3,428,000, attributable to the Company's former headquarters, which was sold during fiscal 1976. In connection with the sale, the property was conveyed to the buyer, subject to the mortgage on the property.

SUPER VALU STORES, INC. (FEB)

NOTES TO FINANCIAL STATEMENTS

H. Commitments and Contingencies:

The company has guaranteed mortgage loan obligations of $1,761,000. The company has also guaranteed the leases and fixture financing loans of various affiliated retailers ($26,892,000 and $6,089,000, respectively). In addition, the company is contingently liable for bonds ($14,398,000) that are comprised of an assignment to the purchasers of its Harrison House Food Service Division ($2,030,000), various affiliated locations ($10,518,000) and a tax increment bond ($1,850,000).

UNIVERSAL LEAF TOBACCO COMPANY, INCORPORATED (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 10 (In Part): Commitments and Other Matters

Contingent obligations resulting from guarantees of lines of credit for foreign and domestic affiliates approximated $164 million at June 30, 1986. The maximum exposure related to any one affiliate approximated $31 million.

Guarantees Other Than Guarantees of Indebtedness

CONCORD FABRICS INC. (AUG)

NOTES TO FINANCIAL STATEMENTS

(Note K)—Contingent Liability:

In connection with certain warehouse space previously leased by the Company, the Company is contingently liable for the landlord's losses up to approximately $350,000 a year if the current tenant fails to fulfill its lease obligations. The contingency could extend to 1996, or expire by 1988 if certain lease renewal conditions are met.

EMHART CORPORATION (DEC)

NOTES TO FINANCIAL STATEMENTS

19. Litigation and Contingent Liabilities

There are claims and actions pending against the Company and its subsidiaries. In the opinion of management, the amounts, if any, which may be awarded in connection with these claims and actions would not be material to Emhart's consolidated financial position.

The Company is contingently liable for approximately $49 million of contract performance bonds as of December 31, 1986.

THE BFGOODRICH COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in millions)

Note V (In Part): Commitments and Contingencies

Goodrich is contingently liable for approximately $18.4 for rental payments under leases that have been assigned to others.

KRAFT, INC. (DEC)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 2 (In Part): Financing Arrangements

Under an agreement with D&K Financial Corporation (formerly Dart & Kraft Financial Corporation), an unconsolidated subsidiary, the company has undertaken certain support obligations in connection with the borrowings of that subsidiary, including the obligation to make payments to D&K Financial Corporation sufficient to cause D&K Financial Corporation's pretax earnings before interest expense to be at least 1.15 times its interest expense. No payments have been required under this agreement. At the end of 1986, D&K Financial Corporation had borrowings of $679.3 million, which are not guaranteed by Kraft, Inc., at a weighted average interest rate of 7.6 percent.

McCORMACK RESOURCES, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3 (In Part): Discontinued Operations

The company remains contingently liable on certain guarantees and undertakings related to the discontinued operations, including a portion of the rental payments on a Great Lakes vessel (annual payments of approximately $1,300,000 for 1987 through 2001, $5,100,000 for 2002 through 2005, and $2,600,000 in 2006); the capital lease payments on the ocean tankers (annual payments of approximately $4,734,000 for 1987 through 1995, $2,256,000 in 1996 and $726,000 in 1997); performance on three tax benefit transactions; funding future cash losses of the Great Lakes fleet (up to a maximum of $14,850,000); and certain other obligations. A substantial amount of the accrual for estimated liabilities on discontinued operations recorded at June 30, 1986 was associated with these contingent guarantees and undertakings, for which the timing of potential payments is indeterminate.

NAVISTAR INTERNATIONAL CORPORATION (OCT)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

17 (In Part): Commitments, Contingent Liabilities and Restrictions on Assets

At October 31, 1986, commitments for capital expenditures in progress were approximately $69 million.

The parent Company is obligated under agreements with private lenders of Navistar Financial to maintain Navistar Financial's income before interest expense and income taxes at not less than 125% of its total interest expense. Amounts paid by the parent Company under these agreements have no effect on the consolidated results of Navistar International Corporation and subsidiaries. The parent Company paid $5 million in 1984 to Navistar Financial under the terms of these agreements. No income maintenance payments were required in 1986 and 1985.

THE UNITED STATES SHOE CORPORATION (JAN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8 (In Part): Commitments and Contingencies—

Contingencies—The company has guaranteed and is, therefore, contingently liable under leases of facilities expiring between 1987 and 1997 that are operated by certain customers. Minimum rentals guaranteed under such leases range from $5.4 million in fiscal 1987 to $2.1 million in 1991 and aggregate $23.2 million for the eleven-year period.

UNITED TECHNOLOGIES CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 17 (In Part): Commitments and Contingent Liabilities:

The Corporation is engaged in various legal proceedings and, at December 31, 1986, was contingently liable in the amount of approximately $17,000,000 representing discounted accounts and notes receivable. The Corporation participates in guarantees of aircraft financing arrangements including commitments to purchase aircraft and deficiency guarantees on aircraft resale values or lease payments. At December 31, 1986 the Corporation had contingent obligations of $315,000,000 under these guarantees. The Corporation's commitments under its support and operating agreements with its finance subsidiaries are set forth in Note 10. Management does not expect that amounts, if any, which may be required to be paid by reason of such litigation, discounted receivables, guarantees or agreements will be of material importance to the financial condition or earnings of the Corporation.

The Corporation extends performance and operating cost guarantees, which are beyond its normal warranty and service policies, for extended periods on some of its products, particularly commercial aircraft engines. Liability under such guarantees is contingent upon future product performance and durability. Management has no present reason to believe that such guarantees will result in material losses to the Corporation.

WANG LABORATORIES, INC. (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note M (In Part): Leases

In June, 1986, the Company received $49.8 million in connection with the sale and lease back of land and buildings having a net book value of $34.6 million. The Company's lease back agreement has a noncancellable term of three years with subsequent year-to-year renewal options for an additional thirty-seven years. The Company has guaranteed the residual value of the leased property up to a maximum amount of approximately $42.5 million at the end of the initial three-year lease term and in declining amounts thereafter. The excess of the proceeds received over the net book value of the assets sold has been deferred until the residual guarantee has been satisfied.

Receivables Sold With Recourse

THE ALLEN GROUP INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 10 (In Part): Commitments and Contingencies

The Company was contingently liable to financing institutions, principally for customers' obligations, in the aggregate amount of approximately $8,000,000 at December 31, 1986. Losses, if any, under these arrangements are not expected to be significant. The Company is also contingently liable under an irrevocable letter of credit in the amount of $4,000,000 issued on behalf of a senior executive of the Company guaranteeing certain provisions of postemployment consulting and supplemental pension agreements. The Company is contingently liable to its insurance carrier under its workmen's compensation and liability policies. In connection therewith, the Company has provided letters of credit aggregating $12,000,000.

Various legal actions are pending against or involve the Company and its subsidiaries with respect to such matters as product liability, casualty claims and patent infringement. In the opinion of management, after review and consultation with counsel, the aggregate liability, if any, that ultimately may be incurred will not have a material adverse effect on the consolidated financial position of the Company.

In December 1986, the Company filed claims under its fidelity insurance coverage ($1,025,000), seeking to recover part of the losses resulting from the unauthorized transactions of certain former employees of its West German leasing subsidiary. The Company is also pursuing other actions to recover additional amounts in connection with these transactions. The Company cannot, at this time, give any assurance that these unrecorded claims will be resolved in its favor.

BERGEN BRUNSWIG CORPORATION (AUG)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

14—Contingencies

The Corporation was contingently liable as guarantor to the extent of $5,795,000 as of August 31, 1986 on customer's trade notes receivable sold to financial institutions. The Corporation is involved in various items of litigation. Although the amount of liability, if any, at August 31, 1986 with respect to these items of litigation cannot be ascertained, the Corporation believes that any resulting future liability will not materially affect is continuing consolidated operations.

COLLINS INDUSTRIES, INC. (OCT)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

10 (In Part) Commitments and Contingencies:

(b) Repurchase Agreements—The Company is contingently liable under the terms of an agreement covering certain of its dealers floorplan financing arrangements. These arrangements provide for the repurchase of products sold to dealers in the event of default by the dealer to the financial institution. The contingent liability under this agreement was approximately $950,000 at October 31, 1986.

The Company has also entered into an agreement whereby municipal leases may be sold to a bank. Under the terms of this agreement, the Company may be required to repurchase the unpaid principal amount of a lease in the event of default by the lessee. The purchase price is defined as all unpaid principal plus all unaccrued but unpaid interest plus any costs or expenses of collection incurred by the bank. As of October 31, 1986, the Company had sold $886,000 of municipal leases to the bank. The uncollected principal amount of municipal leases sold to the bank was $547,725 in 1986 and $725,640 in 1985.

The Company has never been required to repurchase any vehicles under the terms of either of the above agreements. In the event of a default, the risk of loss would be reduced by the resale value of the repurchased vehicle.

THE COCA-COLA COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

15. Receivable and Contract Right Conversions. In 1986 and 1985, the Company sold its rights to cash payments under contracts related to certain films and television programs not presently available for telecast. Approximately $45 million in 1986 and $31 million in 1985 of such rights were acquired by CCFC, the Company's wholly owned finance subsidiary. These transactions resulted in deferred revenue which is recognized as operating revenue as the respective materials become available for telecast. The differences between the present value of the contracts and the amounts to be recognized as revenue are being reported as nonoperating deductions. Certain entertainment and other accounts receivable, totaling $238 million in 1986 and $465 million in 1985, were also sold. These transactions are subject to recourse. The uncollected balance of receivables was approximately $618 million and $413 million at December 31, 1986 and 1985, respectively.

DEERE & COMPANY (OCT)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Commitments and Contingent Liabilities

On October 31, 1986, certain foreign subsidiaries were contingently liable for approximately $19 million of receivables discounted with financial institutions. Also, at October 31, 1986, the company and its subsidiaries had commitments of approximately $100 million for construction and acquisition of property and equipment.

Certain foreign subsidiaries have pledged assets with a balance sheet value of $50 million as collateral for funds advanced by banks in the aggregate amount of $18 million as of October 31, 1986.

The company guarantees the principal and interest on commercial paper and long-term debt due in 1988 issued by John Deere Finance Limited. At October 31, 1986, John Deere Finance Limited had $5 million of commercial paper and $22 million of long-term debt guaranteed by the company.

The company is contingently liable to the unconsolidated retail finance subsidiaries for losses on uncollectible retail notes. The maximum liability for such losses was $66 million at October 31, 1986. The company's and the unconsolidated retail finance subsidiaries' receivable allowances are considered adequate to cover retail note losses as well as any losses on the company's trade receivables.

The company has an agreement entitling it to purchase the rotary combustion engine business of Curtiss-Wright Corporation. At October 31, 1986, the company was contingently obligated to Curtiss-Wright for approximately $18 million, representing installments payable, which includes interest, through July 1, 1991. The future installments are contingent upon the company's continuation of activities in connection with the engine.

Possible Tax Assessments

BARNES GROUP INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 7 (In Part): Income Taxes

The Company has been assessed $6,800,000 of additional taxes by the Internal Revenue Service for the years 1978 through 1983, relating to the Company's allocation of the purchase price of acquisitions made during that period. In June 1986, the Company was assessed $6,900,000 of additional taxes by the Internal Revenue Service for the year 1983, relating to the Company's deduction of losses on the divestiture of its European manufacturing operations in that year. If this assessment is upheld, it will also result in the assessment of an additional $7,100,000 in taxes for 1984. Management is contesting these assessments and, in its opinion, the ultimate resolution thereof will not have a material effect on the financial position or results of operations of the Company.

BAUSCH & LOMB INCORPORATED (DEC)

NOTES TO FINANCIAL STATEMENTS

Provision For Income Taxes (In Part)

During the first quarter of 1986, the Internal Revenue Service completed an examination of the company's operations for the period 1980-1982 and has proposed adjustments to the company's previously filed tax returns, the most significant of which related to income earned by the company's operations in Ireland. A petition contesting the alleged deficiency was filed with the U.S. Tax Court. During the third quarter of 1986, the company settled all of the outstanding issues in the years under examination, except for that relating to operations in Ireland. Taxes and accrued interest associated with the proposed adjustments amount to approximately $15 million, which exceeds the company's tax provision for the years in question. The company is continuing its vigorous opposition of the remaining proposed adjustment in the U.S. Tax Court. Management believes that any tax liability which may arise for the periods in question or for subsequent years will not have a materially adverse effect on the financial position of the company.

CENTRONICS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8 (In Part) Income Taxes

In November 1981 and December 1986, the Company received deficiency notices from the Internal Revenue Service ("Service") with respect to its fiscal years 1975 through 1982 based primarily on the Service's position that the prices of products sold to the Company by its subsidiary operating in Puerto Rico ("Puerto Rico Subsidiary") in those years should be adjusted to allocate taxable income to the Company and that certain related tax credits should be disallowed. In addition, the Service has taken the position that should its proposed income allocations for fiscal years 1977 through 1982 not be sustained at least in substantial part, then, alternatively taxable income should have been recognized at the time of the liquidation of the Puerto Rico Subsidiary in 1982 under a tax benefit theory. Depending upon the manner in which the Service were to prevail, management believes that the Company's maximum tax liability after application of available United States net operating losses (i.e. the losses accumulated through June 27, 1982) to offset allocable taxable income would be approximately $17 to $20 million, exclusive of interest and state income taxes, and the Company's accumulated United States net operating loss carryovers as of December 28, 1986 would be reduced to approximately $23 million.

The Company is vigorously contesting the deficiency notices and has filed petitions for redetermination of the deficiencies in the United States Tax Court. After consultation with special tax counsel to the Company, management believes that in certain instances the Service's proposals are without merit, or the Company has meritorious defenses available to it, and that in other instances the Service's position is unlikely to be sustained in the amounts proposed. Based upon the Company's analysis of the deficiency notices and the advice of special tax counsel, management of the Company believes that any liability for federal or state income taxes and related interest charges which may arise from the ultimate resolution of the issues raised by the Service will not have a material adverse effect on the Company's financial position. However, the Company's United States net operating loss carry-forwards, which, could otherwise be available to offset future income, may be utilized to a substantial extent to offset income the Company may be required to recognize.

The 1981 deficiency notice included an assessment of $1.5 million related to a matter in which a former employee took a position contrary to that of the Company. In February 1987, a decision of the United States Court of Appeals for the First Circuit in a litigation between the Service and the former employee with respect to this issue became final. If the First Circuit's decision is followed with respect to the Service's assessment against the Company, the Company's maximum liability under the assessment would be approximately $1 million plus interest. The Company has fully provided for such maximum liability in its 1986 financial statements.

In February 1983, the Company received a deficiency notice from the State of New Hampshire, Department of Revenue Administration, with respect to its fiscal years 1977 to 1980, assessing approximately $1.4 million of additional taxes plus interest based on the taxation of worldwide income under the "Unitary Tax Method." The Company contested the assessment by filing a petition in the Superior Court of the State of New Hampshire in March 1983. At this time, the Company is unable to predict the final resolution of this matter; however, management believes the Company has meritorious defenses against this assessment and consequently has made no provisions with respect to this matter.

PETTIBONE CORPORATION (MAR)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note E (In Part): Contingencies and Litigation:

(3) Federal Tax Returns:

Federal income tax returns have been audited by the Internal Revenue Service and agreed to through 1976. As a result of these reviews, the Company has accrued approximately $550,000 to settle all disputes for 1976 and prior. The Internal Revenue Service has also completed reviews through 1980 and, as a result, has made an assessment of about $7 million for the years 1977 through 1980. The Company is currently protesting this assessment at the Appellate level. No accruals have been established for the years 1977 to date. The Company feels the $7 million assessment will be reduced through the Appellate process and any additional taxes which may become payable will be further reduced due to the carryback of net operating losses.

Note F (In Part): Income Taxes:

The Federal income tax returns of the Company have been examined or closed through 1972. The Internal Revenue Service has proposed adjustments for the years 1973 through 1980. See Note E for the status of the proposed adjustments. Federal tax returns for the years 1981 to 1985 have not yet been examined by the Internal Revenue Service.

TELEDYNE, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 14 (In Part): Commitments and Contingencies.

The Company is defending a lawsuit brought in the Chancery Court of Delaware alleging claims relating to certain repurchases of its stock. The action seeks compensatory and punitive damages in an indeterminate amount and alternatively, rescission. The Company believes that the allegations made in the complaint are not meritorious and that the Company has adequate legal defenses.

The Internal Revenue Service (IRS) has proposed the imposition of an accumulated earnings tax of approximately $122 million for 1981 and $128 million for 1980 in connection with the audit of the Company's consolidated Federal tax liability. The same issue may be raised by the IRS in their audits of years subsequent to 1981. The Company believes the assertion of an accumulated earnings tax by the IRS is both legally and factually without merit and intends to defend vigorously against it. In the opinion of the Company, the ultimate resolution of this issue will not materially affect its financial statements.

Letter of Credit

AMAX INC. (DEC)

NOTES TO FINANCIAL STATEMENTS

21 (In Part): Contingencies and Commitments

AMAX has arranged for letters of credit in the amount of $65 million in favor of The Commodity Exchange, Inc. and various other corporations at December 31, 1986.

BROWNING-FERRIS INDUSTRIES, INC. (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6 (In Part): Commitments and Contingencies—

At September 30, 1986, the Company has $65 million in open letters of credit, of which the most significant relate to its Riyadh, Saudi Arabia contract, and compliance with landfill and licensing closure requirements. Most of the liabilities guaranteed by these instruments are carried on the balance sheet. The Company also guarantees $5 million of solid waste revenue bonds of an unconsolidated partnership.

CMI CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

11 (In Part): Commitments and Contingencies

At December 31, 1986, the Company has guaranteed borrowings by customers amounting to approximately $2,000,000. In addition, the Company was contingently liable for outstanding letters of credit, not reflected in the accompanying financial statements, in the amount of $3,209,000.

EMERSON RADIO CORP. (MAR)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note G (In Part) Commitments and Contingencies:

(2) Letters of Credit:

Outstanding letters of credit, not reflected in the accompanying financial statements, aggregated approximately $24,179,000 at March 31, 1986.

GENESCO INC. (JAN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 7. Letters of Credit

In July 1986 Genesco entered into an agreement with four U.S. banks making up to $12 million in commercial letters of credit available for issuance to Genesco suppliers in connection with the importation of foreign goods. The credit line, which was guaranteed by Genesco's Canadian subsidiary, covered the issuance of letters of credit through January 31, 1987 payable on or before April 30, 1987. Effective January 27, 1987 and February 6, 1987, the Company entered into amendments extending the letter of credit agreement and deleting the requirement that the Company's obligations be guaranteed by its Canadian operating subsidiary. The amended letter of credit agreement covers letters of credit issued through April 30, 1987 payable on or before July 31, 1987. Negotiations to obtain a commitment beyond these dates are continuing. Genesco's letter of credit agreement requires the Company to maintain (i) an excess of current assets over current liabilities of at least $110,000,000; (ii) Tangible Net Worth of at least $70,300,000; and (iii) a ratio of total liabilities (excluding Subordinated Debt) to the sum of Tangible Net Worth and Subordinated Debt of not more than 2.45 to 1. All of the above requirements were met at January 31, 1987.

ICOT CORPORATION (JUL)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3 (In Part): Capitalized Lease Obligations and Line of Credit

The Company also has a commercial letter of credit facility of $1,500,000 available under the $5,000,000 line. As of August 2, 1986, approximately $830,000 in letters of credit had been issued under this facility. In addition, the agreement provides for a standby letter of credit facility of $1,500,000 under the $5,000,000 line. As of August 2, 1986, approximately $901,000 in letters of credit had been issued under this facility. Available borrowings under the $5,000,000 line of credit are reduced by the amount of the outstanding letters of credit.

McDERMOTT INTERNATIONAL, INC. (MAR)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 7 (In Part): Contingencies and Commitments

McDermott International is contingently liable under standby letters of credit totalling $277,177,000 at March 31, 1986 issued in the normal course of business.

MONFORT OF COLORADO, INC. (AUG)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note J (In Part): Contingencies and Commitments

In connection with certain self-insurance agreements, the Company has $3,150,000 in outstanding Letters of Credit at August 30, 1986.

SPENCER COMPANIES, INC. (MAY)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

20. Contingent Liabilities and Commitments:

At May 31, 1986 and June 1, 1985, commitments on open letters of credit totaled approximately $2,700,000 and $3,600,000, respectively.

Insurance Coverage

ARMADA CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

15 (In Part): Litigation and Contingencies

The Company has agreed to indemnify its directors and officers to the maximum extent permitted under Michigan law for liabilities they may incur as a result of their activities as directors and officers. This indemnification is limited to $3,000,000 per occurrence. The Company and its directors and officers do not have directors and officers liability insurance.

BECOR WESTERN INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note M (In Part): Commitments and Contingent Liabilities

The Company has general liability insurance with self assumed retention on product liability claims (excluding aircraft products) of $2,000,000 per occurrence; aircraft products have no retention, and other general liabilities have retentions of $250,000 per occurrence. An estimate of the amounts due and payable on existing claims for which the Company is liable is included in current liabilities.

GENERAL SIGNAL CORPORATION (DEC)

NOTES TO FINANCIAL STATEMENTS

12 (In Part): Contingencies and Commitments

Insurance. The company's general and product liability insurance program, with respect to insured events occurring after April 1, 1986, lacked coverage in several intermediate layers and required substantial coinsurance by the company. These gaps in insurance coverage available to the company reflect trends in liability insurance generally and are not unique to the company, whose experience has historically been satisfactory.

The company has been able to eliminate major gaps and reduce coinsurance requirements as to future coverage. No significant claims have been asserted against the company during this period of reduced coverage. However, if such claims were to be asserted, the lower levels of coverage would apply to such claims.

RAYTHEON COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note J (In Part): Commitments and Contingencies

Due to the reduced availability and increased cost of insurance, the company, through its Beech Aircraft Corporation subsidiary, has been unable to purchase aircraft liability coverage in amounts or upon terms that have been traditionally available. Accordingly, since 1985, management has determined that the company will retain higher levels of coverage. Retained coverage not provided for amounted to $30 million in 1986 and $16 million in 1985.

SCHERING-PLOUGH CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Insurance

The Company's liability insurance coverage, including product liability insurance, decreased substantially for events occurring after June 1, 1985, and was decreased again for events occurring after June 1, 1986, such that, currently, the Company is essentially self-insured for product liability. These reductions in insurance coverage reflect trends in the liability insurance area generally and in particular for product liability in the chemical and pharmaceutical industries, and are not unique to the Company. While the Company cannot categorically state that future claims will not have a material impact on its financial position, the Company is not presently aware of any claim materially in excess of coverages now in place and, based on historical experience, would not anticipate that potential future claims would have a material impact on its financial position.

TOSCO CORPORATION (DEC)

NOTES TO FINANCIAL STATEMENTS

14 (In Part): Commitments and Contingencies

Tosco currently carries approximately $175,000,000 of property and business interruption insurance, the maximum amount currently available at what Tosco believes to be commercially reasonable rates. Such insurance may be insufficient to cover losses that may occur. In addition, as part of general restrictions in the insurance market, Tosco's $50,000,000 comprehensive general liability insurance carrier added in 1986 a contractual provision which purports to exclude from coverage certain liabilities relating to the release of pollutants into the environment. Tosco therefore may not be insured against such risks. In addition, Tosco's earthquake and flood insurance coverage has been reduced from approximately $100,000,000 to approximately $40,000,000. Tosco's earthquake and flood insurance coverages may undergo further reductions or become unavailable at commercially reasonable rates. Future liability or costs, if any, incurred by Tosco in connection with such matters would have to be paid out of general corporate funds, if available.

ZENITH ELECTRONICS CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 11 (In Part): Contingencies

As a result of general conditions in the U.S. insurance market, the company has been unable to obtain, at acceptable cost, liability insurance at the levels of coverage historically maintained. However, the coverage obtained is in excess of losses previously incurred by the company.

Government Regulations

NORTH AMERICAN PHILIPS CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

16. Commitments and Contingencies—

Several of NAPC's subsidiaries are parties to proceedings before federal and state regulatory agencies in connection with the clean up of environmental problems, primarily related to closure of plants of discontinued chemical operations. Management believes that the cost of compliance with all applicable regulations in connection with these closures will not result in any liability which would materially affect the financial statements at December 31, 1986. Also, several of NAPC's subsidiaries, along with hundreds of other companies, have been named as potentially responsible parties in state and federal proceedings for the clean up of various dump sites. While the waste disposal was carried out by these subsidiaries in accordance with all appropriate procedures called for at the time of disposal, subsequent changes in the law make all contributors to the waste at a site responsible for the cost of clean up. However, the quantity and nature of the waste disposed of by NAPC's subsidiaries is so minimal that management expects these proceedings to be resolved without significant cost.

NAPC and its subsidiaries have claims pending against them, generally incidental to their business. In the opinion of management, such claims will not result in any liability which woud materially affect the financial statements at December 31, 1986.

RANCO INCORPORATED (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

14. Contingencies and Commitments:

Ranco is subject to state and federal environment regulations related to the use, storage and disposal of hazardous materials. Certain processes in the manufacture of Ranco products create hazardous waste by-products as currently defined by the U.S. Environmental Protection Agency (USEPA). Ranco now disposes of such substances through independent permitted treatment facilities. In the past, however, the Company maintained its own permitted temporary waste storage sites for its Ohio plants.

Actions initiated by the USEPA in the third quarter of fiscal 1986 propose a civil penalty of $75,000 against Ranco related to closure of the temporary storage sites. Ranco has filed hearing requests with the USEPA to challenge the USEPA's actions.

In accordance with USEPA requirements, Ranco will be required to close the temporary storage sites it had used in the past. Ranco has filed a closure plan for the sites with the USEPA which has not yet been approved or disapproved. The Company has recorded a liability of $1,430,000 before taxes ($.21 per share after taxes) for the estimated costs under the proposed closure plan. Management believes that it has made adequate provision to implement the proposed closure plan, based on its knowledge of current regulations and current technology. However, governmental regulations are complex and subject to different interpretations. Future events, or changes in the law or regulations or their interpretation, could result in remedial actions by the USEPA with material future costs to Ranco.

Sale of Tax Benefits

AMERICAN MOTORS CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note M (In Part): Commitments and Contingent Liabilities

The Company has commitments and guaranties incurred in the ordinary course of business approximating $151,000,000 principally for tooling and equipment and $11,160,000 of potential indemnification exposure related to the sale of tax benefits.

Unpaid Insurance Claims

CLARK EQUIPMENT COMPANY (DEC)

NOTES TO FINANCIAL STATEMENTS

Contingencies (In Part)

On December 31, 1986, the Integrity Insurance Company (Integrity), an insurer of Clark, voluntarily submitted to rehabilitation for a 60 day period under the supervision of the New Jersey Insurance Commission. Under the rehabilitation order, Integrity continues to process claims and pay claims administration expenses but is suspended from paying claims on behalf of its insureds. Integrity insured Clark's general, product, aviation and advertising liability losses exceeding primary policy limits to an annual limit of $6 million due to occurrences taking place during the four annual policy periods commencing September 30, 1981 and ending September 30, 1985. The Company has had insurance claims totalling $1.8 million under the 1983-84 Integrity policy. Of these, $1.0 million has been paid to Clark by Integrity, and the remaining payment of $0.8 million has been delayed by the rehabilitation order. A reliable estimate of the Company's exposure to loss due to Integrity's possible inability to pay claims in the future cannot be made as long as the rehabilitation order is in effect.

Unasserted Claims

NACCO INDUSTRIES, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note L (In Part): Contingencies

In 1986, a mining subsidiary became aware of water discharges occurring on properties which overlie or are in close proximity to one of its closed mines. At this time the subsidiary does not have sufficient information to conclusively determine whether its mine, or mines of other companies in the area are causing the discharges or to determine the cost, if any to remedy the matter. The subsidiary is self-insured for such matters. However, the ultimate liability with respect to this contingency is not considered to be material in relation to the mining subsidiary's financial position.

Pension Benefit Indemnification

PHILLIPS PETROLEUM COMPANY (DEC)

NOTES TO FINANCIAL STATEMENTS

Note 10 (In Part): Other Contingent Liabilities

In connection with the retirement plan restructuring as discussed in Note 12, the company has agreed to indemnify the insurance company for payment of additional benefits to plan participants that would be required should a change in control of the company occur prior to January 1, 1988. The indemnification liability, estimated at $375 million, terminates December 31, 1987, if the insurance company has not become obligated to make additional benefit payments. As part of the indemnification agreement, the company named the insurance company beneficiary of a $200 million letter of credit which expires on January 5, 1988, unless earlier drawn. In the letter of credit agreement, the company agreed to certain restrictive covenants including maintenance of a minimum cash balance and restrictions on total indebtedness and sales or transfers of assets. At the option of the company, the letter of credit may be prefunded and the letter of credit agreement canceled.

While it is not possible at this time to establish the ultimate amount of liability with respect to these contingent liabilities, including those related to legal proceedings, the company is of the opinion that the aggregate amount of any such liabilities for which provision has not been made will not have a material adverse effect on its financial position.

Timber-Cutting Contracts

THE TIMES MIRROR COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note G (In Part) Timberlands

In addition to capitalized timber harvesting rights, subsidiaries of the Company have entered into a number of timber-cutting contracts with the federal government and the State of Oregon which will expire at various times over the next several years. Some of the contracts require the Company to harvest and pay for timber at prices which exceed the current market value of such timber. Improvements in the economy and the construction industry may result in increased timber prices thereby eliminating or substantially mitigating the Company's economic exposure under the contracts. The Company anticipates that losses, if any, on its timber contracts would occur over a period of at least six years and would not have a significant effect on the Company's earnings in any single year and, in the aggregate, would not have a material adverse effect on its financial position at any date.

Libyan Concession

USX CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

26 (In Part): Commitments and Other Contingencies

Marathon's Libyan concession interests are subject to Executive Orders and regulations thereunder by which the United States has imposed economic sanctions against Libya. Marathon's Libyan interests are also subject to a license issued pursuant to the referenced regulations. Marathon has no American employees in Libya and, by reason of the United States sanctions against Libya, Marathon has not participated in operations or in crude oil sales or exports from Libya since June 30, 1986. Marathon is in compliance with the laws of the United States regarding business transactions with Libya. The net financial exposure of Marathon with respect to its Libyran interests is expected to be less than $100 million, after income tax effect.

GAIN CONTINGENCIES

Operating Loss or Investment Credit Carryforwards

ANCHOR HOCKING CORPORATION (DEC)

NOTES TO FINANCIAL STATEMENTS

Note 4 (In Part): Income Taxes

At December 31, 1986, the Company has, for tax purposes, a net operating loss (N.O.L.) carryforward of approximately $5,787,000, which expires in the year 2001 and general business credit carryforwards of approximately $3,831,000 of which $240,000, $152,000 $2,852,000 and $587,000 expire in the years 1998, 1999, 2000 and 2001, respectively. General business credit carryforwards at December 31, 1986, include investment tax credit (I.T.C.) carryforwards of $3,270,000. As provided for by the Tax Reform Act of 1986, any I.T.C. carryforwards existing at December 31, 1986, will be reduced by 17.5% if utilized for tax purposes during 1987 and 35.0% if utilized after December 31, 1987.

The Company has not yet recognized a tax benefit for a substantial portion of the write-down of the investment in Towle Manufacturing Company as it is not assured beyond a reasonable doubt that such tax benefit will be realized.

GEARHART INDUSTRIES, INC. (JAN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 6 (In Part): Income Taxes

For income tax purposes, the Company has a net operating loss carryforward at January 31, 1987, of approximately $132,200,000, of which $41,800,000 and $90,400,000 will expire on January 31, 2001 and January 31, 2002, respectively, if not utilized. Additionally, the parent compay has tax credit carryforwards of approximately $19,500,000 of which approximately $500,000, $8,500,000, $4,700,000, $5,700,000 and $100,000 will expire in fiscal 1989, 1990, 2000, 2001 and 2002, respectively, if not utilized. As a result of the Tax Reform Act, investment tax credit carryforwards will be reduced by 35% over a two year period ending January 31, 1989.

For accounting purposes, the Company has a net operating loss carryfoward of approximately $170,000,000 at January 31, 1987. Since any tax benefit is dependent on future taxable earnings, the Company has not recognized such benefits for accounting purposes.

THE BFGOODRICH COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in millions, except per share amounts)

Note L (In Part): Income Taxes

At December 31, 1986, Goodrich and its domestic subsidiaries have net operating loss and investment tax credit carryfowards which are subject to review by the Internal Revenue Service and, unless utilized, will expire in the year indicated in the following table:

Year	Net Operating Loss Carryfowards For Financial Reporting Purposes	For Tax Accounting Purposes	Investment Tax Credit Carryforwards For Financial Reporting Purposes	For Tax Accounting Purposes
1994..	$ —	$ —	$ —	$ 3.6
1995..	—	—	6.5	10.2
1996..	—	—	.6	1.8
1997..	—	—	15.2	13.1
1998..	—	43.1	8.6	4.4
1999..	—	44.5	6.6	6.8
2000..	201.5	338.7	8.4	8.5
2001..	—	—	3.8	3.8
	$201.5	$426.3	$49.7	$52.2

Under the provisions of the Tax Reform Act of 1986, the investment tax credit carryforwards will be reduced by 17.5 percent in each of the years 1987 and 1988 for a total of a 35 percent reduction.

Goodrich and its domestic subsidiaries also have, for both financial reporting and tax accounting purposes, other credit carryforwards of $8.5. These credits, unless utilized, will expire as follows: $1.1 in 1989, $.8 in 1997, $2.3 in 1998, $3.2 in 1999, $.7 in 2000 and $.4 in 2001.

HECLA MINING COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5 (In Part): Income Taxes:

For financial statements, Hecla used net operating loss carryovers of $7,900,000 in 1984 to offset otherwise taxable income. The current federal tax provision in 1984 included approximately $3,444,000 for preference taxes that became payable when the Company used its tax basis net operating losses.

A December 31, 1986, the Company has tax basis net operating loss carryovers available to offset future regular taxable income, and investment tax credit carryovers available to offset future taxes payable. These carryovers expire as follows (in thousands):

	Net Operating Losses	Investment Tax Credits
1990		$ 530
1991		243
1992		10
1993		2
1994	$ 2,664	2
1995		216
1996	12,335	30
1997	7,418	2,279
1998		769
1999		525
2000	14,959	340
2001	15,862	
	$53,238	$4,946

For financial statement purposes, the Company has unused net operating loss carryovers of approximately $27,118,000, and investment tax credit carryovers of approximately $2,735,000.

On October 22, 1986, the existing federal income tax law was substantially revised by the passage of the Tax Reform Act of 1986. Some of the changes included in the new tax legislation that will significantly affect the Company are reduction of the maximum corporate tax rate from 46% to 34%, the institution of a more comprehensive Alternative Minimum Tax, and the repeal of the investment tax credit retroactive to January 1, 1986. The new tax legislation also reduces investment tax credit carryovers from years prior to 1986 by 17.5% beginning in 1987 and 35% for tax years beginning in 1988 and thereafter. In the Company's case, while existing net operating loss carryovers will offset regular taxable income, they will not be available to offset Alternative Minimum Taxable Income.

INLAND STEEL INDUSTRIES, INC. (DEC)

NOTES TO FINANCIAL STATEMENTS

Note 12 (In Part): Taxes on Income

For tax purposes, the Company generated approximately $27,200,000 of consolidated taxable income in 1986 and incurred consolidated losses of approximately $157,500,000 in 1985, and $35,300,000 in 1984. After adjustments for divestitures, the Company had net operating loss carryforwards totaling $641,900,000 on December 31, 1986. These carryforwards, if not utilized to offset taxable income, will expire at the end of the indicated years: $248,700,000 in 1997, $24,200,000 in 1998, $33,000,000 in 1999, and $156,000,000 in 2000. On December 31, 1986, the Company also had general business and other credit carryfowards for tax purposes which aggregated $131,790,000. Under a transition rule in the Tax Reform Act of 1986, major steel companies, including the Company, may elect to surrender their regular investment tax credit carryovers in exchange for a cash refund of as much as 50 percent of such credits, depending upon the amount of income taxes paid during the 15 years prior to the year the earliest unused credit arose. Although some aspects of the transition rule remain uncertain at this time, it is estimated that, when the election permitted by the rule is made with respect to approximately $100 million of eligible investment tax credit carryforwards, the resulting refund in 1988 would approximate $50 million. The effects of this refund will be included in 1987 results. The rule requires that the amount of the resulting refund be committed to reinvestment in and modernization of the steel business. Of the remaining general business and other credits, approximately $10,500,000 represents regular investment tax credits, which pursuant to the TRA of 1986, are subject to reductions of 17.5 percent in each of the years 1987 and 1988.

For financial reporting purposes, the effect of these operating loss and credit carryforwards has been recognized by reductions of the deferred income tax liability to the extent that such carryforwards would be offset by reversals of timing differences during the permitted carryforward period. Timing differences are composed primarily of the excess of tax over book depreciation and provisions for facilities terminations. On December 31, 1986, the Company had operating loss carryforwards for financial statement purposes of approximately $337,000,000 and general business and other credit carryforwards of $18,800,000.

LABARGE, INC. (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

12 (In Part): Income Taxes

As a result of losses incurred in 1986, 1985, and 1984, the Company has net operating loss carryforwards for financial reporting purposes of approximately $35,421,000. Such carryforwards for income tax purposes are approximately $22,344,000 and expire $11,398,000 in 1999, $2,198,000 in 2000, and $8,748,000 in 2001. The difference between these net operating loss carryfoward amounts is attributable to the recognition of loss on disposal of assets not deductible for tax purposes until incurred, net of the recognition of tax benefits for financial reporting purposes through the elimination of net deferred tax credits that reverse during the carryforward period. To the extent that tax carryforwards in excess of financial reporting carryforwards are realized through reduction of income taxes payable in future periods, the eliminated deferred taxes will be reinstated at the then current rates. Long-term capital loss carryforwards are $981,000, which expire $457,000 in 1989 and $524,000 in 1990. Investment tax credit carryforwards of $394,000 expire in various years through 2001.

OHIO FERRO-ALLOYS CORPORATION (DEC)

NOTES TO FINANCIAL STATEMENTS

Note M (In Part): Income Taxes

At December 31, 1986, the Corporation has net operating loss carryforwards and unused investment tax credits which may be applied against future years' income taxes and are due to expire as follows. Investment tax credits have been restated to the carryover available under the Tax Reform Act of 1986:

	Net Operating Losses	Investment Tax Credits
	(In Thousands)	
1995	$ 841	$125
1996	-0-	69
1997	20,061	44
1998	10,674	24
1999	6,605	30
2000	4,795	-0-
2001	4,610	-0-
	$47,586	$292

Plaintiff Litigation

CROWN CENTRAL PETROLEUM CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note I (In Part): Litigation

On July 21, 1986, Fast Fare, Inc.(Fast Fare), a subsidiary of the Company, brought an adversary proceeding in the United States Bankruptcy Court for the Eastern District of North Carolina against Lora, Zamorano & Partners, Inc. (LZPI) and Three M Marketing Media and Merchandising, Inc. (Three M), both of which had formerly provided marketing and advertising services for Fast Fare. LZPI and Three M were seeking protection under Chapter 11 of the Bankruptcy Code at the time Fast Fare brought its adversary proceeding. The adversary complaint alleges civil conspiracy, civil RICO, RICO conspiracy, breach of contract, conversion and unfair and deceptive trade practices in connection with the dealings among LZPI, Three M, the president of those two companies and a terminated employee of Fast Fare, all resulting in damages to Fast Fare. LZPI and Three M have filed a counterclaim against Fast Fare and third party complaints against the Company and a subsidiary of the Company which is the parent of Fast Fare asking for damages in excess of $40 million ($30 million of which relates to punitive and treble damages) for breach of contract, civil conspiracy, unjust enrichment, copyright infringement and unfair business practices. The Company and its subsidiaries intend to vigorously prosecute this case and defend these claims. In the opinion of the Company, after consultation with local trial counsel, the claims of LZPI and Three M have no merit except for the possible contractual obligation of Fast Fare to pay LZPI and Three M, upon a proper accounting, some portion or all of the approximately $630,000 claimed by LZPI for the services previously performed. This case and a related action by the Company against the president of LZPI and Three M and against the former Fast Fare employee are currently in the discovery stage.

THE DORSEY CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

13 (In Part): Litigation:

On August 5, 1986, the Company's wholly owned subsidiary, Sewell Plastics, commenced a lawsuit in the United States District Court for the Western District of North Carolina agaist Coca-Cola USA, a division of the Coca-Cola Company; Southeastern Container, Inc., a cooperative venture which manufactures plastic soft drink containers ("Southeastern Container"); and several Coca-Cola franchised bottlers located in the southeastern United States which are affiliates of the Southeastern Container cooperative. The complaint alleges that the bottler defendants, assisted by Coca-Cola USA, have entered into arrangements with Southeastern Container which preclude Sewell Plastics, and other commercial manufacturers, from fairly competing for the business of the bottlers. In addition, the complaint alleges that these activities constitute violations of the federal antitrust laws and the North Carolina Unfair Trade Practices Act in that, among other things, they amount to: a group boycott; exclusive dealing arrangements which substantially lessen competition in the manufacture and sale of plastic beverage bottles within the southeastern United States; and an unlawful attempt to monopolize that business.

Sewell Plastics seeks damages in excess of $17 million, before trebling, and an injunction prohibiting the defendants from further violations. The defendants have answered denying the material allegations of the complaint. The parties are currently engaged in pre-trial discovery; no trial date has been scheduled. The outcome or other effect of the litigation (including the commercial impact, if any) cannot be predicted. The Company has reached a settlement with Wilmington

Coca-Cola Bottling Works, Inc. ("Wilmington"), one of thirty-four defendant Coca-Cola bottlers. The settlement provides that Wilmington will purchase all of its plastic beverage bottle requirements in the 16 ounce, 2 liter and 3 liter sizes from Sewell Plastics for at least the two-year period commencing November 1, 1986, to be automatically renewed for one year thereafter unless duly terminated by written notice. The settlement further provides that for at least the same two-year period, Wilmington will not purchase 16 ounce, 2 liter or 3 liter plastic beverage bottles from any cooperative or joint venture, subject to certain exigencies; and will not undertake any additional obligations or provide any further assistance to any cooperative or joint venture which manufactures 16 ounce,2 liter or 3 liter plastic beverage bottles. Finally, the settlement provides that Wilmington will be bound by any injunctive or other equitable relief ordered by the court against, one or more other bottler defendants.

INTERSTATE BAKERIES CORPORATION (MAY)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. Litigation

In January 1985, the Company's subsidiary, Interstate Brands Corporation (IBC), brought an action against G.S.F.C., Inc. alleging that G.S.F.C., breached a written purchase agreement pursuant to which G,S.F.C. was to purchase the business and assets of IBC's Western Region. The action seeks contract damages of $15,000,000 and an order requiring payment to IBC of a $4,000,000 escrow deposit in partial satisfaction of these damages. In August 1985, G.S.F.C. filed an answer denying the material allegations of IBC's complaint and asserted counterclaims seeking recovery of the escrow deposit and compensatory and punitive damages from IBC and others. Discovery in the G.S.F.C. action is proceeding. In December 1985, the party that provided G.S.F.C. with the escrow deposit that is at issue in the action between IBC and G.S.F.C., brought an action against IBC seeking recovery of the escrow deposit with interest, as well as other compensatory and punitive damages. The Company believes that these claims are without merit. The Company currently intends to retain the business and assets of IBC's Western Region.

Contingent Receivable

BAXTER TRAVENOL LABORATORIES, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Acquisitions and Divestitures (In Part)

During 1986, following its merger with American, Baxter Travenol made an evaluation of operations to strengthen the company's focus and resources on areas of health care where its research, manufacturing and marketing expertise can achieve and maintain leadership positions. Pursuant to this review Baxter Travenol completed the sale of assets of its Flint unit for $555 million in September 1986. Flint manufactured and marketed drugs to drug wholesalers and physicians nationwide. During 1986, the company also sold certain assets of its American Critical Care business unit. The terms of sale, as restructured in February 1987, provide for a cash sales price of $355 million and the potential for the company to receive up to an additional $70 million contingent upon future sales of "Brevibloc," (esmolol) ultra-short-acting beta blocker. Rights also exist which may provide additional proceeds should sales of "Brevibloc" and other products exceed specified levels. At December 31, 1986, the company has received $210 million of the sales price. Since Critical Care was acquired with American in November 1985, the assets sold were recorded at fair value and therefore, no gain resulted from this transaction. Critical Care developed, manufactured and distributed drugs, primarily used for critical-care and cardiovascular treatments. The above two units, which constituted the ethical pharmaceutical product line are accounted for as discontinued operations. Net sales for these divested units were $91 million, $59 million and $42 million in 1986, 1985 and 1984, respectively.

COMMITMENTS

Obligations to Maintain Working Capital or Restrict Dividends

AMETEK, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3 (In Part): Long-term Debt

In September 1986, the Company issued in a private placement, $120,000,000 in 8.95% notes with maturities from 1993 to 2001. The agreement contains, among other things, certain restrictions relating to the maintenance of working capital, the payment of cash dividends and the purchase, retirement or redemption of capital stock.

Under the Company's most restrictive outstanding debt agreements at December 31, 1986, consolidated working capital was $30,000,000 in excess of the required minimum and retained earnings of $51,000,000 were not restricted under these provisions.

AMCAST INDUSTRIAL CORPORATION (AUG)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Long-term Debt and Credit Arrangements

The most restrictive of debt covenants require the company to maintain tangible net worth of $60 million, working capital of $30 million, a current ratio of 1.8 to 1, and a consolidated liabilities to consolidated tangible net worth ratio ranging from 100%-130% dependent on specified measurement dates. There are also provisions limiting the payment of cash dividends. At August 31, 1986, $10,655,000 of retained earnings was available for the payment of dividends.

COLT INDUSTRIES INC (DEC)

NOTES TO FINANCIAL STATEMENTS

6 (In Part): Long-term Debt

The term loan and revolving credit facilities contain various restrictions and conditions. The most restrictive of these require the ratio of earnings before interest and taxes to interest expense be at least 1.3 to 1 for any period of four consecutive quarters ending in 1987. This ratio increases annually in increments to 2 to 1 in 1992; and for any two consecutive quarters, it must be at least 1 to 1. The ratio of current assets to current liabilities must be at least 1.60 to 1; and the ratio of senior debt to the sum of subordinated debt, net earnings after the recapitalization, and aggregate sale proceeds of common stock after the recapitalization (less certain amounts) must not exceed a maximum of 2.70 to 1 in 1986, decreasing in annual increments to 1 to 1 in 1993. In addition, these facilities restrict purchases of the company's common stock, payment of dividends, capital expenditures, the incurrence of additional indebtedness, mergers, asset dispositions, investments, prepayment of other debt, dealings with affiliates, and the amendment of agreements governing indebtedness. The company is in compliance with the above financial covenants.

ETHYL CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

11. Restrictions on Dividends and Stock Purchases:

The Company's loan agreements contain restrictions, among others, on the payment of cash dividends and purchases of the Company's stock ("Restricted Payments"). At December 31, 1986, approximately $461,000,000 is available for such Restricted Payments, of which approximately $311,000,000 can be used for cash dividend payments under the agreement presently most restrictive.

GENCORP (NOV)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note I (In Part): Long-term Debt

The long-term debt agreements and indentures contain various debt restrictions and provisions relating to distributions and cash dividends on common stock. Under the most restrictive of these provisions, approximately $286 million of retained earnings would have been available for distributions and cash dividends at November 30, 1986. Additionally, under the most restrictive working capital requirements, the Company is required to maintain a current ratio of 1.5. At November 30, 1986, the current ratio was 1.7.

W.R. GRACE & CO. (DEC)

NOTES TO FINANCIAL STATEMENTS

$ millions (except per share)

Note 10—Modification of Debt Covenants

The Company has certain Promissory Notes totaling $283.3 at December 31, 1986 and revolving credit agreements (see Note 9—Long-Term Debt) which contain covenants limiting the Company's ability to incur funded indebtedness and to pay cash dividends. As a result of the 1986 net loss, such covenants would have been violated. Consequently, the Company obtained a modification of the covenants which liberalized the restriction on the payment of cash dividends and increased the permitted debt ratio (for a three-year period ending January 1, 1990). Interest paid by the Company on the Notes and on any borrowings under its revolving credit agreements will increase by a nominal amount until such time as the Company complies with the original limitation on dividend payments.

After giving effect to the modification, $130 of retained earnings at December 31, 1986 was free of this restriction on payment of cash dividends.

INTERNATIONAL MULTIFOODS CORPORATION (FEB)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Retained earnings are restricted as to payment of cash dividends and other stock payments by terms of long-term debt indentures unless certain financial tests are met. Under the most restrictive of these tests, approximately $7,207,000 of retained earnings was free from such restrictions as of February 28, 1986. On April 30, 1986, the Company successfully completed the sale to the public of 1,437,500 shares of its common stock at an offering price of $41 per share resulting in net proceeds to the Company of $57,169,375, thus increasing by such amount retained earnings available for the payment of dividends. There are no restrictions on payment of dividends by consolidated U.S. affiliates. Although there are restrictions on payment of dividends by non-U.S. consolidated affiliates, it is the Company's policy to repatriate 50% of such affiliates' earnings, and while there can be instances, such as occurred during fiscal year 1986, wherein the restrictions may not allow full payment under the policy, over the long-term, the Company has been and expects to continue to be able to adhere to its policy.

KAMAN CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In thousands)

Credit Arrangements—Short-term Borrowings and Long-term Debt (In Part)

Restrictive Covenants—The most restrictive of the covenants contained in the various loan agreements require the Corporation's consolidated tangible net worth to be at least equal to $85,000, consolidated working capital to be not less than $80,000, consolidated current assets to be not less than 200% of consolidated current liabilities and consolidated liabilities not to exceed 220% of tangible net worth. The Corporation is prohibited from applying any sum to the redemption, retirement or purchase of any shares of any class of its capital stock or any payment of cash dividends on any class of its capital stock to the extent that the aggregate of all sums and property involved or set apart for such purposes would exceed $3,000 plus 66 2/3% of defined consolidated net income from December 31, 1977 through December 31, 1979 and 50% thereafter. As of December 31, 1986 approximately $42,300 of retained earnings was available for the aforementioned purposes.

LACLEDE STEEL COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4 (In Part): Long-term Debt

The most restrictive provisions of the Company's loan agreements include the following:

a. The Company shall maintain net working capital of $30,000,000.

b. The Company shall maintain net worth as defined, of not less than $67,500,000 during 1986 and graduating each year to $75,000,000 in 1989.

c. The Company will not incur certain additional long-term indebtedness, as defined.

d. Payment of cash dividends is limited to 50% of cumulative net earnings after January 1, 1983.

e. The Company will not incur a ratio of total liabilities to net worth in excess of 1.5 to 1.

The Company has no compensating balance arrangements.

PORTEC, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 8 (In Part): Long-term Debt

Under the most restrictive provisions of debt outstanding at December 31, 1986, the Company is restricted as follows: (a) the ratio of its consolidated total liabilities, as defined, to its consolidated tangible net worth shall not exceed 1.6:1, from and including December 31, 1986, to and including December 30, 1987; 1.75:1, from and including December 31, 1987, to and including December 30, 1988; and 1.6:1, on December 31, 1988, and thereafter, (b) the consolidated tangible net worth, as defined, shall not be less than an amount equal to 80% of the largest consolidated tangible net worth for any preceding year that ends on or after December 31, 1985, (c) the ratio of consolidated current assets to consolidated current liabilities shall be at least 1.75:1, and (d) restricted investments and distributions, as defined, which include payment of cash dividends, shall not exceed the sum of 75% of cumulative net earnings computed on a consolidated basis from December 31, 1985, to the date of any such transaction, plus $7,000,000. Under the most restrictive provisions of debt outstanding at December 31, 1986, retained earnings of $2,727,000 were free of restrictions.

Hedge Contracts

AMERICAN MAIZE-PRODUCTS COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Futures Contracts: The Company periodically enters into futures contracts as hedges in its corn inventory purchasing program. Gains and losses on these hedges are matched to specific inventory purchases and charged or credited to cost of sales as such inventory is sold.

HERSHEY FOODS CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Commodities Futures Contracts

In connection with the procurement of major commodities, principally cocoa and sugar, the Corporation enters into commodities futures contracts as deemed appropriate to reduce its exposure to future price increases for anticipated manufacturing requirements. Gains and losses on such futures contracts are deferred and recognized in cost of sales when the related product is manufactured and sold.

CATERPILLAR INC. (DEC)

NOTES TO FINANCIAL STATEMENTS

(Dollar amounts in millions)

2 (In Part): Foreign Exchange

Included in net foreign exchange gains or losses are certain gains and losses resulting from contracts to buy and sell foreign currencies in the future. The company enters into these contracts to protect certain foreign currency positions and the U.S. dollar cost of certain future foreign currency requirements against movements in exchange rates. Gains or losses on contracts which protect identifiable foreign currency commitments (IFCCs) are deferred and included in the value of the commitment. Gains or losses on contracts to protect foreign currency requirements not qualifying as IFCCs and on foreign currency positions are included in consolidated profit or loss of each period as a component of "Other income." At December 31, 1986, the company had approximately $1,100 in contracts to buy or sell foreign currency in the future.

SUN COMPANY, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (In Part)

Futures Contracts

Sun periodically uses commodity futures contracts to hedge the impact of price fluctuations on its oil requirements and financial futures contracts to hedge the risk associated with interest rate fluctuations on its variable rate debt. Gains and losses on commodity futures hedge contracts are deferred until recognized in income when oil is sold. Gains and losses on hedge contracts related to interest rate fluctuations are deferred and recognized in income over the period being hedged.

HASBRO, INC. (DEC)

NOTES TO FINANCIAL STATEMENTS

($000)

Note 16. Commitments and Contingencies

The Company had unused open letters of credit of $49,394 and $35,741 at December 28, 1986 and December 29, 1985, respectively.

The Company uses forward exchange contracts to purchase foreign currencies. Among these were outstanding contracts to purchase 1.384 billion Japanese yen and 593 million Hong Kong dollars at December 28, 1986 and 450 million Japanese yen at December 29, 1985. Such contracts are adjusted to market value where applicable. The aggregate amount of gains and losses resulting from these and other foreign currency transactions was not material.

The Company is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the Company's consolidated financial condition.

NATIONAL SEMICONDUCTOR CORPORATION (MAY)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Forward Exchange Contracts

The Company enters into forward exchange contracts to reduce the impact of foreign currency flunctuations on certain sales transactions and the asset and liability positions of foreign subsidiaries. The gains or losses on these contracts are included in income when the revenue from the sales is recognized and for assets and liabilities in the period in which the exchange rates change.

TRIBUNE COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 11 (In Part): Commitments

The Company has entered into commitments for programs which are not currently available for broadcast and, therefore, these obligations are not included in the financial statements. These commitments totalled $283,000,000 at December 28, 1986. Payments commence when the programs become available for broadcast.

The Company had commitments totaling approximately $95,000,000 at December 28, 1986 related to the purchase of property, plant and equipment and baseball player contracts. Also at that date $30,000,000 of foreign exchange commitments were outstanding under contracts extending through December 1987. These foreign exchange commitments were entered into by the Company's Canadian subsidiary.

BAXTER TRAVENOL LABORATORIES, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Long-term Debt and Lease Obligations (In Part)

Baxter Travenol, as a direct result of the borrowings to refinance the merger, entered into financial futures and forward contracts to minimize the company's exposure to adverse movements in interest rates related to anticipated financing transactions. Gains and losses on those hedge instruments were deferred and are being amortized as a discount or premium on the financings over the life of the respective issues. See "Extraordinary Item," for a description of hedging costs written off in 1986.

To further insulate itself from interest rate volatility, Baxter Travenol entered into several interest rate swap agreements whereby the company makes a payment based upon a fixed interest rate to a counterparty and in return receives a payment based on a floating interest rate. At December 31, 1986, the company had entered into two such agreements having a principal amount of $100 million, with a weighted average interest rate of 8.97%.

THE COASTAL CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 6 (In Part): Debt

The Company has entered into a number of interest rate swap agreements which have effectively fixed the interest rates on $1,080.0 million of floating rate debt. Under these agreements, Coastal will pay the counterparties interest at a fixed rate, and the counterparties will pay Coastal interest at a variable rate based on the London Interbank Offered Rate (LIBOR). The fixed rates payable under these agreements range from 9.77% to 11.30% with terms expiring at various dates from 1988 through 1995. In addition, beginning in late 1986, Coastal has entered into interest rate swap agreements in which it receives interest at a fixed rate and pays interest at a variable rate based on LIBOR. These agreements, combined with the exchange of Notes discussed under Subordinated Long-Term Debt, enable the Company to realize an arbitrage savings of 1.5% per annum for a five year period on approximately $600 million of debt.

The foreign currency exposure relating to the Swiss franc denominated debt of the Company and one of its subsidiaries has been hedged to maturity, resulting in effective borrowing costs of from 10.30% to 11.61%.

UNITED STATES SURGICAL CORPORATION (DEC)

NOTE H (In Part): Long-term Debt

In 1986 the Company entered into interest rate swap agreements to exchange interest payments with certain of its lenders. Under the agreements which for a period of five years effectively hedge or reduce the Company's exposure to floating interest rates on $30,000,000 of its variable rate borrowings, the Company makes fixed interest payments at rates which approximate 8% and receives payments based on the floating six-month London Interbank Offered Rate. The net gain or loss from the exchange of interest rate payments is included in interest expense.

Capital Expenditures

AVON PRODUCTS, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Commitments (In Part)

Various construction programs were in progress at December 31, 1986 with an estimated additional cost to complete of $30 million.

CONCORD FABRICS INC. (AUG)

NOTES TO FINANCIAL STATEMENTS

Note N—Commitments:

The Company has a commitment, subject to obtaining certain local governmental operating approvals, to acquire property for approximately $3,000,000 to be used as a manufacturing facility. If the property is acquired, the Company will expend approximately $4,000,000 to equip the facility.

The Company has negotiated the basic terms of a $15,000,000 long-term loan with an institutional lender, subject to the acquisition of the facility mentioned above. If the aforesaid transactions are consummated, the $3,100,000 note payable to insurance company (Note G) will be prepaid and working capital will be increased by approximately $5,600,000.

FORT HOWARD PAPER COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

11. Effingham County, Georgia Plant Construction

During the third quarter of 1985, the Company broke ground for a new tissue mill in Effingham County, Georgia. During the fourth quarter of 1986, the Company began converting finished product. The first paper machine is on schedule for start-up in the second quarter of 1987. The mill is currently planned as a four paper machine mill to be built over approximately seven years. The cost of construction for the first two paper machines and related facilities scheduled for completion in 1988 is estimated to be $450-$500 million. Expenditures through December 31, 1986, totalled $201 million. Upon its completion, the new mill will significantly increase the Company's production capacity for tissue products. In connection with this construction, the Company issued $50 million of Industrial Revenue Bonds in 1985. Financing for the remainder of this project is expected to be sourced primarily from internally generated funds and, to a lesser extent, from external financing as required.

GIANT FOOD INC. (FEB)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5 (In Part): Commitments

Property, plant and equipment: During the next year, the Company plans to expend approximately $115,000,000 for equipment, store improvements and support facilities.

HEWLETT-PACKARD COMPANY (OCT)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Commitments (In Part)

At October 31, 1986, the company was committed for plant site acquisition, facility construction and related machinery and equipment purchases aggregating $194 million.

LOWE'S COMPANIES, INC. (JAN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

The Company had purchase commitments at January 31, 1987 of approximately $20.8 million for land, buildings and construction of facilities, and $8.8 million for equipment.

OGDEN CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

18. Commitments and Contingent Liabilities

Ogden and certain of its subsidiaries are contingently liable as a result of transactions arising in the ordinary course of business and are involved in legal proceedings in which damages and other remedies are sought. In the opinion of management, after review with counsel, the eventual disposition of these matters will not have a material adverse effect on Ogden's consolidated financial position.

Ogden continues as a contingent guarantor of up to $55,000,000 of revolving credit borrowings of OMI Corp. (a former wholly-owned subsidiary), surety bonds of ITO, and certain obligations of Avondale Industries, Inc., (see Note 2).

At December 31, 1986, capital commitments for continuing operations amounted to $97,328,000, of which $81,400,000 was for Ogden's investment in resource-recovery projects and $15,928,000 was for normal replacement, modernization, and growth.

Unconditional Purchase Contracts

CHEVRON CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Millions of Dollars)

Note 17 (In Part): Other Contingent Liabilities and Commitments

The Company also has certain long-term fixed or minimum commitments under agreements negotiated to assist suppliers in obtaining facilities' financing. Payments made under such agreements were $15 in 1986 and $14 in both 1985 and 1984. In addition, the Company has contractual commitments to certain companies in which it has equity interests, to pay minimum shipping and processing revenues or advance funds which can be applied against future charges. Payments for normal shipping and processing charges under these arrangements were $34, $39 and $29 in 1986, 1985 and 1984, respectively. Combined annual commitments for all of these agreements are as follows: 1987-$81, 1988-$42, 1989-$41, 1990-$40, 1991-$110 and for the remaining years after 1991-$187.

THE DOW CHEMICAL COMPANY (DEC)

NOTES TO FINANCIAL STATEMENTS

In Millions

P (In Part): Commitments and Contingent Liabilities

A Canadian subsidiary has entered into two 20-year agreements to purchase substantially all the output of an ethylene plant (Plant No. 1) and 40% of the output of a second ethylene plant (Plant No. 2). The purchase price of the output is determined on a cost-of-service basis which, in addition to covering all operating expenses and debt service costs, provides the owner of the plants with a specified return on capital. Total purchases under the agreements were $160, $153 and $159 in 1986, 1985 and 1984, respectively.

The following table shows the fixed and determinable portion of obligations under such purchase commitments (at December 31, 1986 exchange rates) net of noncancellable sales commitments.

Fixed and Determinable Obligations	
1987	$ 81
1988	80
1989	78
1990	75
1991	90
1992-expiration of contracts	807
Subtotal	1,211
Less amounts estimated to represent interest	94
Total	$1,117

The owner of the plants, The Alberta Gas Ethylene Company Ltd. (AGEC), has borrowings outstanding of $171 which were used for the construction of Plant No. 1 and are guaranteed as to principal and interest by the Company. The Company has severally guaranteed the performance of its subsidiaries under agreements to purchase 40% of the output of Plant No. 2 and to fund its share of any cash deficiencies (as defined in the agreement) in the plant's operating and debt service costs.

OCCIDENTAL PETROLEUM CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 8. Other Contingencies and Commitments

At December 31, 1986, commitments for major capital expenditures in 1987 were approximately $530 million.

Occidental has also entered into long-term agreements to secure terminal and pipeline capacity, drilling services, electrical power, and steam. At December 31, 1986, the aggregate of these payments, $293.1 million, is payable as follows (millions): 1987-$65.8; 1988-$37.7; 1989-$38.4; 1990-$39.4; 1991-$36.4; and 1992 through 2003-$75.4. Actual payments under these agreements were $31.3 million in 1986, $43.9 million in 1985, and $49.5 million in 1984. In addition, Occidental has a minimum exploration commitment in Peru of $80.3 million during the period 1987 through 1991.

Occidental has certain other contingent liabilities and claims under contracts, as guarantors of debt, as joint venturers, and with regard to other potential obligations. In the opinion of management, such contingent liabilities will not result in any significant financial liability in relation to the consolidated financial position of Occidental.

See also Note 7 regarding lawsuits, claims, and related matters, Note 9 regarding proposed tax assessments, and Note 12 regarding retirement plans and postretirement benefits.

SCOTT PAPER COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Leases and Other Commitments

A capital lease transfers substantially all of the benefits and risks of ownership of the leased property to the Company. On the Company's consolidated balance sheet the following amounts of capitalized leases are included in plant assets and the related obligations are included in debt:

(Millions)	December 27 1986	December 28 1985
Plant assets under capital leases	$38.4	$38.0
Accumulated depreciation	(18.5)	(19.1)
Net capital leases	$19.9	$18.9
Current lease obligations	$ 4.0	$ 3.3
Long-term lease obligations	$15.4	14.8
Capital lease obligations	$19.4	$18.1

All leases other than capital leases are operating leases and are accounted for as operating expenses. Rental expense for operating leases was $28.9 million, $27.3 million and $26.9 million for 1986, 1985 and 1984, respectively. In 1986, $6.3 million represented payments on short-term leases (those expiring within one year of the balance sheet date).

The Company has agreements, which expire in 2008, to operate a biomass cogeneration facility adjacent to its Westbrook, Maine mill and to purchase its steam and electricity output on a take-or-pay basis. Under these agreements, which were renegotiated in 1986, the Company paid $8.0 million in each of the years 1986, 1985 and 1984.

The future minimum obligations under leases and other commitments having an initial or remaining noncancelable term in excess of one year as of December 27, 1986 are as follows:

(Millions)	Capital Leases	Operating Leases	Other Commitments
1987	$ 5.3	$ 9.0	$ 4.1
1988	4.8	8.4	6.8
1989	3.0	7.0	7.1
1990	1.2	6.0	7.1
1991	1.1	4.8	8.6
Later years	11.1	72.6	137.9
Future minimum obligations	26.5	$107.8	$171.6
Interest portion	(7.1)		
Capital lease obligations	$19.4		

Other Purchase Contracts

BOWATER INCORPORATED (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Joint Venture (In Part):

The Company has a 50 percent interest in a partnership joint venture formed in 1983 to construct, own and operate certain facilities for the production and sale of pulverized coal and other fossil fuels to the Company and to provide ancillary coal and other fossil fuel burning services. Bowater Southern Paper Company, a division of the Company, manages the project for the partnership under a management agreement.

Under a 12-year conditional purchase agreement, the Company purchases the project's entire output of pulverized coal and other fossil fuels and the partnership's services in burning such fuels to produce heat energy. The agreement provides that the Company will not be required to purchase any pulverized coal and related services on the occurrence of certain specified events. The Company's total purchases of pulverized coal under the agreement were $26,424,000 in 1986, $23,962,000 in 1985 and $7,469,000 in 1984.

WILSON FOODS CORPORATION (JUL)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 14 (In Part): Commitments and Contingencies

The purchasers of the Albert Lea, Minnesota and Cedar Rapids, Iowa slaughtering and processing facilities (Note 4) produce Wilson Foods branded processed meats under manufacturing agreements, which expire March 2, 1987, and July 1, 1987, (as amended during 1986), respectively. Under the terms of the agreements, Wilson Foods will purchase approximately 106.1 million and 152.2 million pounds, respectively, of processed meats on an annual basis.

APPLE COMPUTER, INC. (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Common Stock (In Part)

Stock Repurchase Program

During 1986, the Board of Directors authorized management to purchase and retire up to 5 million shares of Apple's common stock from time to time in the open market or in negotiated transactions at prevailing market prices. As of September 26, 1986, the Company had purchased and retired 1.7 million shares under this program at an average price of $31.87 per share.

JLG INDUSTRIES, INC. (JUL)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Capital Stock

Stock redemption agreements between the Company and two of its executive officers provide for the purchase of a portion of the common stock from their estates at market value, upon death. The commitment under such arrangements, aggregating $1,677,000 at July 31, 1986, is funded by life insurance policies owned by the Company.

WAUSAU PAPER MILLS COMPANY (AUG)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 8. Commitments and Contingencies

The Company is involved in various legal proceedings arising in the normal course of business. It is the opinion of management that any judgment or settlement resulting from pending or threatened litigation would not have a material adverse effect on the financial position or on the operations of the Company.

The Company had an agreement with Mr. R. L. Radt, President, resulting from a purchase of 147,452 shares of common stock (after split-ups and a stock dividend) from the Company, which committed the Company to repurchase those shares at the prevailing market price less $1.805. In years prior to fiscal 1986, Mr. Radt exercised repurchase commitments totalling 65,476 shares in the aggregate amount of $841,000. During fiscal 1986, he exercised the repurchase commitment for the remaining 81,976 shares totaling $1,686,000 leaving no remaining commitment by the Company.

As of August 31, 1986, the Company was committed to expend $6,632,000 for capital projects which were in various stages of completion.

THE QUAKER OATS COMPANY (JUN)

NOTES TO FINANCIAL STATEMENTS

Note 13 (In Part): Leases and Other Commitments

The Company, The Bear Stearns Companies, Inc., and Gruss Petroleum, are shareholders in a corporation formed solely for the purpose of acquiring, through a public tender offer, all the outstanding common stock of Anderson, Clayton & Co. The Company has subscribed for all the Series B preferred stock of the corporation up to a maximum amount of $250 million. Payment for the preferred stock is required concurrent with the successful completion of the tender offer. Subsequently, the preferred stock will be redeemed by the corporation, and the Company will use the proceeds of the redemption to purchase the outstanding common shares of Gaines Foods, Inc., a subsidiary of Anderson, Clayton & Co. The corporation can be dissolved if the tender offer is not successful and for various other circumstances and terminates automatically after a predetermined period of time if the tender offer is not successful.

Additional Payments Related to Acquisitions

HUNT MANUFACTURING CO. (NOV)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

10 (In Part): Commitments and Contingent Liability:

Contingent Liability: On September 26, 1986, the Company acquired the business and substantially all the assets of Bevis Custom Tables, Inc. (Bevis) and certain related assets and properties and assumed certain liabilities relating thereto. The purchase price for the assets was approximately $12,000,000 in cash, plus possible additional cash consideration of up to $8,000,000 based upon adjusted cumulative pre-tax earnings of Bevis for the three fiscal years ending November 27, 1988. The excess of acquisition cost over net assets acquired will be increased for any additional cash consideration.

ELI LILLY AND COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Acquistions

On March 18, 1986, the company acquired all the outstanding shares of Hybritech Incorporated, which develops, manufactures, and markets products incorporating monoclonal antibody technology. This transaction has been accounted for as a purchase, and the financial statements include the results of operations of Hybritech from the date of purchase. Pro forma results of operations are not shown because the effect would not be material. The purchase price consisted of approximately $364.3 million in cash payments, convertible notes, and warrants to purchase Lilly common stock. Depending on the annual performance of Hybritech over the period ending December 31, 1995, additional cash of up to $268.6 million may be paid to holders of Contingent Payment Obligation Units, which were issued to shareholders of Hybritech in connection with the acquisition. The units are publicly traded. The excess of cost over the fair value of the assets acquired (goodwill) is being amortized over 40 years on the straight-line method. The fair value of assets acquired includes approximately $200 million of patents and other intangibles being amortized over 14 years on the straight-line method.

On May 15, 1985, the company acquired certain assets and technology related to the implantable cardioverter defibrillors of Intec Systems, Inc. This transaction has been accounted for as a purchase of assets. The purchase price, including subsequent contingent payments, consisted of the payment of approximately $63.7 million in cash and the issuance of $.7 million in convertible debentures. Depending on the achievement of certain performance objectives through 1990, up to an additional $69.3 million may be paid in connection with the acquisition.

On May 31, 1984, the company acquired all the outstanding shares of Advanced Cardiovascular Systems, Inc. (ACS), which designs, manufactures, and markets coronary angioplasty catheter systems. This transaction has been accounted for as a purchase, and the financial statements include the results of operations of ACS from the date of acquisition. The purchase price, including subsequent contingent payments earned through December 31, 1986, consisted of 3,096,913 shares of Lilly common stock with a market value of approximately $107.4 million. Depending upon the annual performance of ACS over the next two years, up to 750,000 additional shares of Lilly common stock may be issued in connection with the acquisition. Goodwill is being amortized over 40 years on the straightline method.

NIKE, INC. (MAY)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 12 (In Part): Commitments and Contingencies:

In 1986, the Company acquired a 50% interest in the stock of an entity for $500,000. The terms of the stock purchase agreement allows for the total purchase price of this stock to increase to an aggregate of $6,500,000 if the entity meets specified earnings levels over the next five years. The Company is also guarantor on the entity's bank line of credit of $1,900,000.

UNC INCORPORATED (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 (In Part): Acquisitions

During 1986 and 1985, the Company acquired the entities described below, which were accounted for by the purchase method of accounting. The results of operations of the acquired companies are included in the Company's statement of earnings from the dates of acquisition.

On October 31, 1986, the Company, through a wholly-owned acquisition subsidiary, acquired substantially all of the operating assets of the Division of Military Aviation ("DMA") of Burnside-Ott Aviation Training Center, Inc. for $7 million in cash. DMA provides simulator pilot training for the U.S. Armed Forces, and line maintenance and operational support for military training aircraft. The excess of the purchase price over the fair value of the operating assets acquired is being amortized over a period of twenty-five years using the straight-line method. Under the terms of employment and bonus agreements entered into with certain of the former owners of DMA, the acquisition subsidiary may be required to make incentive compensation payments based upon specified earnings levels as defined in the agreements, not to exceed $10 million during the six-year period ending December 31, 1992. Any payments made under the terms of these agreements will be recorded as expense when incurred.

WANG LABORATORIES, INC. (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note E (In Part): Other Assets

During Fiscal 1986, the Company acquired the assets and business of Walsh Greenwood Information Systems, Inc. for cash of $20.0 million, of which approximately $14.8 million is included in amounts reported as goodwill at June 30, 1986. Under the terms of the purchase agreement, the Company has a contingent purchase obligation of approximately 30% of any future earnings before income taxes of the acquired business through 1990, up to a maximum of $80.0 million.

Employment Contracts

ARDEN GROUP, INC. (DEC)

NOTES TO FINANCIAL STATEMENTS

15 (In Part): Commitments and Contingent Liabilities:

The Company has an employment agreement with a key executive officer which expires at the end of the Company's 1990 fiscal year on December 29, 1990. In addition to a base salary the agreement provides for a bonus based on pre-tax earnings. The maximum compensation payable annually under the agreement is $525,000 in 1986, 1985 and 1984. The compensation accrued in 1986, 1985 and 1984 was $525,000, $525,000 and $420,000, respectively.

A former key employee of a wholly-owned subsidiary of Arden had an employment agreement with the subsidiary. The agreement provided for a base salary and a bonus based on net income of the subsidiary before income taxes (as defined) each year through December 31, 1986. The compensation accrued for the individual during 1986, 1985 and 1984 amounted to approximately $909,000, $995,000 and $1,012,000, respectively.

CAESARS WORLD, INC. (JUL)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 14 (In Part): Commitments and Contingencies

Employment and Change in Control Agreements. The Company has change in control agreements with ten officers which grant these officers the right to receive up to two times their annual salary and bonus, plus continuation of certain benefits, if there is a change in control in the company (as defined) and a termination (as defined) of such officers. The maximum contingent liability for salary and incentive compensation under these agreements is approximately $3,367,000. The Company has also entered into employment agreements with three employees which expire at various dates through May 31, 1988. The aggregate commitment for future salaries, excluding bonuses, under these employment agreements is approximately $776,000. The Company has also entered into employment agreements with two officers which contain continual self-renewing terms of five years and three years, respectively, subject to the option of the Company to terminate this self-renewing provision. In addition, these agreements provide these officers the option to terminate their contractual obligations in the event of a change in control or a material breach by the Company. The contingent liability under these agreements in the event of a change in control is approximately $3,564,000 but could be greater if the Company were to breach the agreements.

GTI CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 6 (In Part): Commitments and Contingency:

In August, 1986, the Company entered into employment agreements with four officers which provide for the continuation of salary and certain benefits for a specified period of time under certain conditions. Under the terms of the agreements, these payments occur in the event of a change in control of the Company, as defined, together with certain other specified conditions, including the sale of certain assets of the Company. The aggregate estimated commitment under these agreements is $750,000.

IROQUOIS BRANDS, LTD. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 10 (In Part): Contingencies

The Company has entered into contingent employment agreements with certain of its executives. The agreements provide for severance benefits payable upon termination of employment following a change of control or upon other specified events. If such changes were to take place, the aggregate maximum benefits would be $2,150,000. In the event the Company's Chairman and Chief Executive Officer's employment is involuntarily terminated, or a change of control takes place, the Company would be required to make a lump sum payment to him of approximately $2,600,000.

RUSS TOGS, INC. (JAN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note I—Management and Employment Agreements:

The Company's current management agreements with three senior officers were executed as of February 2, 1986 for initial employment terms of one to five years. Each agreement provides for an annual base salary during the initial employment term of $475,000 and incentive compensation equal to 3.75% of the Company's pre-tax earnings (as defined) in excess of increasing amounts ranging from $8,509,000 in the fiscal year ending in 1987 to $10,342,000 in the fiscal year ending in 1991. For the fiscal year ended January 31, 1987, each of these senior officers earned incentive compenstion aggregating $782,000.

The Company also has a five-year management agreement (which commenced February 1, 1987) with another senior executive providing for an annual base salary of $300,000 and incentive compensation equal to 2.25% of the Company's pre-tax earnings (as defined) in excess of increasing amounts ranging from $8,934,000 in the fiscal year ending in 1988 to $10,859,000 in the fiscal year ending in 1992.

Unless the initial employment term provided for in a management agreement is extended, the Company will employ each of the aforementioned individuals as a consultant to the Company at an annual compensation of $300,000 for each of the three senior officers and $120,000 for the other senior executive for the five-year period following termination of their respective initial employment terms. The initial employment term of one of the senior officers expired on January 31, 1987 and he is now serving as a consultant.

Additionally, the agreements include provisions for death and disability benefits and a change in control provision under which the four individuals would be entitled to receive up to 2.99 times their annual salary and incentive compensation, plus certain benefits, if there is a change in control of the Company (as defined) and a termination (as defined) of their respective positions with the Company. The maximum contingent liability, as of January 31, 1987, relating to the change in control provision is approximately $8,427,000.

Under prior management agreements, the senior officers received an annual base salary of $275,000 each and incentive compensation aggregating $437,000 and $435,000, respectively, for each officer for the two fiscal years ended February 1, 1986; the other senior executive received an annual base salary of $250,000 and incentive compensation of $417,000, $291,000 and $290,000, respectively, for the three fiscal years ended January 31, 1987.

Pursuant to a deferred compensation agreement, each of the three senior officers will also receive $80,000 a year for the ten years commencing in fiscal 1992.

The Company has employment contracts with divisional officers, most of which provide for incentive compensation based upon earnings performance of their respective divisions.

Sales Agreements

COURIER CORPORATION (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

F (In Part): Commitments

During fiscal 1986, long-term sales contracts with NYNEX Information Resources Company expiring in fiscal 1987 and Bell Atlantic Management Services, Incorporated expiring in fiscal 1988 each accounted for approximately 14% of consolidated revenues. Non-contract sales to a religious book customer amounted to approximately 15% of consolidated sales. The Company has received notification from each of its major directory customers of their intention to award new manufacturing contracts to the Company. The contracts represent approximately $35 million in annual sales, and will cover various time periods beginning as early as 1987 and extending through 1993.

LEE ENTERPRISES, INCORPORATED (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2. Pending Acquisitions and Dispositions

The Company has agreed to acquire certain assets of network-affiliated television stations in Omaha, Nebraska (KMTV) and Tucson, Arizona (KGUN) and 49% of the capital stock of a radio broadcasting company in Omaha, Nebraska (KFAB) from May Broadcasting Company for $89,000,000. These acquisitions will be accounted for as purchases and will be financed by borrowings of approximately $65,000,000 and available internal funds.

KFAB Broadcasting Company has agreed to sell substantially all of its assets for approximately $22,000,000 and undertake a plan of complete liquidation following the acquisition described above. At the time of liquidation, the Company will own the direct 49% interest and an approximate 24% indirect interest through its ownership in Journal-Star Printing Co.

In addition, the Company has agreed to sell substantially all assets of television and radio stations owned in Quincy, Illinois for $14,000,000. Pursuant to a certification from the Federal Communications Commission, no income tax is expected to be currently payable on the gain arising from this sale.

All sales, acquisitions, liquidations and financing are contemplated to be completed prior to December 31, 1986.

Distribution Agreement

COLECO INDUSTRIES, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 8—Commitments and Contingencies:

The Company is or has been a party to a number of miscellaneous lawsuits arising from the conduct of its business. In the opinion of management, such proceedings in the aggregate will not have a material adverse effect on the Company's consolidated financial position.

On December 30, 1986 the Company entered into an agreement which provides for the exclusive distribution rights for products of Tomy Kogyo of Japan in the United States and Canada. Pursuant to the agreement the Company is required to pay minimum guaranteed royalties of $51,850,000 through 1990, of which $19,850,000 was evidenced by a promissory note at December 31, 1986 and paid on January 2, 1987. In addition future amounts due for minimum guaranteed royalties under other licensing agreements aggregated approximately $12,892,000 at December 31, 1986 and are payable principally over a three year period.

At December 31, 1986 the Company was contingently liable for outstanding letters of credit of $9,382,000. Additionally the Company is required to maintain a $5,000,000 collateral deposit in connection with its product liability insurance coverage.

Formation of Joint Venture

HERCULES INCORPORATED (DEC)

NOTES TO FINANCIAL STATEMENTS

15 (In Part): Commitments

(c) Joint Venture:

Hercules has entered into an agreement in principle with Henkel KGaA providing for the formation of a joint-venture partnership. The partnership, the Aqualon Group, will be 50% owned by each. Hercules will contribute certain of its Water-Soluble Polymers assets and businesses having 1986 sales of $187,831,000.

Agreement to Amend Contract

LOCKHEED CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 10: Commitments and Contingencies

There are a number of lawsuits and administrative proceedings pending against the company and its subsidiaries which management believes are either without merit or, if decided adversely, would be covered by insurance or by contract or are not of material significance.

As part of an agreement to amend a contract with an L-1011 Tri-Star customer, the company entered into an agreement to assist in the refinancing of five L-1011 aircraft. Under the terms of this agreement, the company will periodically advance funds through 1993, eventually totaling approximately $120 million, to a trust established by the company and the customer. The aircraft are leased by the customer from the trust under a lease agreement which extends through 2001. The funds from the company, together with lease payments, will be utilized to service the underlying debt on the aircraft. Beginning in 1994, the funds advanced plus accrued interest, as contractually defined, will be refunded to the company ratably through 2001 by either the trust or the customer. Repayment of the funds advanced and accrued interest will be provided by lease payments which are guaranteed by a foreign government that owns the airline customer.

Usage Fee

MOSINEE PAPER CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

The Company is involved in various lawsuits arising in the normal course of business. It is the opinion of management and legal counsel that these suits will not result in judgments which in the aggregate would have a material adverse effect on the financial position or operations of the Company.

Beginning October 15, 1986, and for a period of twenty years thereafter, The Sorg Paper Company is to pay the City of Middletown, Ohio a minimum annual usage fee of approximately $150,000, paid on a quarterly basis, to discharge industrial waste into the City's wastewater treatment facility. The aggregate amount of such required future minimum payments at December 31, 1986 totaled $2,845,000. In addition, Sorg is to pay monthly contingent usage fees to the City based on the amount of industrial waste discharged. Minimum and contingent usage fees incurred in 1986 totaled $818,000.

The Company is committed under agreements with two executive officers to repurchase 81,265 shares of common stock including 18,150 shares purchased in 1981 at the prevailing market price less $4.13 per share and 63,115 shares purchased in 1979 at the prevailing market price less $3.44 per share. The repurchase commitment, if exercised on December 31, 1986, would have amounted to approximately $759,000.

Programming Rights

TIME INCORPORATED (DEC)

NOTES TO FINANCIAL STATEMENTS

Commitments

As part of its programming operations, the Company routinely enters into commitments for programming rights, primarily for theatrical motion pictures, which extend for various periods. The license fees related to these commitments can be influenced by, among other things, a percentage of the films' negative costs, box office performance, and *HBO* and *Cinemax* subscriber levels. The consolidated financial statements reflect commitments incurred under these contracts for programming available for exhibition at the balance sheet date. In addition, as part of its cable television operations the Company enters into franchise agreements relating to the development of cable TV systems. As of December 31, 1986 aggregate future commitments for these operations were estimated to be $2.5 billion to $3.0 billion.

SUBSEQUENT EVENTS

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

Table 1-12 classifies disclosures of subsequent events included in the 1986 annual reports of the survey companies.

Examples of subsequent event disclosures follow.

Debt Incurred, Reduced or Refinanced

ARMCO INC. (DEC)

NOTES TO FINANCIAL STATEMENTS

(Dollars in millions, except per share amounts)

Note 15: Subsequent Event

In the first quarter of 1987, the Board of Directors authorized the exchange of up to 21,840,000 shares of Armco common stock for $50.7 of the promissory notes relating to Reserve debt (see Note 14) and $65.3 of Eveleth's debt guaranteed by Armco (see Note 10). Armco has made offers of exchange to the holders of the Reserve debt and has or will make offers to holders of the Eveleth debt.

As of March 6, 1987, Armco has reached agreements in principle to exchange 2,788,780 shares of Armco common stock for $25.0 of the promissory notes relating to Reserve debt, 2,086,030 shares for $16.7 of Eveleth's debt guaranteed by Armco, and a number of shares to be determined by the market price per share at the time of exchange (not to exceed 3,181,200 shares) for an additional $16.7 of Eveleth's debt guaranteed by Armco. These agreements provide for a discount on the debt exchanged, which will result in a gain to Armco of approximately $3.5. These proposed exchanges are subject to the execution of a definitive agreement.

TABLE 1-12: SUBSEQUENT EVENTS

	Number of Companies			
	1986	1985	1984	1983
Debt incurred, reduced or refinanced	68	61	39	42
Discontinued operations	45	26	37	24
Business combinations pending or effected	33	49	51	40
Stock splits or dividends	27	15	6	12
Capital stock issued or purchased	25	30	9	17
Litigation	21	27	15	25
Stock purchase rights	10	15	—	—
Employee benefit plans	8	8	4	6
Formation of joint ventures	8	2	—	—
Other—described	37	48	34	37

BOWNE & CO., INC. (OCT)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 14—Subsequent Event

In November 1986, the Company entered into an agreement with a group of lenders which provided for the issuance of $17,000,000 principal amount 8.55% unsecured notes due November 1996. The agreement contains covenants relating to the maintenance of minimum amounts of working capital and certain ratios. The agreement also places restrictions on the payment of dividends, purchase of the Company's common stock and certain other investments in excess of the sum of $40,000,000 plus net income subsequent to October 31, 1986.

CHOCK FULL O'NUTS CORPORATION (JUL)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 10. Event Subsequent to the Balance Sheet Date

On September 23, 1986, the Company sold $50,000,000 principal amount of 8% convertible subordinated debentures due September 15, 2006, pursuant to a registered public offering. The debentures have mandatory sinking fund requirements commencing September 15, 1996, and are convertible at the option of the debenture holders into shares of the Company's common stock at a price of $10.20 per share. Approximately 4,900,000 shares have been reserved for conversion. The proceeds from the offering were utilized to repay approximately $9,100,000 of existing bank debt with the remainder of the proceeds to be utilized for working capital and other general corporate purposes. Expenses related to this offering have been deferred and will be amortized over the term of the debentures.

COMMERCIAL METALS COMPANY (AUG)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

F (In Part): Long-term Credit Arrangements:

On October 23, 1986, the Company arranged a 3 1/2-year, $30 million unsecured revolving credit and term loan facility with a group of six banks. This credit facility is convertible, in 1990, at the Company's option into a four-year term loan. The agreement provides for borrowings in United States dollars indexed to the prime rate, to the United States certificate of deposit rate, or to the offshore dollar interbank market rate and includes an additional option for alternate fixed-rate term loans indexed to the banks' net cost of obtaining funds. A commitment fee of 3/8% per annum is payable on the unused credit line. No compensating balances are required. The terms of the credit agreement include, in addition to other requirements, maintenance of consolidated net current assets of $75,000,000 and place certain restrictions on dividends (other than stock dividends) and on the purchase of the Company's outstanding stock. At August 31, 1986, approximately $47,000,000 of retained earnings was available for dividends under these covenants.

GENERAL CINEMA CORPORATION (OCT)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 6 (In Part):

Additional revolving credit agreements

Subsequent to October 31, 1986 the Company entered into agreements with eight foreign banks pursuant to which the Company may borrow, on a revolving credit basis, an aggregate of $355,000,000 (or the equivalent in certain specified foreign currencies). The Company may terminate these agreements at any time, and each of the banks may terminate its agreement on not less than two years notice. The rate of interest payable under each of the credit agreements is, at the Company's option, the prime rate, a function of the London inter-bank offering rate, a function of the domestic certificate of deposit rate, or any other rate mutually agreed to between the Company and the bank. The credit agreements do not require the Company to maintain compensating balances. The agreements require the Company to pay a commitment fee at an annualr ate of ⅛% of the unused credit line.

JOHNSON & JOHNSON (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 19. Subsequent Events

On December 31, 1986 the Company purchased CooperVision, Inc.'s ophthalmic pharmaceutical business. The total purchase price for these assets, including goodwill, was $260 million. The financial results of this ophthalmic pharmaceutical acquisition will be consolidated with the Company commencing with the first quarter of 1987.

In February, 1987, the Company entered into a program to refinance a portion of its short-term debt, primarily revolving credit facilities with various banks. The program is for the issuance of short-term promissory notes, not to exceed $500 million in the aggregate, in the form of Euro-Commercial Paper with maturities ranging from 7 to 183 days. The notes are unconditional, unsecured and unsubordinated obligations of the Company and are not listed on any stock exchange.

MASCO CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Subsequent Events

In early 1987 Masco Industries, Inc. issued $330 million of 6 percent convertible subordinated debentures due 2011, of which the Company acquired $130 million. These debentures are convertible into Masco Industries' common stock at $36 per share. Additionally, Masco Industries issued in a public offering $250 million of 10¼ percent senior subordinated notes due 1997. Masco Industries then retired the $220 million of its 16 percent subordinated debentures held by the Company.

In February, 1987 the Company issued in a public offering $250 million of 5¼ percent convertible subordinated debentures due 2012, which are convertible into common stock at $42.80 per share. The proceeds from this offering, along with cash received upon Masco Industries' retirement of its 16 percent subordinated debentures, were used to retire the Company's remaining outstanding bank debt.

OLIN CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Subsequent Event

In January 1987, prior to the redemption date set by the Board of Directors, substantially all of the company's 8¾% debentures outstanding at December 31, 1986 were converted into approximately 2,700,000 common shares. Primary earnings per share for 1986, assuming the conversion had occurred at the beginning of the year, would have been $3.13. The transaction will decrease future interest expense by $8,600,000 annually.

TYLER CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Subsequent Events

On January 13, 1987, the Company filed a shelf registration statement with the Securities and Exchange Commission covering the public offering of as much as $200,000,000 in debt securities. The Company proposes to sell the securities, directly or through agents, dealers or underwriters, on terms to be determined at the time of sale.

Net proceeds from the sale of these securities may be used primarily to repay a portion of the Company's outstanding variable-rate bank debt and to redeem the Company's outstanding 12⅞% subordinated notes or for other general corporate purposes.

Discontinued Operations

ALLIS-CHALMERS CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Subsequent Events (In Part):

On April 1, 1987 the Company announced it had signed a letter of intent with Boliden AB of Sweden for the sale of most of the Allis-Chalmers solids processing equipment and minerals systems businesses. Cash proceeds are expected to exceed $90 million, which is expected to approximate book value. The businesses which would be sold had 1986 sales of approximately $250 million. The transaction is subject to certain approvals including approvals by the Boards of Directors of Allis-Chalmers and Boliden, Allis-Chalmers shareholders, Allis-Chalmers lenders, the Central Bank of Sweden and definitive documentation. Closing of the sale would be part of the overall restructure of Allis-Chalmers which was announced on March 4, 1987.

BMC INDUSTRIES, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except share amounts)

13. Subsequent Events

On February 2, 1987, the Company sold its Integrated Microcircuits operation located in Hopkins, Minnesota and the IMC Tampa operation located in Tampa, Florida to Shelf Three Corporation, a wholly owned subsidiary of North American Philips Corporation, for $10,000 in cash (excluding amounts held in escrow pending final price determination based upon audited net book values), plus the assumption by Shelf Three of related liabilities.

On February 3, 1987, the Company sold its Bussing Systems operation located in Compton, California to E.S.P. Associates for approximately $600 in cash, plus the assumption by E.S.P. of related liabilities.

CALMAT CO. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

13. Subsequent Events:

In December 1986 the Company agreed in principle to sell Valley Reclamation Company, a wholly owned subsidiary engaged in the landfill operation together with the underlying 200 acres of land, subject to certain government approvals, for approximately $61,300,000. A deposit of $48,400,000 representing the sale of the operating assets and permits was received on December 31, 1986 and government approvals were received in February 1987, at which time the sale was recorded. The sale of the underlying 200 acres of land for $12,900,000 is expected to be completed later in the year. In 1986, net income from the landfill amounted to approximately $1,078,000.

On February 24, 1987, the Company declared a 2-for-1 split of its common stock, to stockholders of record March 10, 1987. Effect has been given to the split in the accompanying statements by a transfer of $17,649,000 from additional paid in capital to common stock at December 31, 1986. All share and per share amounts in the accompanying financial statements have also been adjusted to give effect to the split.

GENERAL REFRACTORIES COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

15. Sale of European Refractories and Building Products Operations

On March 5, 1987, the Company agreed to sell to an Austrian investor group its European refractories and building products operations for 800 million Austrian schillings (approximately $62 million at the exchange rates on the date of the agreement). The sale is subject to the approval of the Company's shareholders at a special meeting scheduled to be held April 24, 1987 and authorization by the Austrian National Bank for transfer of the proceeds.

MINSTAR, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4 Proposed Divestiture of Transportation and Storage Operations—

In January 1987, the Company agreed in principle to divest its transportation and storage operations through the sale of its Bekins subsidiary. The Company expects to receive consideration from the sale of approximately $66 million, including cash of $51 million. The Company would also receive an equity interest in the acquiring company. Based upon the proposed terms of such sale, no gain or loss is anticipated to be recognized on the sale. Bekins' net assets included in the accompanying consolidated balance sheets at December 31 consist of the following (in thousands):

	1986	1985
Working capital	$27,538	$32,447
Plant and equipment	24,779	44,716
Notes receivable and other assets	18,089	13,582
Long-term liabilities	(8,831)	(9,062)
	$61,575	$81,683

The operating results of Bekins included in continuing operations in the accompanying statements of income were as follows (in thousands):

	Year Ended December 31,		
	1986	1985	1984
Revenues	$297,270	$298,074	$302,941
Income before income taxes (including real estate gains of $16.4, $8.0 and $8.6 million in 1986, 1985, and 1984, respectively)	$ 19,335	$ 10,159	$ 14,263

MEREDITH CORPORATION (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

17. Subsequent Event

In July 1986, the Company agreed in principle to the sale of WPGH-TV, Pittsburgh, Pennsylvania, to Lorimar-Telepictures Corporation, Culver City, California, for a cash sales price of $35,000,000. The ownership transfer is subject to the consent of the Federal Communications Commission. A net gain will be recognized at the time of ownership transfer.

RALSTON PURINA COMPANY (SEP)

NOTES TO FINANCIAL STATEMENTS
(Dollars in millions)

Subsequent Event

On October 3, 1986, the Company completed the sale of its Purina Mills, Inc. domestic agricultural products business to a subsidiary of The British Petroleum Company for $545.0 in cash. The estimated gain on sale, to be recognized in the Company's first quarter, is $376.8 before income taxes of $167.5.

Sales of Assets

UNITED MERCHANTS AND MANUFACTURERS, INC. (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 17—Subsequent Events

On September 11, 1986, the Company sold 17% of the outstanding shares of common stock of its wholly-owned subsidiary, Victoria Creations, Inc., which is in the costume jewelry business. The sale resulted in cash proceeds to the Company of $13,910,000 which has been used to reduce indebtedness. The sale also resulted in a gain, before applicable income taxes if any, of approximately $6,400,000 which will be reflected in the Company's results of operations for the first quarter of fiscal 1987.

The Company is currently reviewing proposals to sell part or all of its Brazilian operation. The proposed transactions are subject to a number of conditions and accordingly there can be no assurance that a sale will occur but if consummated these proposals would not result in a charge to earnings. If a sale should take place, it is anticipated that proceeds would be used to further reduce indebtedness.

THE WURLITZER COMPANY (MAR)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

11. Subsequent Events

The previously announced Agreement in Principle for an equity transaction with an investment group advised by Brighton Place, Inc., was terminated on June 6, 1986 by mutual consent.

On May 30, 1986, the Company entered into an agreement whereby substantially all electronic organ inventory was sold in bulk for approximately $750,000 in cash upon shipment, and approximately $2,000,000 in credits usable over a six year period and applicable to a variety of expenditures such as advertising and travel. The amount of the book value of the inventory in excess of anticipated cash proceeds has been assigned to the valuation of the credits. Accordingly, no gain or loss has been recognized from this transaction.

Business Combinations

ALLEGHENY INTERNATIONAL, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Proposed merger:

On March 9, 1987 Allegheny announcd that it had entered into an agreement providing for a merger of Allegheny and an affiliate of First Boston, Inc. in a transaction in which the affiliate of First Boston, Inc. will commence a cash tender offer for all outstanding shares of Allegheny's Common Stock, $2.19 Cumulative Preference Stock and $11.25 Convertible Preferred Stock and, following the tender offer and subject to the conditions of the offer and the merger agreement, will be followed by a shareholders' meeting to vote upon the merger which, if approved by the requisite shareholders' vote, would be followed by the merger.

ETHYL CORPORATION (DEC)

NOTES TO FINANCIAL STATEMENTS

17. Subsequent Events:

On January 27, 1987, the company completed a tender offer for Nelson Research and Development Company. The tender offer will be followed by a cash merger for the remaining 8% of the shares. The total purchase price will be approximately $55 million. Nelson Research, which designs and develops new drug molecules for license to pharmaceutical firms, will be operated as a subsidiary.

Also in January, the Company purchased three million shares of its common stock for $63 million from a limited partnership of which one of Ethyl's outside directors is a partner.

HOLLY SUGAR CORPORATION (MAR)

NOTES TO FINANCIAL STATEMENTS

11. Subsequent Event:

On June 9, 1986, the Company entered into a definitive purchase agreement to acquire the business and certain assets of the Union Sugar Company, a subsidiary of Sara Lee Corporation. Union Sugar Company is a beet sugar processor located in California.

The purchase agreement is subject to certain conditions, including the expiration of the Hart-Scott-Rodino waiting period and the completion of financing. The acquisition price will be approximately $7,000,000 for the operating assets plus Union Sugar Company's cost of inventories at the acquisition date. The transaction, if consummated, will be accounted for as a purchase.

ICOT CORPORATION (JUL)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 9. Subsequent Event

On August 8, 1986, the Company issued 1,000,000 shares of its common stock (valued at $8,875,000) for all of the outstanding common stock of Integrated Network Systems, Inc. (INS), a manufacturer of certain computer networking products. The acquisition is being accounted for as a pooling of interests. Had the transaction been consummated by August 2, 1986, the effect on the Company's reported sales, net income and earnings per share would have been as follows:

	Years Ended		
	August 2, 1986	August 3, 1985	July 28, 1984
Sales:			
Previously reported	$46,441	$26,746	$18,986
INS	3,904	5,639	1,705
As combined	$50,345	$32,385	$20,691
Income (Loss) before extraordinary credit:			
Previously reported	$ 4,567	$ 1,565	$(2,341)
INS	409	558	413
As combined	$ 4,976	$ 2,123	$(1,928)
Extraordinary credit—income tax benefit arising from loss carryforwards:			
Previously reported	$ 2,363	$ —	$ —
INS	—	—	—
As combined	$ 2,363	$ —	$ —
Net income (Loss):			
Previously reported	$ 6,930	$ 1,565	$(2,341)
INS	409	558	413
As combined	$ 7,339	$ 2,123	$(1,928)
Income (Loss) per share:			
Before extraordinary credit—previously reported	$ .48	$ .17	$(.26)
As combined	$ .47	$ .21	$(.19)
Extraordinary credit—previously reported	$ .24	$ —	$ —
As combined	$ .22	$ —	$ —
Net income (Loss)—previously reported	$ .72	$ .17	$(.26)
As combined	$ .69	$ .21	$(.19)

JOSLYN CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

14. Subsequent Event:

On January 30, 1987 Joslyn Corporation entered into a contingent purchase agreement with the shareholders of a privately-owned company. Under the agreement, Joslyn will purchase all of the outstanding shares of the company if, during the term of the agreement, the shareholders elect to sell such shares to Joslyn and under certain circumstances, the shareholders will be obligated to sell all of the company's outstanding shares to Joslyn. The agreement is for one year but is automatically renewable for successive one year periods unless terminated prior thereto by either party.

The company manufacturers electrical and dehydration products and sells principally to the aerospace and defense markets. Current fiscal year revenues should be approximately $30 million. The purchase price for the company would be approximately $30 million in cash subject to certain adjustments.

SERVICE CORPORATION INTERNATIONAL (APR)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

13. Subsequent Event (Unaudited)

AMEDCO Inc. (AMEDCO),is a publicly-held St. Louis, Missouri based manufacturer and distributor of caskets and other funeral service products. In June 1986, SCI's and AMEDCO's respective Boards of Directors approved an Agreement and Plan of Reorganization under which AMEDCO will be merged into a wholly-owned subsidiary of SCI. Under the terms of the agreement each 2.35 shares of AMEDCO common stock will be converted into one share of SCI common stock, or an aggregate of approximately 3,900,000 shares of SCI common stock. It is anticipated that the proposed transaction will be submitted for the approval of the AMEDCO shareholders in September. The transaction is also subject to effectiveness of a registration statement to be filed by SCI with the Securities and Exchange Commission, certain regulatory approvals and the approval by SCI shareholers of an increase in the number of authorized shares of SCI common stock. The transaction is valued at approximately $131,000,000 based upon the number of outstanding common shares of AMEDCO and would be treated as a purchase. The merger is expected to constitute a tax-free reorganization for AMEDCO shareholders and, if approved, is expected to be consummated by September 12, 1986.

The following pro forma information combines SCI and AMEDCO as if the two companies had been merged for a full fiscal year ending April 30, 1986. The sale of certain assets of AMEDCO has been assumed to have occurred at the beginning of the period. In addition, adjustments have been made to reflect the accounting bases for AMEDCO's assets and liabilities. These combined results are not necessarily indicative of the results which would have occurred had the two companies actually been combined during the period presented or of the future results of operations which will be obtained by the combined companies.

Pro Forma Combined Information	(Thousands)
Net revenues	$387,027
Income before income taxes	$ 74,308
Net income	$ 44,581
Earnings per share	$ 1.53

THE QUAKER OATS COMPANY (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3 (In Part): Subsequent Events

In August 1986, the company acquired the Golden Grain Macaroni Company, which is located in San Leando, California, for approximately $275 million. Golden Grain is a manufacturer of rice and pasta products, premium chocolate and candy. For the year ended December 31, 1985, Golden Grain had net sales of approximately $250 million. The acquisition will be accounted for as a purchase.

BAKER INTERNATIONAL CORPORATION (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 (In Part): Proposed Combination; Acquisitions and Dispositions:

On October 22, 1986, the Company signed a definitive Combination Agreement with Hughes Tool Company (Hughes), a major provider of oilfield equipment and services. It is anticipated the Combination will be completed in early 1987 upon obtaining approval from stockholders of both companies and appropriate government agencies. The Combination will be accounted for as a pooling of interests and the combined company will be named Baker Hughes Incorporated (Baker Hughes).

Pursuant to the terms of the Combination Agreement, each holder of a share of the Company's common stock will receive one share of Baker Hughes common stock, and each holder of a share of Hughes' common stock will receive .8 shares of Baker Hughes common stock. In connection with the execution of the Combination Agreement, the Company and Hughes granted each other an option to purchase 18.5% of the other's outstanding shares at market value from authorized and unissued shares. Such options are exercisable only upon the occurrence of certain events affecting the Combination.

Presented below are the unaudited pro forma combined summaries of operations and combined statement of financial position based on the fiscal year end of Baker. The unaudited pro forma financial information is not necessarily indicative either of results of operations that would have occurred had the transaction been effected on October 1, 1983 or of future results of operations of the combined companies.

Pro Forma Combined Summaries of Operations (Unaudited)
(Amounts in Thousands of Dollars Except Per Share Amounts)

	Baker	Hughes*	Pro Forma Combined
Year ended September 30, 1986			
Revenues	$1,557,211	$ 904,033	$2,461,244
Loss before extraordinary items	$ (361,595)	$ (506,967)	$ (868,562)
Extraordinary items	$ 88,608		$ 88,608
Net loss	$ (272,987)	$ (506,967)	$ (779,954)
Per share amounts:			
Loss before extraordinary items	$(5.15)	$(9.06)	$(7.56)
Extraordinary items	$ 1.26		$ .77
Net loss	$(3.89)	$(9.06)	$(6.79)
Year ended September 30, 1985			
Revenues	$1,904,321	$1,260,923	$3,165,244
Net income	$ 87,741	$ 4,089	$ 91,830
Net income per share	$1.25	$.07	$.80
Year ended September 30, 1984			
Revenues	$1,833,693	$1,215,746	$3,049,439
Net income (loss)	$ 70,625	$ (133,839)	$ (63,214)
Net income (loss) per share	$1.00	$(2.40)	($.55)

*For 1986, data is for the twelve months ended September 30, 1986; for 1985 and 1984, data is for the calendar year.

Pro Forma Combined Statement of Financial Position—As of September 30, 1986—(Unaudited)
(Amounts in Thousands of Dollars)

	Baker	Hughes	Pro Forma Combined
Assets:			
Current assets	$ 871,619	$ 513,151	$1,384,770
Property (net)	511,404	435,029	946,433
Other assets	132,859	137,473	270,332
	$1,515,882	$1,085,653	$2,601,535
Liabilities and Stockholders' Equity:			
Current liabilities	$ 416,855	$ 282,115	$ 698,970
Deferred income taxes	55,721	33,946	89,667
Minority interest and other	29,691	40,911	70,602
Long-term debt	330,414	312,860	643,274
Stockholders' equity	683,201	415,821	1,099,022
	$1,515,882	$1,085,653	$2,601,535

Stock Splits

AMERICAN CYANAMID COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Millions of dollars except per share amounts)

13. Subsequent Events—On February 17, 1987, the company's Board of Directors declared a 2-for-1 split of the common stock to be effected in the form of a 100% stock dividend, subject to stockholder approval on April 20, 1987, of an amendment to the Restated Articles of Incorporation, increasing the authorized common shares from 100 million to 200 million. The dividend is distributable on June 12, 1987, to stockholders of record on May 8, 1987.

If the December 31, 1986, balance sheet had been restated to reflect the stock split, common stock would have increased $245.5 and additional paid-in capital and earnings employed in the business would have decreased $45.2 and $200.3 respectively.

If the per share data had been restated to reflect the split, the results for 1986, 1985 and 1984 would have been:

	1986	1985	1984
Earnings from continuing operations	$ 2.18	$ 1.25	$ 2.03
Net earnings	$ 2.18	$ 1.34	$ 2.21
Stockholders' equity	$18.71	$17.53	$17.13
Average shares outstanding used to compute earnings per share	92,850,710	96,382,712	97,842,350

The Board of Directors also voted to increase the annual dividend rate from $1.90 per share basis for pre-split shares to $2.10 per share. This will be the equivalent of $1.05 per share after the split. This increase, subject to declaration by the Board, will be effective with the second quarter dividend, payable on June 26, 1987, to stockholders of record on May 29, 1987.

JOHNSON CONTROLS, INC. (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

17. Subsequent Event (unaudited)

On November 19, 1986, the Board of Directors declared a two-for-one stock split of the common stock effected in the form of a 100% stock dividend payable January 2, 1987 to shareholders of record on December 5, 1986. This stock split will result in the issuance of approximately 18.9 million additional shares of common stock, $.16⅔ par value, and will be accounted for by the transfer of approximately $3.2 million from capital in excess of par value to common stock.

K MART CORPORATION (JAN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

C Subsequent Event

On March 24, 1987, the Board of Directors approved a three-for-two split of the common shares to be distributed on June 5, 1987, to holders of record on May 21, 1987. All common shares and per share data included in the consolidated financial statements and notes thereto have been adjusted to give effect to the stock split.

POLAROID CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

13. Subsequent Events

At its meeting on February 17, 1987, the Board of Directors adopted a proposal to recommend to the stockholders an increase from 60 million to 150 million in the number of shares of common stock authorized to be issued by the Company. Amendment of the Company's Restated Certificate of Incorporation to that effect will be considered at the 1987 annual meeting of stockholders. Contingent upon approval of that amendment, the Board also approved a 2-for-1 split of the Company's common stock. The stock split will be in the form of a dividend of one additional share of common stock for each share issued prior to the split. It is expected that distribution of the additional shares of common stock will occur on June 27, 1987, to stockholders of record at the close of business on May 22. Par value of the common stock will remain $1.00 per share after the split. As a consequence of the split $32,855,475, representing the aggregate par value of the additional shares, will be transferred from additional paid-in capital to the capital stock account. At the same meeting the Board declared a quarterly cash dividend of 30 cents per share on the Company's common stock payable March 28 to stockholders of record at the close of business on March 13. The dividend represents an increase of 5 cents per share in the quarterly dividend paid by the Company since 1979.

TEMPLE-INLAND INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note M—Subsequent Event

On February 6, 1987, the Company announced a five-for-four stock split in the form of a stock dividend on its common shares. The new shares will be issued on March 31, 1987, to holders of record on March 16, 1987. At year end 1986, the Company had 24,278,424 shares outstanding on an historical basis, or 30,348,030 shares on a split basis.

Information in the consolidated financial statements as to the number of shares and per share amounts have been adjusted to reflect the stock split on a retroactive basis.

Stock Purchase Rights

BURLINGTON INDUSTRIES, INC. (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note I—Preferred Stock Purchase Rights

On October 21, 1986, the company's Board of Directors declared a dividend of one preferred stock purchase right for each outstanding share of common stock. Under certain circumstances, a right may be exercised to purchase one one-hundredth of a share of Series A Junior Participating Preferred Stock. The rights become exercisable if and when a person acquires 20% or more of the company's outstanding common stock, or announces an offer which would result in such person acquiring 30% or more of the company's common stock. After the rights become exercisable, if the company is a party to certain merger or business combination transactions or transfers 50% or more of its assets or earnings power, or if the acquirer engages in certain self-dealing transactions, each right will entitle its holders to buy a number of shares of common stock of the acquiring or surviving entity (or of the company in certain instances) having a market value of twice the exercise price of the right. The rights expire October 21, 1996 and may be redeemed by the company for 5 cents per right at any time before the tenth day following the announcement that a person has acquired 20% or more of the company's common stock.

Capital Stock Issued Or Purchased

BOWATER INCORPORATED (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Common Stock Issued Subsequent to Year-End

On January 23, 1987, the Company completed a public offering of 4.0 million shares of its common stock in the United States and abroad. The net proceeds of approximately $136 million were used to retire commercial paper and revolving credit borrowings, including the approximately $100 million incurred to finance the acquisition of Star Forms, Inc.

On February 4, 1987, the Company announced the redemption of all its 9% Convertible Subordinated Debentures Due 2009. As a result, all such debentures were converted into 3,091,478 shares of common stock of the Company at the conversion price of $26 3/8 per share.

If the issuance of common stock through the public offering and the conversion of debentures, and the acquisition of Star Forms, Inc., all had occurred on January 1, 1986, the Company's primary and fully diluted earnings per common share for the year 1986 would have been $1.46, and the total common shares outstanding at year-end would have been 36,561,716.

GTI CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2—Subsequent Event:

On February 13, 1987, the Company, through a private placement, sold 1,495,000 shares of its Common Stock for $4.00 per share or $5,980,000, before expenses, pursuant to a Stock Acquisition Agreement dated February 6, 1987. In addition, through a second private placement on the same date, pursuant to a Stock Exchange Agreement, the Company exchanged 625,000 shares of its Common Stock for 20% of the Common Stock of Electronic Supply Corporation. The exchange is valued at $2,500,000 or $4.00 per share. The agreements relating to the above transactions provide, among other things, that the Company's Board of Directors will take such action as it deems equitable to maintain the purchasers' percentage interest in the Company's common stock through August, 1988. The purchasers of the Common Stock for both transactions are affiliated.

The pro forma effects of the above transactions for the related balance sheet accounts are summarized below. Pro forma balance sheet information is presented as though the transactions occurred on December 31, 1986.

(in thousands of dollars)

	As Reported	Pro Forma (Unaudited)
Cash and marketable securities	$ 169	$ 6,149
Investments	1,500	4,000
Other liabilities	421	721
Common stock	140	223
Additional paid-in capital	8,993	17,005
Treasury stock	(85)	—

The pro forma income statement information is presented as though the transactions occurred on the first day of 1986.*

(in thousands of dollars):

	As Reported	Pro Forma (Unaudited)
Interest expense	$ (298)	$ (123)
Interest income	184	492
Equity in income of affiliate	—	281
Income from continuing operations before income taxes	1,004	1,768
Provision for income taxes	589	980
Income from continuing operations	415	788
Issued shares outstanding	3,461,775	5,581,775
Income Per Share Continuing Operations	$ .12	$ .14

*The pro forma results are not necessarily indicative of results of operations had the acquisition taken place at the beginning of the year.

THE GOODYEAR TIRE & RUBBER COMPANY (DEC)

NOTES TO FINANCIAL STATEMENTS

Subsequent Event

On November 20, 1986, Goodyear announced that it planned to make a tender offer for up to 40 million of its shares at $50 net per share in cash. The Company purchased 40,435,764 shares in February 1987, under the terms and subject to the conditions of the offer. The Company made the offer as part of a program to restructure its capitalization and business with the objective of enhancing the return to shareholders on their investment. The purchase of shares pursuant to the offer reduced the number of shares that could otherwise trade publicly and reduced the number of shareholders. The aggregate purchase price of the shares and estimated expenses pursuant to the offer was $2,024.3 million.

The Company obtained a $4,000.0 million Credit Facility, a portion of which was used to finance the share purchase (see note on Credit Arrangements).

The following table sets forth the pro forma capitalization of the Company and its consolidated subsidiaries at December 31, 1986. The pro forma adjustments give effect to estimated net cash proceeds and after tax gains expected to be realized from the disposition of Motor Wheel Corporation and related assets, Goodyear Aerospace Corporation and related assets, and the Arizona properties. The net cash proceeds are applied to reduce debt, whereas the gains are shown as an increase to retained earnings. Pro forma adjustments also give effect to the purchase of the 40,435,764 shares and the debt incurred to complete the purchase.

(In millions)	December 31, 1986 Amounts	Pro Forma Adjustments Proceeds and Gain on Dispositions	Share Purchase and Related Debt	Pro Forma Results
Short term debt	$ 348.6	$ —	$ —	$ 348.6
Long term debt and capital leases	2,487.5	(600.0)	2,024.3	3,911.8
Minority equity	72.6	—	—	72.6
Total debt and capital leases and minority equity	2,908.7	(600.0)	2,024.3	4,333.0
Shareholders' equity:				
Common stock	97.1	—	(40.4)	56.7
Capital surplus	104.2	—	(104.2)	—
Retained earnings	3,122.2	290.0	(1,879.7)	1,532.5
Foreign currency translation adjustment	(320.9)	—	—	(320.9)
Total shareholders' equity	3,002.6	290.0	(2,024.3)	1,268.3
Total capitalization	$5,911.3	$(310.0)	$ —	$5,601.3
Debt as percent of debt and shareholders' equity	48.6%			77.1%

GOULD INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note M: Subsequent Event

On February 24, 1987, the company's board of directors approved a plan to issue up to 2.3 million shares of convertible exchangeable preferred stock at an initial public offering price of approximately $50 per share, from which proceeds will be used to reduce the company's outstanding commercial paper and for general corporate purposes. The issuance is subject to registration with the Securities and Exchange Commission.

The company has amended its revolving credit agreement so that the company will not be prohibited from paying cash dividends on the convertible exchangeable preferred stock; however, such agreement prohibits the company from paying cash dividends on other capital stock or purchasing shares of any capital stock for cash.

JOSTENS, INC. (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Subsequent Event

On August 6, 1986, the Board of Directors authorized the Company to purchase up to 3,500,000 of its common shares within a price range of $33½ to $37 per share. The number of shares tendered under this offer and the ask price per share will determine the total number of shares to be purchased. The Company intends to finance the total purchase price through an intermediate-term bank loan.

Litigation

FOOTE MINERAL COMPANY (DEC)

NOTES TO FINANCIAL STATEMENTS

13 (In Part): Commitments and Contingencies

Subsequent to December 31, 1986, the Company received a notice of violation issued by the United States Environmental Protection Agency (EPA) asserting that the Company's Keokuk, Iowa plant is in violation of regulatory requirements under the Resource Conservation and Recovery Act (RCRA) relating to the handling and disposal of hazardous wastes. The EPA has rejected the Company's position that Keokuk's wastes are excluded from hazardous classification under the exemption for wastes from the processing of ores and minerals. The Company continues to assert that the Keokuk waste is exempt from hazardous classification as the Company is a processor of ores and minerals; however, the Company plans to take the position that, in order to avoid protracted litigation over this issue, it is willing to negotiate with EPA a consent agreement that would set forth several steps for the Company to take to bring the waste handling practices at the facility into compliance with applicable requirements for treatment, storage, and disposal of hazardous wastes. The Company believes that the outcome and resultant effect relating to this matter will not have a material adverse effect on its financial statements.

GENERAL HOST CORPORATION (JAN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 12 (In Part): Litigation and Other Contingencies

In March 1987 a judgment was entered against the Company and its wholly-owned subsidiary, Cudahy Company (now AMS Industries, Inc.), in a 1977 lawsuit involving claims by approximately thirty landowners or lessees who alleged that saltwater pollution of the groundwater by the American Salt Company plant in Lyons, Kansas prevented crop irrigation. The judgment included $3.1 million for actual damages to approximately 2,800 acres for the nine-year period 1975 through 1983 and an award of $10 million in punitive damages. Although an earlier August 1984 opinion had indicated that the punitive damages were subject to review and possible reduction based on American Salt's efforts to evaluate and implement a groundwater cleanup program, the court imposed the full amount of punitive damages in the March 1987 judgment but did not order any remedial action. Substantially the same parties have commenced a second lawsuit asserting similar claims for damages since 1983, as well as punitive damages for alleged willful failure to abate the pollution.

In July 1984 American Salt voluntarily initiated a groundwater monitoring program and retained experts to advise it with respect to the nature and extent of any groundwater pollution, the adequacy of its present operation and possible cleanup alternatives. In February 1987 American Salt and AMS signed an agreement with the Kansas Department of Health and Environment which provides for implementation of a remedial plan consistent with previous submissions in the court proceedings mentioned above. The estimated future capital expenditures for this program amount to about $800,000, and it will increase operating expenses by about $150,000 per year.

AMS and the Company believe there were substantial errors as to both the facts and the law underlying the judgment, and accordingly they will file an appeal in April 1987. The proceedings in the second case have been largely stayed pending entry of final judgment in the first action. Further, the Company is reviewing the extent to which it may have insurance coverage for certain aspects of any final judgments in both cases. In that connection, the Company's primary insurance carrier has commenced an action for declaratory relief seeking an adjudication that it has no liability to the Company in connection with these proceedings.

While it is not possible to make a final determination as to the outcome of the aforementioned matters, the Company believes it has strong grounds upon which to appeal and to otherwise defend these proceedings, and accordingly no provision for loss is included in the financial statements. In the opinion of management, the ultimate resolution of these matters should not have a material effect on the consolidated financial position of the Company.

Formation of Joint Venture

INGERSOLL-RAND COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 18—Subsequent Events: On January 6, 1987, the company announced it had signed a letter of intent to sell its Mining Machinery group to a newly formed venture, subject to the entity's ability to obtain financing. The company will own 50% of the new venture.

On February 2, 1987, the company and two foreign corporations agreed in principle to form a new venture company that combines their respective pulp machinery businesses. The venture will be equally owned and controlled by the three partners. The agreement in principle is subject to the negotiation and execution of a definitive joint venture agreement and appropriate governmental and other required consents.

LYNCH CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note L—Subsequent Event

On January 29, 1987 Lynch Entertainment Corporation, a new wholly-owned subsidiary of the Company, entered into a contingent agreement regarding the formation of a partnership to acquire and operate television station WHBF-TV ("station") in Rock Island, Illinois. Lynch Entertainment Corporation will contribute $250,000 for a 20% equity interest in the partnership, as well as loan up to $6,750,000 in subordinated debt financing at 1½% over the prime interest rate, adjusted monthly. Interest for the first twelve months will be accrued and added to the principal, which will be paid within a period of three to five years. The other company participating in the partnership is owned by a director of Lynch Corporation.

SUNDSTRAND CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Subsequent Event

On January 12, 1987, Sundstrand Corporation and Sauer Getriebe AG of Neumuenster, West Germany established a joint venture, combining their Hydraulic Power Systems businesses. Effective January 1, 1987, this new joint venture will have one operating group in the United States named Sundstrand-Sauer, and another in Europe named Sauer-Sundstrand. Klaus H. Murmann, a member of Sundstrand's Board of Directors, was the President and Chief Executive Officer of Sauer Getriebe AG. The joint venture management includes Mr. Murmann as a director and Chief Executive Officer, and Michael J. Draper from Sundstrand as a director and Chief Operating Officer.

Sales of Sundstrand's Hydraulic Power Systems business included in 1986 consolidated operating results were $119.4 million. Included in Sundstrand's consolidated balance sheet at December 31, 1986, were net assets of approximately $44.0 million, which have been contributed to the joint venture effective January 1, 1987. Future rental commitments under noncancelable operating leases beyond 1986 and building space for Sundstrand's Hydraulic Power Systems business were not included in the Supplementary Statement of Earnings Information footnote on page 34 and under Properties in the Additional 10K Information on page 41, respectively.

Sundstrand and Sauer are leading manufacturers of hydraulic power transmission equipment in both America and Europe, respectively. Each parent company holds a 50% interest in the joint venture, and it will be accounted for as an equity investment on the balance sheet of Sundstrand subsequent to December 31, 1986.

Employee Benefits

MANPOWER INC. (FEB)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

12 (In Part): Stock Purchase Plans

On March 31, 1986, the Board of Directors adopted a Restricted Stock Plan which reserves 300,000 shares of common stock held in Treasury for purchase by key employees selected by the Human Resources Committee of the Board, at a price determined by the Board, but not less than 10 cents per share. When a purchase right is granted, the employee has up to 60 days within which to make the purchase. Transfer of shares purchased is restricted for a period established at the time the purchase right is granted. During the restricted period, the shares may not be sold without first offering them to the Company at the original purchase price. It is contemplated that the restricted period established would be five years and that the restriction would be removed on 20% of the shares per year. Purchase rights have been granted under the plan to two officers for 200,000 shares at a price of 10 cents per share.

Reorganization

DIAMOND SHAMROCK CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Restructuring Program

On February 1, 1987, the Company's Board of Directors approved a restructuring program (the "Restructuring"). The principle financial elements of the Restructuring are:

(i) the spin-off of Diamond Shamrock R&M, Inc., a newly formed holding company for the Company's refining and marketing businesses, to the Company's stockholders as a new publicly owned company;

(ii) the purchase by the Company of 20,000,000 shares of the Company's Common Stock at $17.00 per share which was completed on March 9, 1987; and

(iii) the sale, on February 2, 1987, to an insurance company of 3,000,000 shares of $9.75 Cumulative Convertible Preferred Stock, $1.00 par value, for $300.0 million.

Prior to the spin-off of Diamond Shamrock R&M, Inc., the Company will call the 7.7% Sinking Fund Debentures due December 15, 2001, 9% Sinking Fund Debentures due April 1, 1999 and 9⅛% Sinking Fund Debentures due November 15, 2000 at an aggregate redemption price of $241.6 million. The Company will deposit sufficient funds with the trustees to satisfy its obligation under the indentures.

Unaudited pro forma financial information of the Company giving effect to the Restructuring as if it had occurred on December 31, 1986 for the Summarized Balance Sheet and January 1, 1986 for the Summarized Statement of Operations is presented below:

	($ millions)
Summarized Balance Sheet:	
Current assets	$ 342.1
Non-Current Assets	2,450.1
Current Liabilities	315.9
Non-Current Liabilities	1,349.9
Redeemable Preferred Stock	300.0
Stockholders' Equity	826.4
Summarized Statement of Operations:	
Sales	$ 876.1
Gross Profit	54.4
(Loss) Before Discontinued Operations	(183.5)
Net (Loss)	(63.5)

The unaudited pro forma financial information is not necessarily indicative of the results of operations that would have occurred had the Restructuring been effected in 1986, nor of future results of operations of the Company after the Restructuring.

LUKENS, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

12. Subsequent Events

Stockholders approved on January 28, 1987, certain changes to the corporate structure, including the creation of a holding company incorporated in Delaware for all of Lukens' operating entities. Stockholders retained the same ownership interest in the Delaware holding company as in the company prior to reorganization. The consolidated financial statements of the holding company will become the same as those prior to reorganization, except for the change from no par value common stock to $.01 per share par value. As part of the reorganization, a new class of stock was authorized consisting of 1,000,000 shares of preferred stock, par value $.01 per share. No preferred stock was issued in connection with the reorganization.

Property Damage

CONSOLIDATED PAPERS, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 9. Subsequent Event

On January 11, 1987, an explosion of one of the two recovery boilers at the company's Kraft Division occurred. Damage, which is estimated at $7,000,000, is covered by insurance. Sufficient quantities of pulp are being arranged to meet the immediate needs of the company's paper mills, and business interruption insurance is expected to cover higher operating costs associated with the explosion. In the opinion of management, this incident will not have a material impact on the company's results of operations.

Depreciable Lives Changed

THE FEDERAL COMPANY (MAY)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except where otherwise noted)

1 (In Part): Summary of Accounting Policies:

Depreciation and Maintenance Policies

On July 23, 1986, the Board of Directors approved a change in the estimated useful lives of the Company's property and equipment and the method of calculating depreciation for those assets. For assets acquired subsequent to May 31, 1986, depreciation will be calculated by the straight line method with estimated useful lives generally of 33 years for buildings and improvements, 12 years for machinery and equipment and 7 years for transportation equipment. The undepreciated balances of assets acquired prior to May 31, 1986 will be depreciated by the straight line method over their estimated remaining useful lives of 15 years for buildings and improvements, 7 years for machinery and equipment and 4 years for transportation equipment. These changes were adopted to make the Company's depreciation policies more comparable to industry practices.

The estimated effect of this change, to be adopted in the fiscal year ending May 30, 1987, will be to increase net earnings by approximately $14,000 or $.86 per share.

Change in Company Name

KINDER-CARE LEARNING CENTERS, INC. (AUG)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

11. Subsequent Events

At its meeting on October 10, 1986, the Board of Directors approved a resolution to change the corporate name to Kinder-Care, Inc., and to reorganize the Company's day care centers into a wholly-owned subsidiary, Kinder-Care Learning Centers, Inc. The name change is subject to stockholder approval at the annual meeting on January 22, 1987.

The Board also approved changing the corporate year end from August 31 to December 31. All the Company's subsidiaries will adopt the new year end.

Translation Rate

PANTASOTE INC (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

13. Subsequent Event

Subsequent to the year end, the U.S. dollar declined in value in relation to the currencies of the Company's European subsidiaries. Had the foreign financial statements been translated at exchange rates in effect on February 11, 1987, the cumulative translation adjustment and shareholders' equity would have increased by approximately $1,200,000.

Contracts Cancelled

ALPHA INDUSTRIES, INC. (MAR)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 12—Subsequent Events

Subsequent to March 31, 1986, the Company and Martin Marietta Corporation announced the formation of a joint venture to develop gallium arsenide monolithic integrated circuits for millimeter wave radar applications.

On June 18, 1986, the Court dismissed a complaint that a former shareholder had filed against the Company, several of its Directors and certain current and former officers. The complaint had alleged violations of SEC disclosure requirements and the RICO Act.

Subsequent to March 31, 1986, the Company agreed in principle to sell its Microelectronics Division. The sale is expected to be completed during the Company's second fiscal quarter. This division had approximately $12 million in sales for fiscal year 1986.

On July 2, 1986, the Company received notification that certain of its microwave components contracts were being cancelled. The customer has alleged that the contracts were behind schedule and stated that it would attempt to recover reprocurement costs. The customer also has reserved the right to recover damages. The impact, if any, on the Company's financial condition and results of operations cannot be determined at this time.

RELATED PARTY TRANSACTIONS

Effective for financial statements for fiscal years ending after June 15, 1982, *Statement of Financial Accounting Standards No. 57* specifies the nature of information which should be disclosed in financial statements about related party transactions. *SFAS No. 57* restates "without significant change" the disclosure requirements previously stated in *Statement on Auditing Standards No. 6.* In 1986, 162 survey companies disclosed related party transactions. Examples of related party disclosures follow.

Transactions Between Affiliated Companies

COMPUGRAPHIC CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

13. Transactions with Related Parties

On February 1, 1982, Agfa-Gevaert Graphics, Inc., a wholly owned subsidiary of Agfa-Gevaert, Inc., acquired an interest of approximately 69 percent in the Company through purchase of 3,082,000 shares of newly issued common stock and approximately 2,500,000 shares of common stock pursuant to a cash tender offer. Since then, Agfa-Gevaert Graphics, Inc. has purchased 1,251,000 shares of common stock in the open market, increasing its interest in the Company to 82 percent as of January 3, 1987. Agfa-Gevaert, Inc. is a subsidiary of Agfa-Gevaert N.V. of Belgium.

Compugraphic Corporation engages in business transactions with subsidiaries of Agfa-Gevaert N.V. Products purchased for resale from these subsidiaries totalled $28,631,000, $24,421,000, and $24,110,000 in 1986, 1985, and 1984 respectively. Sales to these subsidiaries amounted to $47,172,000, $44,510,000, and $26,923,000 in 1986, 1985, and 1984 respectively. The accompanying consolidated balance sheet includes the following related-party amounts:

(Dollars in thousands)	1986	1985
Accounts receivable	$ 6,950	$ 6,674
Notes receivable	14,000	14,000
Accounts payable	1,644	2,305

Transactions Between Company and Major Stockholders

FISCHBACH CORPORATION (DEC)

NOTES TO FINANCIAL STATEMENTS

15. Related Party Transactions

As of September 30, 1986 Pennsylvania Engineering Corporation ("PEC") and APL Corporation, an affiliate of PEC, were beneficial owners of 54.3% of the Company's common stock.

During fiscal 1986, PEC and other companies which may be deemed affiliates of PEC lent funds to the Company on an unsecured basis with interest payable at the prime rate plus one percent. The maximum amount outstanding at any time during 1986 was $16,500,000. There were no loans outstanding at September 30, 1986.

In October 1985, the Company entered into an agreement with PEC and a subsidiary of PEC pursuant to which the Company received a fee of $650,000 and other benefits in consideration for the Company's indemnification of the surety on a performance bond in the face amount of $45,000,000 and a payment bond of $27,680,000 and its guaranty of letters of credit aggregating $12,300,000 as of September 30, 1986, issued in connection with the construction and operation of the Town of Islip Resources Recovery Facility located in Islip, New York.

The Company's credit and surety agreements contain restrictions relating to mergers, loans, guarantees and other transactions with related parties and affiliated companies.

INTEL CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Related Party Transactions

In February, 1983 International Business Machines Corporation (IBM) became a related party due to its purchase of Intel stock. In 1984 the Company sold an additional 86,509 shares of previously authorized but unissued capital stock to IBM in accordance with an agreement reached in December 1982. As of December 27, 1986 and December 28, 1985, IBM owned less than 20% of Intel's outstanding capital stock. In 1986 approximately 5.7% of Intel's revenues were derived from sales to IBM (19.9% in 1985 and 11.9% in 1984). In addition, Intel had purchases from IBM (including lease obligations) of approximately $5 million in 1986 ($7 million in 1985 and $24 million in 1984). Amounts receivable from and payable to IBM are immaterial at December 27, 1986 and December 28, 1985.

RAYTECH CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

($000)

Note M—Related Party Transactions

Since October 1984, Echlin, Inc. has owned 745,000 shares, currently 25%, of the Company's common stock. In 1986, as part of the warrant offering (Refer to Note A), Echlin purchased 1,490,000 warrants for $1 each.

In March 1985, as described in Note J, Raymark sold the net assets of its Brake System Division to Echlin. In accordance with the sale agreement, the amount of the proceeds were adjusted to reflect the net assets of the Brake Systems Divisions as of March 1985. As a result, Echlin agreed to accept a $6,451 note in April 1986 which represented the principal and accrued interest relating to this reduction. As discussed in Note H, Echlin has exercised its right to require the Company to seek shareholder approval to grant the conversion of this note into common stock. Interest expense incurred for amounts due Echlin was $603, $315 and $1300 in 1986, 1985 and 1984, respectively.

Prior to the sale, Echlin was a major supplier of products for resale by Raymark's Brake System Division. Purchases from Echlin were approximately $6,600 and $28,000 in 1985 and 1984, respectively.

During 1986 and 1985, several Echlin companies were customers of the Company. The total sales to these companies were approximately $6,500 and $5,200, respectively. The related receivable of $968 and $1,002 is reflected in trade accounts receivable in the 1986 and 1985 respective balance sheets.

Other transactions with Echlin included charges for rent and utilities of $3,003 and $2,051 for 1986 and 1985, respectively. Amounts due are included in other current assets ($401 and $1,081 for 1986 and 1985, respectively). Additionally, Echlin charged a fee for computer usage of $167 and $563 for 1986 and 1985, respectively. The related payable to Echlin of $514 for these computer charges was included in accrued liabilities in the 1985 balance sheet.

Transactions Between Company and Investees

ECHLIN INC. (AUG)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2. Transactions with Raymark Corporation:

In October, 1984, the Company acquired 745,000 shares of common stock in Raymark Corportion for $14,900,000. This investment, which represents 25% of the outstanding shares of Raymark, is being accounted for using the equity method and is included in "Other Assets." The Company's earnings include its share of Raymark's operating results for each year through June 30, the date of the most recent publicly reported Raymark financial information. The closing price of Raymark stock on August 29, 1986 was $4.75 per share. Assets and liabilities of Raymark were $84,524,000 and $74,284,000, respectively, at June 30, 1986.

On March 17, 1985, the Company acquired certain assets of the Brake Systems Division of Raymark Industries Inc., a wholly-owned subsidiary of Raymark for $44,063,000. This acquisition was accounted for by the purchase method and the consolidated financial statements include the results of operations from the date of acquisition. The following unaudited pro forma results of operations have been prepared as though the Brake Systems Division had been acquired at the beginning of fiscal 1984:

(Dollars in thousands, except per share data)	Year ended August 31, 1985	1984
Net sales	$829,708	$810,681
Net income	$45,160	$41,669
Earnings per share of common stock	$1.09	$1.01

The results of operations of the Brake Systems Division included above are not indicative of results for periods subsequent to the acquisition because of changes which have been made in the acquired business.

In settlement of the Brake System acquisition, the Company has a collateralized note receivable in the amount of $6,451,000 currently bearing interest at 1% above prime, payable in varying quarterly installments with a final payment of $4,801,359 due on February 1, 1988. The receivable from Raymark is included in "Other Assets."

Raymark was a customer of Echlin prior to the acquisition of the Brake Systems Division with purchases of $13,301,000 through March, 1985 for fiscal 1985 and $28,780,000 for fiscal 1984. The Company recorded interest income of $517,000 and $1,027,000 in fiscal 1985 and 1984, respectively, on notes receivable arising from Raymark purchases. The outstanding receivables were repaid as part of the purchase transaction of the Brake Systems Division.

During fiscal 1986 and 1985, several subsidiaries of the Company purchased approximately $6,700,000 and $5,000,000, respectively, of raw material from Raymark.

HALLIBURTON COMPANY (DEC)

NOTES TO FINANCIAL STATEMENTS

2. Related Companies. Undistributed earnings of unconsolidated subsidiaries and 20-50% owned companies included in consolidated retained earnings at December 31, 1986, 1985 and 1984 were as follows:

	1986	1985	1984
	(In thousands)		
Unconsolidated subsidiaries	$238,543	$222,054	$202,820
20-50% owned companies	32,623	45,150	48,498

Undistributed earnings of $27,936,000 were restricted as to payment of dividends from unconsolidated subsidiaries at December 31, 1986.

Purchases from unconsolidated companies, 50% or more owned, were approximately $59,060,000, $41,269,000 and $43,947,000 during the years 1986, 1985 and 1984, respectively. Included in such purchases are payments of premiums for employees' group insurance, a portion of which was deducted from employees' wage payments.

NL INDUSTRIES, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

($000)

Related Party Transactions

Pursuant to the restructuring on April 30, 1986, the Company entered into an Intercorporate Services Agreement and a Tax Agreement. These agreements respectively require the allocation of certain administrative costs and services provided by the Company to NL Chemicals, and for an allocation of domestic tax expense relating to NL Chemicals' separate company income tax calculation. The stipulated charge under the Intercorporate Services Agreement, which expires in April 1988, is $5,000 per year. Accordingly, $3,333 has been charged to discontinued operations in 1986, representing the pro rata amount since the date of formation of NL Chemicals.

Charges under the Tax Agreement, which became effective as of January 1, 1986, were eliminated in consolidation. The Tax Agreement also provides that the Company will indemnify NL Chemicals for any under accrual of domestic federal, state and local income taxes arising prior to January 1, 1986.

Transactions Between Company and Officers/Directors

ACTION INDUSTRIES, INC. (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note M—Related Party Transactions

In June, 1986 the Company exercised its option to purchase for $2 million the land and buildings in Mt. Clemens, Michigan which it had been leasing from D. T. Chase Company.

D. T. Chase Company has also agreed to purchase certain equipment from the Company at its approximate book value of $980,000. This transaction is to be completed no later than June 22, 1987.

The Company purchased from an affiliate of David T. Chase 200,000 shares of its common stock for a price of $14 per share ($2,800,000). These shares were issued in connection with the acquisition of Sabin Industries, Inc. (Note L).

Mr. David T. Chase, sole shareholder of D. T. Chase Company, is a Director of the Company.

THE ARUNDEL CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note K. Related Party Transactions

A Director of the Company is the Retired Chairman of the Board of the parent corporation of the lead Bank participating in the Company's Line of Credit and Security Agreement and Revolving Credit Agreement. Additionally, the President (and Director) of the Company is a Director of the Bank. The Bank has also provided financing for other business purposes at interest rates ranging from 8.25% to 10.25%. The balance of these loans at December 31, 1986 and 1985 was $3,518,000 and $3,196,000 respectively.

Also, a Director of the Company is the President of certain corporations which provide hauling and general contracting services to the Company. Payments to these corporations for services rendered amounted to approximately $1,471,000 in 1986, $1,764,000 in 1985 and $388,000 in 1984. The Company also purchased a parcel of land from one of the corporations in 1986 for $756,000. The corporations also have purchased construction materials from the Company and have made payments for their disposal of fill material on the Company's property. Payments received from the corporations amounted to approximately $237,000 in 1986, $148,000 in 1985 and $331,000 in 1984.

During 1986 and 1985, a family member of both the Chairman of the Board and the President of the Company, purchased real estate from the Company totaling $1,554,000 and $937,000, respectively. The Company recognized gains on these sales of $687,000 and $319,000, respectively. In addition, the family member purchased materials from the Company totaling $430,000 in 1986 and $270,000 in 1985.

HOMASOTE COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 10—Operations:

An officer of the Company is also a director of a major raw material supplier of Homasote. The amount of raw material purchased from this supplier approximated $501,000 in 1986, $357,000 in 1985 and $1,422,000 in 1984. The amount due to the supplier at December 31, 1986 and 1985 amounted to $35,000 and $7,000, respectively.

Leases With Profit Sharing Plan

THE SOUTHLAND CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

15 (In Part): Related Party Transactions:

Leases with Profit Sharing

During 1984, Profit Sharing purchased 31 7-Eleven or Chief Auto Parts stores from the Company for $13,307,000, which includes the Company's direct and indirect costs. The stores were simultaneously leased to the Company at annual rentals approximating market rates. No stores were purchased during 1986 or 1985. At December 31, 1986, Profit Sharing owned 775 stores leased to the Company under capital leases and 615 stores leased to the Company under operating leases. Included in the financial statements are the following amounts related to these leases:

December 31 (Dollars in thousands)	1986	1985
Buildings, net of accumulated amortization of $34,112 and $33,028...	$26,517	$29,911
Capital lease obligations, net of current portion of $3,128 and $3,000......	$34,798	$38,315

Year ended December 31 (Dollars in thousands)	1986	1985	1984
Rent expense under operating leases and amortization of capital lease assets, included in cost of goods sold................	$30,094	$30,256	$29,452
Imputed interest expense on capital lease obligations..	$ 3,683	$ 4,080	$ 4,403

INFLATION ACCOUNTING

Effective for financial reports issued after December 2, 1986, *Statement of Financial Accounting Standards No. 89* states that companies previously required to disclose current cost information are no longer required to disclose such information. The annual reports of 98 survey companies issued before December 2, 1986 disclose current cost information.

Many of the survey companies include a discussion of inflation in the Management's Discussion and Analysis of Financial Condition. Examples of such discussions follow.

BIRD INCORPORATED (DEC)

Inflation

Over the years, inflation has been a significant factor in our economy and the Company is continually seeking ways to deal with its impact by productivity improvements and cost reduction programs. In recent years, the Company has not been able to pass increased raw material costs on by increasing selling prices because of intense competitive pressures. The Company has an ongoing program of updating productive capacity to take advantage of improved technology, and although the cumulative impact of inflation has resulted in higher costs for replacement of plant and equipment, these costs have been offset by productivity savings.

CROWN CENTRAL PETROLEUM CORPORATION (DEC)

Impact of Inflation

Since 1980, historical values of inventory, property, plant and equipment, depreciation expense and gain or loss on sales and abandonments of property, plant and equipment were adjusted under the current cost method, in accordance with an experimental project initiated by the FASB in Statements No. 33 and 82. These adjustments reflected the changes in the level of the specific price indices used since the date the related properties were acquired. Under the Current Cost method, no consideration was given to possible replacement of assets using different types, different locations or improved technologies.

The FASB has decided that supplementary disclosures reflecting the current cost were not useful and therefore are no longer required. The Company concurs with the change and believes that if such disclosures had been made this year, no meaningful material differences in income from continuing operations or other financial statement classifications would have resulted, based upon the relative stability in the U.S. Consumer Price Index—Urban during recent years.

A capital intensive enterprise, such as an integrated oil company, was required to adjust historical depreciation expense to a current cost depreciation expense, thereby decreasing net income under the current cost method. However, the offsetting effect of the appreciation of assets was not reflected, thereby distorting the presentation. As a result of these adjustments for the periods 1981 through 1985, the Company's current cost results from operations were relatively large negative amounts. Since current cost does not take into account items such as management's operating reasons for disposing of unprofitable or undervalued assets, improving inventory management or whether major capital assets will ultimately be replaced, the Company believes that the current cost method should not be considered relevant for assessing the Company's results of operations, future earnings or cash flows.

The Company uses the LIFO method of accounting for its inventories. Under this method, the costs of products sold reported in the financial statements approximates current costs in years in which inventory layers are added and thus reduces the distortion in reported income due to increasing costs.

THE EASTERN COMPANY (DEC)

Impact of Inflation and Changing Prices

Inflation, while not quite as significant as in previous years, continues to be a factor in our economy and the Company is continually seeking ways to cope with its impact, to the extent permitted by competition. The Company passes increased costs on by increasing sales prices where possible. Approximately 1% of the increase in 1986 reported sales was due to increased selling prices. In 1985, overall prices increased 3%.

The Company uses the LIFO method of accounting for its inventories. Under this method the cost of products reported in the financial statements approximates current costs and thus reduces distortion in reporting income due to increasing costs.

The charges to operations for depreciation represent the allocation of historical costs incurred over past years, and are significantly less than if they were based on the current cost of productive capacity being consumed. Provision for depreciation is generally computed using accelerated methods.

Approximately 55% of the Company's properties have been acquired over the last six years and have a remaining useful life, ranging from two years for equipment to thirty years for buildings.

Assets acquired in prior years will be replaced at higher costs, but this will take place over many years. While these new assets will result in higher depreciation charges, in many cases, there will be operating savings due to technological improvements, improved efficiency and increased productivity. The Company considers these matters in setting its pricing policies.

FEDERAL-MOGUL CORPORATION (DEC)

Inflation

In the United States, where the inflation rate has ranged from two to five percent in each of the last four years, sales were $660 million or 70 percent of total sales. Although inflation is not a significant factor domestically, the Company attempts to recover inflationary costs by increasing sales prices to the extent permitted by competition. Export sales from the United States amounted to $76 million or eight percent of total sales. In foreign countries where Federal-Mogul has manufacturing facilities, the European weighted average inflation rate was three percent, while the inflation rates in Mexico, Brazil and Argentina were each in excess of 80 percent. International sales from the overseas locations amounted to $206 million or 22 percent of total sales, including $46 million of sales in Mexico, Brazil and Argentina.

The Company uses the LIFO method of accounting for the majority of its inventories. Under this method, the cost of products sold reported in the consolidated financial statements approximates current costs and thus reduces the distortion in reported earnings due to increasing costs. The charges to operations for depreciation represent the allocation of historical costs incurred over past years and are less than if they were based on the current cost of productive capacity being consumed.

JLG INDUSTRIES, INC. (DEC)

Impact of Inflation

Worldwide inflation is an economic factor of which the Company is cognizant in its operations. Inflationary increases in production costs are generally passed on through increased selling prices. During 1986, the Company actually experienced deflation in its raw material costs. As a result of this decrease, along with the relatively low rate of inflation in 1985 and the continued intensity of price competition, inflation has had little effect on the Company's net sales or income from operations in recent years.

Additionally, the majority of inventory purchases are charged to cost of sales on a last-in, first-out (LIFO) basis which approximates replacement cost and thus during inflationary periods, reduces distortion in reported income due to increasing costs. During 1984, the Company's inventory quantities were reduced, resulting in a liquidation of certain LIFO inventory layers carried at costs which were lower than the cost of current purchases.

The Company's investment in property, plant and equipment is generally recent, with 49% of its gross value having been acquired during the past five years. The charges to operations for depreciation represent the allocation of historical costs incurred over the past years and are less than if they were based on the current cost of productive capacity consumed.

KRAFT, INC. (DEC)

Impact of Inflation

Despite the slowing of inflation in recent years, it continues to have an effect on economies worldwide. In order to counteract these effects, the company continues to take steps to maintain its profits margins through implementation of cost-reduction and productivity-improvement programs and timely price increases within the constraints of highly competitive markets. In addition, the company's use of the LIFO method of accounting for substantially all domestic inventories results in reporting the costs of products sold at approximately current cost. However, the charge for depreciation in the results of operations does not reflect current cost. If the company's operations were restated to reflect higher depreciation charges related to the current cost required to replace existing productive capacity and facilities, reported income would not significantly decrease.

STANHOME INC. (DEC)

Inflation and Changing Prices

Although the Company's operations are affected by general economic trends, inflation and changing prices did not have a material impact on 1986 and 1985 results compared to prior years for operations in Europe and the United States. Operations in Central and South America, particularly in Brazil and Mexico, have experienced highly inflationary economies with rapidly changing prices in local currencies. These conditions, with the resulting adverse impact on local economies, have made it difficult for operations in these locations to achieve adequate operating margins. The weakening of the U.S. dollar versus European currencies has benefited the Company's European U.S. dollar results, but the weakening of the dollar versus Asian currencies has resulted in higher costs of imported products. The strengthening of the dollar versus Latin American currencies has resulted in lower U.S. dollar results for that segment of the operation.

UNITED STATES TOBACCO COMPANY (DEC)

Inflation Related Information

The Financial Accounting Standards Board has made voluntary the disclosure requirements of SFAS No. 33, Financial Reporting and Changing Prices. The concept of disclosing inflationary effects on a business is sound. However, the use of a universal format may not accurately reflect the impact of inflation on an individual company. Accordingly, the Company has chosen not to present recalculated financial information that attempts to measure the effects of inflation on historical data. Instead, the following narrative provides useful information on the methods employed by the Company to mitigate the overall effects of inflation.

The financial statements presented in this annual report were prepared under generally accepted accounting principles and do not attempt to measure the impact of inflation on the results of operations or financial condition of the Company. Inflation has slowed in recent years, but continues to affect both the economy and the Company. There are various means available to the Company which serve to reduce the detrimental effects of inflation. The Company has adjusted selling prices over the years to maintain overall margins, has employed inventory accounting methods that reflect current costs in operating statements, and has planned asset replacements incorporating better technology to help improve efficiencies in manufacturing operations.

A significant portion of costs of products sold is determined using the LIFO method of inventory valuation which has the effect of matching current costs with current sales. The LIFO method is used for both financial reporting purposes in the primary financial statements and for income tax purposes, resulting in improved cash flow.

The Company replaces its fixed assets in the normal course of business. Decisions are evaluated for efficiencies, tax incentives, cash flow and rates of return on investment. Although assets are usually replaced at a higher cost, technological improvements often create operating efficiencies resulting in cost savings. Over the last several years the Company has invested in new assets that are more efficient than the assets being replaced.

Inflation erodes the general purchasing power of monetary assets such as cash, marketable securities and receivables, as these assets will purchase fewer goods and services over time. However, inflation benefits the Company in relation to monetary liabilities, as the payment of these obligations will be made with less expensive dollars.

Current tax legislation does not allow deductions for the effects of inflation. Accordingly, effective tax rates levied are, in real terms, higher than established statutory rates. The Tax Reform Act of 1986 includes provisions that will reduce the effective tax rate of the Company. However, the act seems to disregard the effects of inflation on the replacement of assets by providing for longer useful lives, eliminating favorable capital gains treatment on disposals, and repealing the investment tax credit. The Company supports efforts to modify these provisions.

Overall, the Company has reduced the impact of inflation through good business judgments and the effective use of accounting and tax practices, as evidenced by the significant growth in pretax margins during the last three years.

Section 2: Balance Sheet

BALANCE SHEET TITLE

Table 2-1 summarizes the titles used to describe the statement of assets, liabilities and stockholders' equity.

TABLE 2-1: BALANCE SHEET TITLE

	1986	1985	1984	1983
Balance Sheet	556	550	553	549
Statement of Financial Position	33	37	35	39
Statement of Financial Condition	11	13	12	12
Total Companies	**600**	**600**	**600**	**600**

BALANCE SHEET FORMAT

Balance sheet formats include the account form, the report form, and the financial position form. The account form shows total assets on the left-hand side equal to the sum of liabilities and stockholders' equity on the right-hand side. The report form shows a downward sequence of either total assets minus total liabilities equal to stockholders' equity or total assets equal to total liabilities plus stockholders' equity. The financial position form, a variation of the report form, shows noncurrent assets added to and noncurrent liabilities deducted from working capital to arrive at a balance equal to stockholders' equity.

Table 2-2 summarizes the balance sheet formats used by the survey companies. Since the early 1970's, when most of the survey companies presented an account form balance sheet, there has been a steady increase in the number of survey companies presenting a report form balance sheet. The change from account to report form has been so pervasive that, as shown in Table 2-2, a majority of the survey companies are currently presenting a report form balance sheet.

TABLE 2-2: BALANCE SHEET FORMAT

	1986	1985	1984	1983
Report form	356	336	306	294
Account form	241	261	291	302
Financial position form	3	3	3	4
Total Companies	**600**	**600**	**600**	**600**

TABLE 2-3: CASH—BALANCE SHEET CAPTIONS

	1986	1985	1984	1983
Cash	235	233	266	293
Cash and Equivalents	117	106	89	86
Cash includes certificates of deposit or time deposits	47	55	60	59
Cash combined with marketable securities	201	206	185	162
Total Companies	**600**	**600**	**600**	**600**

CASH

As shown in Table 2-3, many survey companies present the balance sheet caption *Cash* but, in recent years, the number of survey companies presenting such a balance sheet caption has decreased materially. Of the 201 companies showing a balance sheet caption combining cash and marketable securities, 69 disclosed separate amounts either parenthetically on the balance sheet or in a note to the financial statements. Examples of captions for cash and cash items follow.

ANALOGIC CORPORATION (JUL)

	1986	1985
Current assets:		
Cash (including time deposits of approximately $17,538,000 in 1986 and $40,554,000 in 1985)	$ 23,125,318	$ 40,849,949
Marketable securities, at cost which approximates market	54,435,100	10,300,000
Accounts and notes receivable, net of allowance for doubtful accounts (1986, $802,725; 1985, $559,540)	33,401,187	27,918,960
Inventories	39,726,695	43,312,956
Prepaid expenses and other current assets	2,938,724	2,470,968
Total current assets	153,627,024	124,852,833

ANHEUSER-BUSCH COMPANIES, INC. (DEC)

	1986	1985
	($ millions)	
Current Assets:		
Cash and marketable securities (marketable securities of $13.2 in 1986 and $119.9 in 1985 at cost, which approximates market)	$ 69.4	$169.6
Accounts and notes receivable, less allowance for doubtful accounts of $3.4 in 1986 and $3.1 in 1985	373.0	301.7
Inventories—		
Raw materials and supplies	294.2	225.4
Work in process	84.6	73.5
Finished goods	49.0	38.8
Total inventories	427.8	337.7
Other current assets	105.4	156.5
Total current assets	1,020.6	965.5

CMI CORPORATION (DEC)

	1986	1985
	($000)	
Current Assets		
Cash, including certificates of deposits of $675 in 1986 and $2,675 in 1985	$ 1,442	$ 3,468
Receivables, less allowance for doubtful accounts of $406 in 1986 and $952 in 1985	20,579	20,252
Inventories		
Finished equipment	5,759	10,864
Work in process	7,424	10,562
Raw materials and parts	28,209	31,351
	41,392	52,777
Other current assets	920	312
Total Current Assets	64,333	76,809

COMPUGRAPHIC CORPORATION (DEC)

	1986	1985
	($000)	
Current assets:		
Cash, including interest-bearing deposits of $20,789 in 1986 and $18,227 in 1985	$ 24,082	$ 18,625
Marketable securities, at cost which approximates market	1,939	3,572
Accounts receivable, less allowances of $1,139 in 1986 and $2,230 in 1985	38,461	51,339
Notes receivable	14,000	14,000
Current investment in sales-type leases, net	24,840	20,092
Inventories		
Finished goods	29,309	29,248
Work-in-process	12,197	17,757
Purchased parts	32,353	37,567
Total inventories	73,859	84,572
Prepaid expenses and advances	6,014	5,278
Total current assets	183,195	197,478

ADOLPH COORS COMPANY (DEC)

	1986	1985
	(In thousands)	
Current assets:		
Cash, including short-term interest bearing investments of $127,724 in 1986 and $125,927 in 1985	$150,464	$166,131
Accounts and notes receivable	99,560	90,698
Inventories:		
Finished	18,464	14,927
In process	31,037	26,738
Raw materials	68,409	70,296
Packaging materials	38,632	30,989
	156,542	142,950
Prepaid expenses and other assets	61,255	51,567
Accumulated income tax prepayments	5,216	3,238
Total current assets	473,037	454,584

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (In Part):

Short-term interest bearing investments: Short-term interest bearing investments consist of certificates of deposit and other income producing securities of less than one-year maturity. These investments are readily convertible to cash, and are stated at cost which approximates market.

DENNISON MANUFACTURING COMPANY (DEC)

	1986	1985
	(in thousands)	
Current Assets:		
Cash and marketable securities	$ 46,895	$ 58,807
Trade accounts receivable, less allowance of $3,445 ($3,076 in 1985) for doubtful accounts	118,360	109,160
Inventories:		
Finished products	42,308	42,439
In process	28,363	28,223
Raw materials and supplies	27,871	28,617
Total inventories	98,542	99,279
Prepaid expenses and other current assets	15,564	13,832
Total Current Assets	279,361	281,078

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Marketable Securities

These assets are carried at cost which approximates market. Cash and marketable securities include investments in tax-exempt securities, certificates of deposit, and commercial paper of $40,194,000 and $53,446,000 in 1986 and 1985, respectively.

THE FLUOROCARBON COMPANY (JAN)

	1987	1986
	(in thousands)	
Current assets:		
Cash and cash equivalents (Note 1)	$ 8,406	$13,259
Accounts receivable, less allowance for doubtful accounts of $556 in 1987 and $476 in 1986	13,282	15,351
Current portion notes receivable	3,875	736
Inventories	12,464	11,879
Income taxes receivable	452	—
Prepaid expenses and other assets	1,330	950
Total current assets	39,809	42,175

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Cash and Cash Equivalents

The Company's policy is to invest cash in excess of operating requirements, arising primarily from the proceeds of the subordinated debt offering, in income producing investments. Temporary cash investments of $6,944,000 at January 31, 1987, and $18,000,000 at January 31, 1986, include money market and commercial paper amounts stated at cost, which approximates market. Included in selling, general and administrative costs is interest and dividend income from temporary investments of $846,000 in fiscal 1987, $58,000 in fiscal 1986, and $13,000 for fiscal 1985.

MANVILLE CORPORATION (DEC)

	1986	1985
	($000)	
Current Assets		
Cash (including time deposits of $3,799 in 1986, $2,846 in 1985) (Note 3)	$ 7,957	$ 6,588
Marketable securities, at cost (approximates market	436,716	313,762
Receivables (net of allowances of $10,288 in 1986, $11,131 in 1985)		
Trade	253,334	257,853
Other	38,190	55,959
Inventories	153,202	153,383
Prepaid expenses	24,278	29,498
Total Current Assets	913,677	817,043

Note 3: Cash and Marketable Securities

In connection with the Chapter 11 proceedings the Company has placed certain funds in escrowed accounts and segregated other amounts on the books and records of the Company. These funds totalled approximately $278,379,000 and $222,358,000 at December 31, 1986 and 1985, respectively.

MET-PRO CORPORATION (JAN)

	1987	1986
Current assets:		
Cash and short-term investments—Note 3	$ 2,286,298	$ 1,739,807
Accounts receivable, net of allowance for doubtful accounts of approximately $17,000 and $22,000, respectively	4,313,633	3,634,492
Inventories	6,076,190	6,411,893
Prepaid and refundable income taxes	43,922	216,318
Prepaid expenses, deposits and other current assets	86,918	263,996
Total current assets	12,806,961	12,266,506

NOTES TO FINANCIAL STATEMENTS

3. Cash and Short-Term Investments

Short-term investments at January 31, 1987 and 1986 were valued at cost (approximating market) and amounted to approximately $2,016,914 and $1,329,000, respectively. Short-term investments consist principally of commercial paper and certificates of deposit.

At January 31, 1987 and 1986, cash in the amount of $150,795 and $130,787, respectively, was in a bank account restricted for the payment of principal and interest with respect to the Industrial Revenue Bonds (see Note 6) due on February 1 of the following fiscal year.

THE PENN TRAFFIC COMPANY (JAN)

	1987	1986
	(in thousands)	
Current Assets:		
Cash and short-term investments (Note 2)	$ 9,123	$ 5,227
Accounts and notes receivable (less allowance for doubtful accounts of $191,000 and $90,000, respectively)	8,929	8,460
Inventories	32,859	26,533
Prepaid expenses	1,512	703
	52,423	40,923

Note 2: Cash and Short-term Investments

Cash and short-term investments consisted of the following:

	Jan. 31, 1987	Feb. 1, 1986
	(in thousands)	
Cash on hand and demand deposits	$ 554	$1,809
Temporary cash investments	8,569	3,418
	$9,123	$5,227

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

The Company does not maintain any significant formal or informal compensating balance arrangements with financial institutions.

THE PERKIN-ELMER CORPORATION (JUL)

	1986	1985
	($000)	
Current Assets		
Cash and short-term investments	$ 188,252	$114,444
Accounts receivable, less allowance for doubtful accounts of $3,323 ($2,379-1985)	356,705	306,889
Inventories, at lower of cost or market	429,184	384,418
Prepaid expenses and other current assets	58,745	40,638
Total current assets	1,032,886	846,389

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (In Part): Accounting Policies and Practices

Cash, Short-term Investments, and Marketable Securities. Time deposits included in cash at July 31, 1986 and 1985 were $66,109,000 and $59,052,000, respectively. Short-term investments (1986-$29,078,000; 1985-$26,586,000) and marketable securities are recorded at cost which approximates market.

TANDY CORPORATION (JUN)

	1986	1985
	(in thousands)	
Current assets:		
Cash and short-term investments	$ 273,634	$ 83,150
Accounts and notes receivable, less allowance for doubtful accounts	116,166	98,429
Inventories	982,881	1,026,879
Other current assets	46,681	56,795
Total current assets	1,419,362	1,265,253

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Current Assets (In Part)

Cash and short-term investments were $273,634,000 at June 30, 1986 compared to $83,150,000 at June 30, 1985. Included in cash and short-term investments at June 30, 1986 was $100,044,000 to be used for payment of the subordinated debentures called for redemption on July 1, 1986.

Short-term investments are carried at cost, which approximates market value. The weighted average interest rate for the $222,000,000 of short-term investments at June 30, 1986 was approximately 6.9% compared to 7.1% for the $17,900,000 invested at June 30, 1985.

MARKETABLE SECURITIES IN CURRENT ASSETS

Chapter 3A of *ARB No. 43* states in part:

9. The amounts at which various current assets are carried do not always represent their present realizable cash values. . . . However, practice varies with respect to the carrying basis for current assets such as marketable securities and inventories. In the case of marketable securities where market value is less than cost by a substantial amount and it is evident that the decline in market value is not due to a mere temporary condition, the amount to be included as a current asset should not exceed the market value . . . It is important that the amounts at which current assets are stated be supplemented by information which reveals, for temporary investments, their market value at the balance sheet date . . .

Statement of Financial Accounting Standards No. 12 requires that marketable equity securities (as defined in the Statement) be carried at lower of aggregate cost or market value. *SFAS No. 12* also specifies information which the financial statements should disclose about marketable equity securities.

Table 2-4 shows the valuation bases at which marketable securities are included in the balance sheet. Examples of marketable security presentations follow.

Cost Which Approximates Market

AMERICAN CYANAMID COMPANY (DEC)

	1986	1985
	($ millions)	
Current Assets		
Cash	$ 37.9	$ 50.4
Marketable securities and time deposits, at cost (approximates market)	408.5	501.7
Accounts receivable, less allowance for doubtful accounts of $27.7 in 1986 and $21.5 in 1985	864.3	801.8
Inventories	580.5	606.6
Total Current Assets	1,891.2	1,960.5

AMOCO CORPORATION (DEC)

	1986	1985
	($ millions)	
Current assets		
Cash	$ 116	$ 157
U.S. Government and other marketable securities—at cost, which approximates market	325	834
Accounts and notes receivable (less allowances of $89 on December 31, 1986, and $80 on December 31, 1985)	2,554	3,226
Inventories	865	940
Prepaid expenses and income taxes	340	385
	4,200	5,542

TABLE 2-4: MARKETABLE SECURITIES—VALUATION

	Number of Companies			
	1986	1985	1984	1983
Cost				
Approximates market	259	253	252	255
No reference to market ..	18	15	17	21
Market value disclosed ..	2	6	6	3
Lower of cost or market	43	40	40	34
Market value	3	5	5	3

ANDERSON, CLAYTON & CO. (JUN)

	1986	1985
	(in thousands)	
Current assets:		
Cash	$ 2,386	$ 3,208
Marketable securities at cost which approximates market (Note 7)	169,579	35,479

Note 7. Marketable securities consists of:

(in thousands of dollars)	June 30	
	1986	1985
Commercial paper	$109,565	$15,456
Eurodollar deposits	10,014	20,023
Repurchase agreements	50,000	—
	$169,579	$35,479

BOWNE & CO., INC. (OCT)

	1986	1985
Current assets:		
Cash and temporary cash investments	$29,009,000	$15,306,000
Marketable securities	4,464,000	4,210,000
Trade accounts receivable, less allowance for doubtful accounts $2,474,000 (1986) and $1,962,000 (1985)	45,244,000	35,579,000
Inventories	14,563,000	9,273,000
Prepaid expenses and sundry receivables	3,018,000	1,373,000
Total current assets	96,298,000	65,741,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3: Cash and Temporary Cash Investments

The Company's policy is to invest cash in excess of operating requirements in income producing investments. Investments of $22,689,000 (1986) and $6,912,000 (1985) include certificates of deposit, commercial paper and money market accounts stated at cost which approximates market.

Note 4: Marketable Securities

Marketable securities include equity securities, notes and bonds. Securities which the company intends to hold for a limited period are classified as current marketable securities. These securities are held primarily for their interest or dividend yields and carried at the lower of cost or market. Realized and unrealized gains and losses were immaterial in each year. Realized gains and losses are determined on a specific identification basis.

Other marketable securities, classified as non-current and carried at cost, had a market value of $1,230,000 (1986) and $2,435,000 (1985). Unrealized gains and losses were immaterial in each year. Realized gains and losses determined on a specific identification basis amounted to $(147,000) (1986), $1,330,000 (1985) and $146,000 (1984). The gross proceeds from the sales of other marketable securities were $1,183,000 (1986), $15,848,000 (1985) and $5,654,000 (1984).

FANSTEEL INC. (DEC)

	1986	1985
Current Assets		
Cash	$ 1,396,453	$ 1,943,314
Securities purchased under agreement to resell	16,807,000	10,103,515
Accounts receivable, less allowance of $371,000 in 1986 and $497,000 in 1985	30,066,532	31,376,664
Inventories		
Raw materials and supplies	19,256,513	23,604,437
Work-in-process	35,757,050	33,889,945
Finished goods	10,135,876	12,688,785
	65,149,439	70,183,167
Less Allowance to state certain inventories at LIFO cost	26,840,844	29,566,524
Total inventories	38,308,595	40,616,643
Prepaid expenses	741,968	717,280
Total Current Assets	87,320,548	84,757,416

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Significant Accounting Policies

Securities purchased under agreement to resell are carried at cost plus accrued interest, which approximates market value.

3. Securities Purchased Under Agreement to Resell

On December 31, 1986 the Company purchased $16,807,000 of U.S. government securities under agreements to resell on January 2, 1987. Due to the short-term nature of the agreements, the Company did not take possession of said securities.

FLEETWOOD ENTERPRISES, INC. (APR)

	1986	1985
	(in thousands)	
Current assets:		
Cash	$ 18,282	$ 13,771
Temporary investments	105,684	121,627
Receivables	74,695	76,242
Inventories—		
Raw materials	57,719	46,234
Work in process and finished products	32,579	29,559
Deferred tax benefits	16,790	13,503
Other current assets	9,727	6,625
Total current assets	315,476	307,561

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Cash and Temporary Investments

The Company has a cash management program which provides for the investment of excess cash balances primarily in short-term money market instruments. Temporary investments consist of time deposits and non-equity type investments stated at cost, which approximates market. Substantially all of such investments either mature within the next year or have the characteristics of short-term investments.

LIZ CLAIBORNE, INC. (DEC)

	1986	1985
	(in thousands)	
Current Assets:		
Cash	$ 2,628	$ 955
Short-term investments, net of $5,847 borrowed in 1985 (Notes 1 and 5)	101,441	55,225

Note 1 (In Part): Significant Accounting Policies

Short-term investments

Investments are stated at cost, which approximates market value. Gains and losses on investment transactions are recognized based on trade dates using the first-in, first-out cost method. Dividends are recorded in income based on ex-dividend dates. Interest on short-term investments is recognized when earned.

Note 5: Short-term investments

Short-term investments included:

	(Dollars in thousands) Dec. 27, 1986	Dec. 28, 1985
United States treasury bills	$ 95,805	$ —
Commercial paper	—	51,885
Securities and brokerage accounts, net of options written against securities	5,390	9,187
Receivable (margin borrowing) on brokerage accounts	246	(5,847)
	$101,441	$55,225

The above is stated at cost, which approximates market in both years. Realized capital gains and losses were immaterial in both years.

INTEL CORPORATION (DEC)

	1986	1985
	(Thousands)	
Current assets:		
Cash and temporary cash investments	$ 74,528	$ 187,911
Short-term investments (at cost, which approximates market)	298,696	173,233
Accounts receivable, net of allowance for doubtful accounts of $4,498 ($4,656 in 1985)	298,378	305,102
Inventories	197,931	170,758
Prepaid taxes on income	105,298	88,849
Refundable income taxes	—	58,655
Other current assets	48,826	39,402
Total current assets	1,023,657	1,023,910

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Investments

Investments consist of marketable securities, Eurodollar deposits, precious metals which are hedged by forward contracts, unrealized gains on long-term currency swaps, and investments under repurchase agreements. Investments denominated in foreign currencies are hedged by forward contracts. Investments with maturities of greater than one fiscal year and restricted investments are classified as long-term. In addition, the Company has entered into contractual agreements (interest rate swaps) to hedge certain investment positions against fluctuations in interest rates. The Company records net interest expense or net interest income related to these transactions on a monthly basis.

TASTY BAKING COMPANY (DEC)

	1986	1985
Current assets:		
Cash	$ 1,769,228	$ 1,496,048
Marketable securities at cost which approximates market value	12,800,000	700,000
Receivables, less allowance of $891,102 and $871,757, respectively	25,400,917	26,652,528
Inventories	15,904,613	15,495,956
Prepayments and other	591,239	531,175
Total current assets	56,465,997	44,875,707

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. Marketable Securities:

Marketable securities consist of the following:

	Dec. 27, 1986	Dec. 28, 1985
Auction preferred stocks	$ 9,200,000	$ —
Municipal securities	3,600,000	—
Repurchase agreements	—	700,000
	$12,800,000	$700,000

Marketable securities are stated at cost which approximates market value at December 27, 1986 and December

28, 1985. Net realized gains on the sale of marketable securities were immaterial in 1986 and 1985.

KELLY SERVICES, INC. (DEC)

	1986	1985
	(in thousands)	
Current Assets:		
Cash and short-term investments	$ 65,662	$ 48,120
Accounts receivable, less allowances of $1,745 and $1,685, respectively	112,974	99,051
Prepaid expenses and other current assets	6,241	4,738
Total current assets	184,877	151,909

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In thousands)

Summary of Significant Accounting Policies (In Part):

Short-term investments of $64,488 in 1986 and $47,240 in 1985, are stated at cost and accrued interest, which approximates market.

TULTEX CORPORATION (NOV)

	1986	1985
	(in thousands)	
Current assets:		
Cash	$ 1,392	$ 230
Temporary investments, at cost which approximates market	13,500	4,000
Accounts receivable, less allowance for doubtful accounts of $943,000 (1986) and $903,000 (1985)	74,634	67,908
Inventories	42,583	46,304
Prepaid expenses	1,461	1,061
Total current assets	133,570	119,503

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (In Part): Accounting Policies

Temporary investments:

Temporary investments include overnight repurchase agreements and municipal securities.

Lower of Cost or Market

ANCHOR HOCKING CORPORATION (DEC)

	1986	1985
	(in thousands)	
Current assets:		
Cash and cash equivalents	$ 7,670	$ 6,887
Short-term investment	1,604	1,359
Accounts receivable, less allowance for doubtful items of $4,300 (1985-$4,583)	98,180	98,608
Inventories:		
Raw materials and manufacturing supplies	33,140	33,563
Semi-finished and finished products	102,769	92,686
Deferred income taxes	8,334	8,970
Other current assets	8,861	8,769
Total current assets	260,558	250,842

NOTES TO FINANCIAL STATEMENTS

Note 1 (In Part): Significant Accounting Policies

Short-term Investment—Short-term investment, which consists of common shares of Towle Manufacturing Company, is valued at the lower of cost or market.

Note 3 (In Part): Unusual Items, Investment and Other Assets

During 1982, the Company acquired 800,700 shares of Towle Manufacturing Company (Towle) common stock for $18,166,000. On October 11, 1985, Towle announced that substantial losses were expected for 1985 and that certain businesses or assets might be sold to reduce debt. In view of the announcement and the depressed market value of the stock, the Company initiated a thorough evaluation of all available options for maximizing the realizable value of this investment. As a result of this evaluation, the Company elected to dispose of this investment and reduced the cost to approximate market value at December 31, 1985. Accordingly, a $13,362,000 ($1.28 per share) charge to income was recorded in the fourth quarter of 1985 which under generally accepted accounting principles established a new cost of $6.00 per share for this investment at December 31, 1985. The Company sold 15,000 shares in December, 1985. Short-term investment and investment and other assets in the 1985 Consolidated Balance Sheet include $1,359,000 and $3,355,000, respectively, for the investment in Towle.

In March 1986, Towle filed for protection under Chapter 11 of the United States bankruptcy code. The Company, during 1986, transferred the long-term portion of its investment in Towle to short-term investment. As a result of this transfer and related periodic adjustments to income for the decline in market value of Towle shares, the Company recognized charges to income of $2,866,000. The Company sold 110,125 shares in 1986. The carrying amount of this short-term investment at December 31, 1986 was $1,604,000, which reflects 675,575 shares at $2.375 per share.

Dividends received from Towle, included in other income, amounted to $264,000 in 1984. Towle did not declare a dividend in 1985 or 1986.

HUGHES SUPPLY, INC. (JAN)

	1987	1986
	(in thousands)	
Current Assets:		
Cash and short-term investments	$ 6,613	$ 1,601
Accounts receivable, less allowance for losses of $1,106 and $1,322	48,505	44,009
Refundable income taxes	88	438
Deferred income taxes	408	—
Inventories	64,490	53,613
Prepaid expenses	3,423	2,627
Total current assets	123,527	102,288

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Short-Term Investments:

Marketable equity securities are carried at the lower of cost or market and other investments are carried at cost, which approximates market. Gains and losses are determined by specific identification.

Note 3: Short-Term Investments

Consolidated short-term investments consist of the following (in thousands):

	January 30, 1987	January 31, 1986
Money market funds, at cost	$2,582	$ —
Repurchase agreements, at cost	1,217	680
Marketable equity securities, at lower of cost or market	2,403	275
	$6,202	$955

Marketable equity securities are stated at market in 1987 (cost was $2,483,000), and at cost in 1986 (market was $312,000). At January 30, 1987, gross unrealized gains and losses were approximately $65,000 and $145,000, respectively. Net realized gains included in income were $100,000 in fiscal 1987 (none in fiscal 1986 and 1985). Net unrealized losses included in income were $80,000 in fiscal 1987 (none in fiscal 1986 and 1985). The aggregate unrealized loss in the marketable equity securities portfolio has substantially reversed through March 16, 1987.

MASCO CORPORATION (DEC)

	1986	1985
Current Assets:		
Cash and cash investments	$ 71,410,000	$ 94,530,000
Marketable securities	142,000,000	218,900,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Marketable Securities

Marketable securities (principally equity securities and U.S. Government securities) are carried at the lower of cost or market. At December 31, 1986, the cost was $142 million with a market value of $150 million; at December 31, 1985, cost approximated market value.

Included in marketable securities are equity securities, including preferred stocks, with a cost and a market value of $119.7 million and $126.3 million, respectively, at December 31, 1986, and a cost which approximates market value of $164 million at December 31, 1985. At December 31, 1986, unrealized gains approximated $9.8 million, and unrealized losses approximated $3.2 million.

Realized gains and losses on sales of marketable securities are determined on a specific-identification basis. Sales of marketable securities resulted in net realized gains of $14.1 million in 1986, $18.6 million in 1985 and $3.3 million in 1984.

THE PITTSTON COMPANY (DEC)

	1986	1985
	(in thousands)	
Current Assets:		
Cash	$ 9,176	5,068
Short-term investments (Note 2)	6,294	5,219
Accounts receivable:		
Trade	160,854	146,479
Other	15,152	7,875
	176,006	154,354
Less estimated amount uncollectible	5,762	4,626
	170,244	149,728
Inventories:		
Coal	31,039	45,334
Other	14,558	12,421
	45,597	57,755
Prepaid expenses	11,913	36,049
Total Current Assets	243,224	253,819

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Short-Term Investments:

Short-term investments are carried at the lower of cost or market value.

2. *Short-Term Investments*

Consist of the following:

	As of December 31 1986	1985
	(in thousands)	
Canadian Treasury Bills	$5,381	4,954
Certificates of deposit and time deposits	901	253
Other	12	12
Total Short-Term Investments	$6,294	5,219

SPECTRUM CONTROL, INC. (NOV)

	1986	1985
Current Assets		
Cash	$ 465,168	$ 169,251
Funds held by trustee	8,077,558	—
Marketable equity securities (Notes A and C)	6,077,723	—
Accounts receivable, net of provision for doubtful accounts of $176,000 in 1986 and 1985	5,492,921	4,249,561
Dividends receivable	39,414	77,855
Notes receivable	—	10,000
Inventories		
Finished products	1,365,544	1,048,407
Work in process	5,044,608	3,755,047
Raw materials	3,933,056	2,876,523
Claim for refund of federal income taxes	18,031	36,118
Prepaid federal and state income taxes	—	64,359
Other prepaid items	198,160	32,278
Total current assets	30,712,183	12,319,399

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Investments

Marketable equity securities, consisting of common and preferred stocks, are carried at the lower of aggregate cost or market. Investment in an unconsolidated partnership representing 66⅔% equity ownership is accounted for under the equity method, wherein the Company's share of its earnings or losses is included in net income. Other investments are carried at cost.

Note C. Investments in Marketable Equity Securities

At November 30, 1986 and 1985, aggregate cost and market value, and gross unrealized gains and losses for marketable equity securities are as follows:

	1986	1985
Current		
Aggregate cost	$6,077,723	$ —
Aggregate market value	6,419,955	—
Gross unrealized gains	423,307	—
Gross unrealized losses	81,075	—
Noncurrent		
Aggregate cost	3,625,064	7,665,356
Aggregate market value	3,636,075	7,642,171
Gross unrealized gains	205,650	242,879
Gross unrealized losses	194,639	266,064

At November 30, 1984, to reduce the carrying amount of the marketable equity securities to market value, the valuation allowance included in stockholders' equity was increased by $639,468. At November 30, 1986 and 1985, the valuation allowance was decreased by $23,185 and $1,341,997, respectively.

Net realized gains of $1,133,327 and net realized losses of $53,238 and $52,282 on the sale of marketable equity securities were included in the determination of net income for the years ended November 30, 1986, 1985 and 1984, respectively. The cost of the securities sold was determined on a first-in, first-out basis.

WINNEBAGO INDUSTRIES, INC. (AUG)

	1986	1985
	(in thousands)	
Current Assets		
Cash and marketable securities	$ 52,257	$ 29,944
Receivables, less allowance for doubtful accounts	21,322	21,162
Income tax refund receivable	—	3,500
Inventories	54,991	72,876
Prepaid expenses	2,732	3,087
Deferred income taxes	5,531	3,818
Total current assets	136,833	134,387

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Marketable Securities. Marketable equity securities are carried at the lower of cost or market and marketable nonequity securities are carried at cost. Net realized gains and losses on security transactions are determined on the specific identification cost basis.

Note 2. Marketable Securities

Included in marketable securities at August 30, 1986 and August 31, 1985 were equity securities having an aggregate cost of $19,450,000 and $6,595,000, respectively, and an aggregate market value of $18,898,000 and $6,531,000, respectively. Marketable securities also include non-equity securities at an aggregate cost of $32,603,000 and $22,460,000 (which approximates market) at August 30, 1986 and August 31, 1985, respectively.

At August 30, 1986 and August 31, 1985, unrealized gains totalled $338,000 and $204,000 and unrealized losses totalled $888,000 and $268,000, respectively.

RECEIVABLES

Table 2-5 summarizes both the descriptive titles used in the balance sheet to describe trade receivables and the type of receivables, other than trade receivables, which the survey companies most frequently showed as current assets.

Not listed in Table 2-5 are 22 receivables relating to pension plan terminations, leases, insurance claims, and other described transactions which occur less frequently than those listed on Table 2-5. Examples of receivables shown as current assets follow.

Income Tax Refund Claims

CHAMPION SPARK PLUG COMPANY (DEC)

	1986	1985
	(in millions)	
Current assets:		
Cash and cash equivalents	$ 23.1	$ 10.7
Refundable federal income taxes	9.0	7.6
Accounts and notes receivable, less allowances of $6.5 and $5.2	168.9	164.2
Inventories	224.3	241.7
Prepaid expenses, including deferred federal and foreign income taxes of $4.2 in 1986	11.4	19.1
Total current assets	436.7	443.3

RANCO INCORPORATED (SEP)

	1986	1985
Current assets:		
Cash	$ 2,126,000	$ 2,013,000
Accounts receivable, net of allowances for doubtful accounts of $878,000 in 1986 and $650,000 in 1985	36,039,000	31,445,000
Income tax refund	2,022,000	690,000
Inventories	27,497,000	34,196,000
Prepaid expenses and other current assets	4,562,000	3,478,000
Total Current Assets	72,246,000	71,822,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7 (In Part): Taxes on Income

The Internal Revenue Service (IRS) is currently examining the Company's federal tax returns for fiscal years 1976 through 1985. The Company has reached a tentative agreement with the IRS on years 1976 through 1980, and this agreement has been sent to the Joint Committee of Congress for final approval. The Company expects to obtain Joint Committee approval, realize the refund it claimed and also receive interest income. The Company will not accrue interest on its refund claim until such time as a final settlement is reached. Management believes that any assessments which may ultimately result from the audit of years 1981 through 1985 will not have a material effect on the financial position or results of operations of the Company.

TABLE 2-5: CURRENT RECEIVABLES

	1986	1985	1984	1983
Trade Receivable Captions				
Accounts receivable	237	222	210	207
Receivables	150	168	171	162
Accounts and notes receivable	102	106	115	118
Trade accounts receivable	111	104	104	113
Total Companies	**600**	**600**	**600**	**600**
Receivables Other Than Trade Receivables	**Number of Companies**			
Tax refund claims	67	84	73	91
Contracts	51	48	44	44
Investees	27	34	38	35
Installment notes or accounts	14	18	21	20
Sale of Assets	13	11	16	9
Employees	7	6	9	10

Contracts

DRAVO CORPORATION (DEC)

	1986	1985
	(in thousands)	
Current assets:		
Cash	$ 6,461	$ 8,432
Marketable securities—at cost (approximates market)	54,727	23,154
Accounts and notes receivable	134,760	190,402
Inventories and costs on contracts in progress, net of billings of $643,000 in 1985	46,008	44,627
Advances to and equity in joint ventures	3,696	1,440
Net deferred income tax benefit	11,802	17,501
Net assets of discontinued businesses	55,120	—
Other current assets	5,868	8,502
Total current assets	318,442	294,058

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 7: Accounts and Notes Receivable

Receivables at December 31 include:

(In thousands)	1986	1985
Trade receivables, net of allowance for uncollectibles of $4.7 million in 1986 and $8.3 million in 1985	$ 30,690	$ 83,517
Engineering and construction contract receivables, net of allowance for uncollectibles of $3.7 million in 1986 and $2.3 million in 1985	88,389	79,108
Receivables, unconsolidated affiliates	6,817	19,754
Retainage:		
Due after contract completion	11,513	11,262
Deduct: Billings on contracts in progress	2,649	3,239
Net retainage	8,864	8,023
Total	$134,760	$190,402

Net retainage includes $1.5 million in 1986 and $2.0 million in 1985 estimated to be collectible after one year.

MORTON THIOKOL, INC. (JUN)

	1986	1985
	(in millions)	
Current Assets		
Cash and short-term investments	$ 46.1	$ 93.5
Receivables	316.6	275.3
Inventories	221.5	200.9
Prepaid expenses	12.4	13.1
Total Current Assets	596.6	582.8

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Sales and Receivables

Sales to commercial customers are recorded upon shipment of products. Sales of the Aerospace Group segment under cost-type contracts are recognized as costs are incurred and include a proportion of the earnings expected to be realized in the ratio that costs incurred bear to estimated total costs, while sales under fixed-price-type contracts are recognized generally when deliveries are made or work is performed. Cost or performance incentives are incorporated in certain contracts and are recognized when awards are earned or penalties are incurred. Provisions for estimated losses on contracts are recorded when identified.

The components of receivables are as follows:

	June 30	
(in millions)	1986	1985
Receivables under U.S. Government contracts and subcontracts:		
Amounts billed	$ 47.3	$ 42.7
Recoverable costs and accrued profits not billed	32.3	33.1
Amounts withheld, due upon completion of contracts	86.8	55.1
Total receivables under U.S. Government contracts and subcontracts	166.4	130.9
Commercial receivables	148.4	143.5
Less allowances for uncollectable receivables	(6.9)	(6.4)
Other current receivables	8.7	7.3
	$316.6	$275.3

SPARTON CORPORATION (JUN)

	1986	1985
Current assets:		
Cash and short-term investments	$ 4,993,970	$ 3,107,157
Income taxes recoverable	—	3,627,713
Accounts receivable:		
Trade, less allowance of $181,000 ($192,000 in 1985) for doubtful accounts (Note 3).	12,732,921	14,885,998
U.S. and Canadian governments	8,865,244	5,112,572
Inventories	48,406,868	32,001,893
Prepaid expenses	1,915,879	1,528,530
Total current assets	76,915,882	60,263,863

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. Long-term Contracts

Trade accounts receivable include unbilled costs under reimbursement type contracts of $1,043,000 and $278,000, and retainage of $85,000 and $225,000 at June 30, 1986 and 1985, respectively.

Inventories include costs related to long-term contracts, principally with the United States and Canadian governments, of approximately $64,039,000 and $84,728,000 at June 30, 1986 and 1985, respectively, reduced by progress billings of approximately $27,735,000 and $63,829,000, respectively.

UNIVERSAL VOLTRONICS CORP. (JUN)

	1986	1985
Current Assets:		
Cash	$ 208,320	$ 192,931
Accounts receivable—trade, less allowance of $37,000 in 1986; $50,000 in 1985	1,345,253	1,562,016
Costs and estimated earnings in excess of billings on uncompleted contracts	621,009	129,500
Inventories:		
Raw materials	889,783	1,111,737
Work in process and manufactured parts	921,621	1,028,480
Finished goods	—	87,617
	1,811,404	2,227,834
Equipment held for resale	—	78,000
Other current assets	95,641	68,206
Total Current Assets	4,081,627	4,258,487

NOTES TO FINANCIAL STATEMENTS

4. Accounts Receivable

Accounts receivable-trade consist of the following:

	1986	1985
Progress billings and amounts due on completed long term contracts	$ 134,445	$ 164,984
Other trade receivables	1,247,808	1,447,032
	1,382,253	1,612,016
Less: allowances	37,000	50,000
	$1,345,253	$1,562,016

Receivables from Investees/Affiliates

PITNEY BOWES INC. (DEC)

	1986	1985
	(in thousands)	
Current assets:		
Cash	$ 15,656	$ 17,004
Short-term investments, at cost which approximates market	52,569	45,753
Accounts receivable, less allowances: 1986, $15,799; 1985, $13,935	321,667	307,340
Receivables from finance subsidiaries	42,804	34,334
Inventories	341,740	289,900
Other current assets and prepayments	17,148	20,171
Total current assets	791,584	714,502

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

14. Finance Operations

The company has three wholly owned, unconsolidated finance subsidiaries which are engaged in lease financing of the company's business equipment products in the U.S., the U.K. and Germany. The company's consolidated subsidiary, Pitney Bowes of Canada, also has a financing division through which it makes lease financing available to its business equipment customers. Condensed financial data for the unconsolidated finance subsidiaries follows:

Condensed balance sheet at December 31 (in thousands)	1986	1985
Cash and short-term investments	$ 7,527	$ 2,787
Receivables, net, including amounts due beyond one year	1,494,466	1,151,416
Other assets	17,941	8,431
Total assets	$1,519,934	$1,162,634
Accounts payable to affiliated companies	$ 42,804	$ 34,334
Accrued expenses and other liabilities	72,542	105,045
Deferred taxes	137,580	112,785
Senior notes payable	1,017,643	714,090
Subordinated debt due Pitney Bowes	28,799	16,680
Subordinated debt	15,000	15,000
Stockholders' equity	205,566	164,700
Total liabilities and stockholders' equity	$1,519,934	$1,162,634

DEERE & COMPANY (OCT)

	1986	1985
	(in thousands)	
Current Assets		
Cash	$ 69,703	$ 35,402
Short-term investments—at cost which approximates market value	111,954	52,421
Refundable income taxes	6,699	5,266
Receivables from unconsolidated subsidiaries and affliates	210,936	144,746
Trade receivables:		
Dealer accounts and notes	2,112,097	2,695,460
Retail notes (less deferred finance income of $1,543 in 1986 and $20,402 in 1985)	22,376	113,596
Total	2,134,473	2,809,056
Less allowances	55,155	59,663
Trade receivables—net	2,079,318	2,749,393
Inventories	482,630	447,370
Total current assets	2,961,240	3,434,598

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Receivables from Unconsolidated Subsidiaries and Affiliates

Receivables from unconsolidated subsidiaries and affiliates totaled $211 million at October 31, 1986 compared with $145 million at October 31, 1985. Approximately three-fourths of these receivables in 1986 and one-half in 1985 represent short-term loans to the retail finance subsidiaries, which fluctuate based upon company and external availability of funds. These short-term loans to the retail finance subsidiaries bear interest at rates approximating short-term corporate borrowing rates. The remaining balances represent normal non-interest bearing intercompany receivables.

MACK TRUCKS, INC. (DEC)

	1986	1985
	(in thousands)	
Current Assets:		
Cash and short-term investments	$ 46,565	$ 33,036
Refundable taxes	19,721	6,754
Trade receivables:		
Accounts	102,212	84,384
Affiliated companies—Note 2	1,157	920
Installment notes and contracts	625	510
Total	103,994	85,814
Less allowance for uncollectible accounts	8,194	11,579
Trade receivables—net	95,800	74,235
Receivable from unconsolidated financial subsidiaries	22,106	39,122
Inventories:		
Finished units (new and used)	163,732	211,341
Service parts	121,886	123,306
Raw materials and work in process	94,594	114,643
Total inventories	380,212	449,290
Deferred income taxes	42,045	45,035
Prepaid expenses	3,257	3,770
Total current assets	609,706	651,242

Note 2 (In Part): Relationship with Renault

As of December 31, 1986, Regie Nationale des Usines Renault ("Renault"), through its wholly-owned subsidiary, Renault Holding, S.A. ("Renault Holding"), owned 12,350,000 shares of the Company. Renault could, after exercise of all of the rights under agreements described below, own more than 50% of the outstanding shares.

* * * * *

During the three years ended December 31, 1986, the following transactions by the Company, and the year-end balances between the Company and Renault, have been reflected in the financial statements:

	1986	1985	1984
		in thousands	
Purchases of medium-duty trucks and service parts	$144,372	$119,627	$140,700
Interest earned on investments	$ 326	$ 167	$ 2,108
Sales of engines and parts	$ 866	$ 1,474	$ 1,585
Short-term investments	$ —	$ —	$ 20,000
Accounts receivable (including interest on investments)	$ 1,157	$ 920	$ 1,740
Trade accounts payable	$ 25,352	$ 16,326	$ 27,471

TENNECO INC. (DEC)

	1986	1985
	(Millions)	
Current Assets:		
Cash and temporary cash investments	$ 111	$ 81
Notes and accounts receivable—		
Customers	922	1,113
Affiliated companies	45	77
Other	473	380
Allowance for doubtful accounts	(56)	(50)
Inventories—		
Raw materials, work in process and finished products	2,072	1,943
Materials and supplies	287	207
Gas stored underground	109	176
Transportation and exchange gas receivables	186	160
Prepayments and other	342	296
	4,491	4,383

Sale of Assets

SUN COMPANY, INC. (DEC)

	1986	1985
	(Millions)	
Current Assets		
Cash (including time deposits and certificates of deposit of $714 in 1986 and $1,478 in 1985)	$ 737	$1,501
Short-term investments, at cost which approximates market	932	872
Notes receivable from divestments (Note 1)	354	—
Accounts and other notes receivable, net of allowances of $43 in 1986 and $25 in 1985	845	1,364
Inventories	421	594
Total Current Assets	3,289	4,331

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Changes in Business

Other Divestments

In September 1986, as part of a plan to divest its motor freight transportation business, Sun sold Sun Carriers, Inc. (Sun Carriers), a wholly owned subsidiary which, through its subsidiaries, conducted the major portion of that business. Sun still retains ownership of certain small motor freight transportation subsidiaries which it intends to divest. The proceeds from the divestment of Sun Carriers included a $155 million interest-bearing promissory note which was paid on January 7, 1987. Sun's motor freight transportation business had revenues and income of $647 and $3 million for the year ended December 31, 1985 and $506 and $13 million for the nine months ended September 30, 1986, respectively.

In October 1986, Sun sold all of the outstanding shares of common stock of Sun Distributors, Inc. (Sun Distributors) which, through its subsidiaries, conducted all of Sun's industrial products distribution business. Proceeds from the sale of Sun Distributors consisted of a $199 million interest-bearing promissory note which was paid on January 5, 1987. Sun Distributors had revenues and income of $467 and $17 million for the year ended December 31, 1985 and $348 and $11 million for the nine months ended September 30, 1986, respectively.

Installment Receivables

INSILCO CORPORATION (DEC)

	1986	1985
	(in thousands)	
Current Assets		
Cash, including time deposits of $9,500 (1985-$3,395)	$ 15,160	$ 36,788
Marketable securities, at cost, which approximate market	3,062	175
Trade receivables, less allowance for doubtful accounts of $1,654 (1985-$1,759)	78,468	75,002
Miles Home Ownership Plan receivables, less allowance for doubtful accounts of $8,447 (1985-$161)	54,318	5,014
Other receivables	25,963	21,750
Inventories		
Raw materials and supplies	36,017	48,184
Work in process	20,446	21,112
Finished goods	38,746	51,075
	95,209	120,371
Deferred income tax benefit	181	3,483
Prepaid expenses	7,542	6,252
Total current assets	279,903	268,835

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4 (In Part): Miles Home Ownership Plan Receivables and Investment in Unconsolidated Finance Subsidiary

The Miles Home Ownership Plan receivables generally mature in 12 to 36 months and bear interest rates ranging from 6 percent to 12.9 percent annually. Under certain circumstances the contracts may be extended to allow customers additional time to complete construction and arrange conventional financing.

Miles Home Ownership Plan receivables, including those which mature after one year, are included in current assets and are comprised as follows (in thousands of dollars):

December 31	1986	1985
Miles Home Ownership Plan:		
Collectible within one year	$19,616	$5,175
Collectible after one year	43,149	—
	62,765	5,175
Allowance for doubtful accounts	(8,447)	(161)
	$54,318	$5,014

Through the end of 1985, Miles Finance Company, Inc., a wholly-owned subsidiary, financed Miles Home Ownership Plan receivables for Miles Homes. This practice was changed in 1986 to continue favorable deferred tax treatment. Accordingly, all receivables originating after December 31, 1985 have been transferred to the accounts of Miles Homes and are consolidated with the results of Insilco Corporation. Although not required by any agreement, as a matter of practice Miles Homes has purchased all uncollectible receivables from the finance company for final settlement. Consistent with this practice the allowance for doubtful accounts carried by the finance company was transferred to Miles Homes in 1986.

Miles Homes pays a maintenance fee to the finance subsidiary at a rate to cover expenses, including bad debt expense, if any, in order to assure that the earnings of the finance company meet certain requirements of an operating agreement between the companies. That portion of the finance subsidiary's results of operations that are attributable to external sources have been included in consolidated other income (expense). All intercompany income and expense, including income maintenance fees, have been eliminated in the consolidated financial statements.

Employee

BROWNING-FERRIS INDUSTRIES, INC. (SEP)

	1986	1985
	(in thousands)	
Current Assets:		
Cash	$ 4,968	$ 6,842
Short-term investments	28,470	15,835
Investments, at cost, pledged, current portion	11,015	9,217
Receivables—		
Trade, net of allowances of $6,087 and $5,499 for doubtful accounts	186,742	162,319
Employees	423	753
Other	11,332	7,309
Inventories	11,608	11,092
Prepayments	21,573	9,526
Total current assets	$276,131	$222,893

Pension Plan Termination

FRUEHAUF CORPORATION (DEC)

	1986	1985
Current Assets:		
Cash	$ 58,946,341	$ 55,156,774
Money market investments—at cost	65,655,779	36,163,000
Trade receivables:		
Accounts receivable	313,970,543	302,097,330
Installment contracts	35,742,859	29,175,021
	$349,713,402	$331,272,351
Less allowance for doubtful accounts	7,000,000	7,000,000
	$342,713,402	$324,272,351
Inventories	342,931,000	345,132,552
Receivable from pension plan termination (Note J)	100,448,665	
Prepaid expenses	16,528,351	11,577,447
Refundable income taxes	8,965,000	7,360,000
Total current assets	$936,188,538	$779,662,124

Note J (In Part): Pensions and Postretirement Benefits

On December 31, 1986 Old Fruehauf terminated its Fruehauf and Kelsey-Hayes salaried pension plans covering substantially all domestic salaried employees. All benefits earned by employees under the terminated plans became fully vested. Plan assets will be used to purchase guaranteed annuity contracts, with the balance of assets reverting to the Corporation upon approval of the Pension Benefit Guaranty Corporation. A receivable and the related deferred income of $100,448,665 was recorded during the fourth quarter of 1986, representing the estimated excess assets which will revert to the Corporation. The terminated pension plans were replaced with essentially similar noncontributory plans.

Leases

DSC COMMUNICATIONS CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Receivables (In Part):

Receivables consisted of the following (in thousands):

	December 31, 1986	1985
Current:		
Trade*	$82,323	$71,640
Leases	3,152	6,595
Other	1,453	454
	86,928	78,689
Allowance for doubtful accounts	(3,378)	(4,374)
	$83,550	$74,315
Noncurrent:		
Leases	$ 7,129	$8,552
Notes	7,624	1,867
	14,753	10,419
Allowance for doubtful accounts	(3,155)	(2,264)
	$11,598	$ 8,155

*Includes $9,428 and $1,417 for 1986 and 1985, respectively, due from customers granted extended payment terms.

As of December 31, 1986 and 1985, notes receivable from officers and employees totalled $1,124,000 and $1,590,000, respectively, of which $159,000 and $204,000, respectively, was due within one year. Included in the notes receivable from officers and employees at December 31, 1986 and 1985 were $641,000 related to the issuance of the Company's convertible debentures (see "Common and Preferred Stock").

To meet market competition the Company began, during 1985, financing the sales of equipment to certain of its customers. The financing is principally structured in the form of sales-type leases, typically for a five-year term.

The components of the investment in sales-type leases are as follows (in thousands):

	December 31, 1986	1985
Total minimum lease payments receivable on leases in effect	$12,965	$17,618
Less: Unearned income	(2,684)	(2,471)
Investment	$10,281	$15,147
Investment classified as:		
Current	$ 3,152	$ 6,595
Noncurrent	7,129	8,552
	$10,281	$15,147

Future minimum lease payments to be received on sales-type leases are as follows (in thousands): 1987-$6,130; 1988-$2,483; 1989-$2,393; 1990-$1,572 and 1991-$387.

RECEIVABLES USED FOR FINANCING

Table 2-6 shows that the 1986 annual reports of 132 survey companies disclosed either the sale of receivables or the pledging of receivables as collateral. The reporting and disclosure requirements of *Statement of Financial Accounting Standards No. 77* apply to receivables sold with recourse after December 31, 1983.

Examples of disclosures made in the reports of the survey companies financing receivables follow. Examples of receivables sold with recourse are also presented in connection with Table 1-11.

TABLE 2-6: RECEIVABLES USED FOR FINANCING

	1986	1985	1984	1983
Receivables sold to finance subsidiary	56	60	59	57
Receivables sold to independent entity	47	46	38	39
Receivables used as collateral	35	26	29	34
Total References	**138**	**132**	**126**	**130**
Reference to receivable financing	132	125	118	121
No reference to receivable financing	468	475	482	479
Total Companies	**600**	**600**	**600**	**600**

Receivables Sold to Finance Subsidiary

THE GOODYEAR TIRE & RUBBER COMPANY (DEC)

NOTES TO FINANCIAL STATEMENTS

Accounts and Notes Receivable

(In millions)	1986	1985
Accounts and notes receivable	$1,689.6	$1,743.4
Notes receivable on properties sold	289.8	—
Less:		
Allowance for doubtful accounts	36.8	36.5
Receivables sold to Goodyear Financial Corporation, less 5% holdback	575.4	749.5
	$1,367.2	$ 957.4

The Company sold with limited recourse domestic accounts receivable and certain foreign accounts and notes receivable, subject to recourse provisions, totaling approximately $823.6 million, $338.3 million and $201.2 million for 1986, 1985 and 1984, respectively. At December 31, 1986 and 1985 the balances of the uncollected portion of these receivables were $170.3 million and $55.0 million, respectively.

Goodyear Financial Corporation (In Part)

Goodyear Financial Corporation (GFC), a wholly-owned subsidiary, purchased certain receivables from Goodyear and domestic subsidiaries. GFC's pretax income is included in the consolidated income statement as a reduction of interest expense, thus offsetting the interest charges from GFC included therein. Its provision for income taxes is included in the consolidated income tax provision.

The pretax income and income tax provision for GFC follow:

(In millions)	1986	1985	1984
Pretax income	$21.7	$13.4	$10.9
Income tax provision	10.0	6.1	5.0

The condensed balance sheet for GFC at December 31 follows:

(In millions)	1986	1985
Assets:		
Customer receivables purchased from The Goodyear Tire & Rubber Company and domestic subsidiaries without recourse	$605.7	$789.0
Receivables purchased from discontinued operations without recourse	65.1	—
Prepaid discount on commercial paper	—	2.8
	$670.8	$791.8
Liabilities and Equity:		
Notes payable and commercial paper	$407.4	$530.6
Bank term loans:		
9% due 1989	20.0	—
11% due 1986	—	50.0
5% holdback on receivables purchased, pending collections	30.3	39.5
5% holdback on receivables purchased from discontinued operations, pending collections	3.2	—
Accrued interest and taxes	3.5	4.0
Loans from an affiliated company	16.9	14.9
Equity of The Goodyear Tire & Rubber Company	189.5	152.8
	$670.8	$791.8

Refer to note on Credit Arrangements for discussion of GFC borrowing arrangements.

SARA LEE CORPORATION (JUN)

NOTES TO FINANCIAL STATEMENTS

(dollars in thousands except per share data)

Sara Lee Credit Corporation.

Financial data of Sara Lee Credit Corporation, a wholly owned unconsolidated subsidiary, follow:

	1986	1985	1984
Net assets			
Customer installment accounts, less allowances[1]	$98,769	$108,157	$95,552
Note receivable and short-term investments	—	—	71,631
Notes payable[2]	(74,787)	(68,722)	(101,791)
Other, net	(2,319)	(4,322)	(7,894)
	$21,663	$ 35,113	$57,498
Stockholder's investment			
Subordinated debt	$ —	$ —	$31,425
Equity investment	15,500	15,500	15,500
Retained earnings	6,163	19,613	10,573
	$21,663	$ 35,113	$57,498
Condensed statements of income			
Earnings on customer accounts	$23,075	$ 25,127	$22,553
Interest, net	(5,214)	(4,206)	(3,138)
Other expenses	(6,227)	(7,389)	(6,703)
Income taxes	(5,041)	(4,533)	(4,460)
Net income	$ 6,593	$ 8,999	$ 8,252

[1]The Credit Corporation purchases certain customer installment accounts without recourse from its parent at a price which is designed to produce earnings, as defined, of at least 1½ times the fixed charges of the Credit Corporation's debt.

[2]Maximum period-end borrowings were $74,787 in 1986, $132,857 in 1985, and $143,016 in 1984, while average borrowings during the respective years were $63,464, $108,277, and $128,368. The weighted average annual interest rate was 8.2% in 1986 compared with 9.6% in 1985 and 9.7% in 1984.

Receivables Sold to Independent Entities

BETHLEHEM STEEL CORPORATION (DEC)

	1986	1985
	(in millions)	
Current Assets:		
Cash and marketable securities	$ 463.1	$ 99.3
Receivables, less allowances of $18.5 and $20.0 (Note G)	375.7	508.8
Inventories	331.5	481.2
Other current assets	13.6	10.4
Total Current Assets	1,183.9	1,099.7

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

G (In Part): Commitments and Contingent Liabilities

We have two agreements with several banks which enable us to sell up to $200 million of accounts receivable, on a continuing basis, subject to limited recourse provisions. One of these programs with an available credit limit of $100.0 million will expire June 1, 1987. The other program expires in 1990. Average monthly proceeds from the sale of accounts receivable were $97.4 million and $98.5 million during 1986 and 1985. At December 31, 1986 and 1985, $87.5 million and $100.0 million of the receivables sold remained outstanding. In 1983, under a separate agreement, we sold a $21 million long-term note receivable at face value subject to certain recourse provisions. This note was outstanding at December 31, 1986.

FMC CORPORATION (DEC)

	1986	1985
	(In thousands)	
Current assets		
Cash	$ 9,554	$ 6,794
Marketable securities	174,647	155,124
Trade receivables, net (Note 3)	185,544	454,373
Inventories	428,290	348,396
Other current assets	167,417	96,818
Deferred income taxes	135,795	158,949
Total current assets	1,101,247	1,220,454

Note 3 Trade receivables

Trade receivables do not contain any material amounts representing unbilled receivables under long-term contracts, receivables collectible over a period in excess of one year, receivables billed under retainage provisions of contracts or similar items whose determination or ultimate realization is uncertain.

As part of the recapitalization, the company entered into an eight year floating rate $300 million revolving receivable purchase agreement. Under the terms of the agreement, domestic trade receivables are sold at a discount without recourse based upon an adjusted London Interbank Offered Rate (LIBOR) plus 1½ percent. The company has entered into $300 million of interest rate swap agreements maturing from June 1992 to May 1993 which effectively fix the discount rate. In 1986, the effective discount rate was 10.3 percent. At December 31, 1986, $284.4 million of domestic trade receivables were sold under the agreement.

The company maintains an allowance for doubtful accounts based upon the expected collectibility of all trade receivables including receivables discounted with recourse. A summary of activity in the allowance for doubtful accounts is shown as follows:

(In thousands)	1986	1985	1984
Balance at beginning of year	$11,182	$ 9,247	$9,303
Provision for doubtful accounts	1,097	4,888	2,973
Receivables written off as uncollectible, net of recoveries	(1,147)	(2,953)	(3,029)
Balance at end of year	$11,132	$11,182	$9,247

THE MEAD CORPORATION (DEC)

	1986	1985
	(in millions)	
Current assets:		
Cash and temporary cash investments	$ 18.6	$ 17.9
Accounts receivable, less allowance for doubtful accounts of $19.3 in 1986 and $13.6 in 1985 (Note H)	422.9	269.3
Inventories	339.4	210.9
Prepaid expenses	40.0	31.2
Total current assets	820.9	529.3

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

H (In Part): Long-Term Debt

In 1985, the company entered into an agreement whereby it can sell, on a revolving basis, up to $40.0 million of interests in certain receivables. The company is obligated to pay fees which approximate the purchaser's cost of issuing a like amount of commercial paper. The amounts of such fees are included in selling, administrative and research expenses and were $3.1 and $1.0 million in 1986 and 1985, respectively. At December 31, 1986 and 1985, $40.0 million in receivables had been sold pursuant to the agreement.

SEARS MERCHANDISE GROUP (DEC)

	1986	1985
	(millions)	
Current assets		
Cash	$ 593.4	$ 405.6
Retail customer receivables (note 1)	12,726.2	12,502.3
Less: Allowance for uncollectible accounts and unearned finance charges.	317.8	242.2
	12,408.4	12,260.1
Other receivables	379.0	222.7
Inventories	4,013.0	4,092.5
Prepaid expenses and deferred charges	1,318.3	1,203.8
Total current assets	18,712.1	18,184.7

1. Retail Customer Receivables

The Group sold selected revolving charge account balances, with proceeds of $1.8, $2.2 and $1.3 billion received in 1986, 1985 and 1984, respectively. As of Dec. 31, 1986 and 1985, the aggregate outstanding balances in such accounts were $2.2 billion and $2.4 billion, respectively. The sales were made under an agreement in which account balances may be sold on a revolving basis up to $2 billion less any aggregate unrecovered amount (as defined). The commitment under the agreement was temporarily increased to $2.85 and $2.5 billion in December 1986 and 1985, respectively, until such time as the aggregate unrecovered amount is paid down to $2 billion.

Receivables are currently sold with a limited repurchase liability for balances ultimately determined to be uncollectible. The purchaser receives all cash collections and finance charge revenues and the Group earns a fee for administering the accounts sold.

Retail customer receivables shown in the accompanying statements of financial position include approximately $3.4 billion of domestic accounts and $280.6 million of foreign accounts at December 31, 1986 which will not become due within one year. These receivables are expected to earn finance charge revenue at annual percentage rates ranging from 10.5 to 21.0 percent for the domestic accounts and 28.8 percent for the Canadian accounts.

TEXACO INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4. Sale of Receivables

In December, 1985 Texaco Inc. and certain of its U.S. subsidiary companies entered into an agreement with a syndicate of major banks under which Texaco has the right to sell accounts receivable on a continuing basis. Provision for losses on receivables expected to become uncollectible is included in the Company's allowance for doubtful accounts. The maximum amount of commitment at December 31, 1986 was $1 billion.

The initial sale of receivables occurred in early 1986. Thereafter, the additional cash balances generated by this facility were maintained by additional sales of receivables averaging $650 million per month. Receivables sold which remained uncollected at December 31, 1986 were approximately $700 million.

Receivables Used as Collateral

COLLINS INDUSTRIES, INC. (OCT)

	1986	1985
Current assets:		
Cash, including time deposits	$ 1,847,382	$ 2,046,781
Receivables, less allowance for doubtful accounts of $118,389 in 1986 and $94,000 in 1985 (Note 3)	9,584,652	7,907,153
Income tax receivable	—	595,513
Inventories, at the lower of cost (first-in, first-out) or market	19,206,714	21,376,727
Prepaid expenses and other current assets	681,790	390,124
Total current assets	$31,320,538	$32,316,298

Note 3 (In Part): Notes Payable

On October 10, 1986, Wheeled Coach entered into a financing and term loan agreement with a bank under which it may borrow up to $11,200,000 in the form of a term loan and a revolving loan, subject to certain conditions as discussed below. Loans under the agreement are collateralized by all the receivables, inventories, equipment and real property of Wheeled Coach and have been guaranteed by the Company. The interest rate on all such loans is 1.4% over the bank's prime rate (effective rate of 8.9% at October 31, 1986).

The agreement also provides that the bank will issue letters of credit on Wheeled Coach's behalf for the benefit of major vehicle manufacturers to facilitate the consignment of chassis inventories.

The amount of the Wheeled Coach revolving loan cannot exceed $6,700,000 less the sum of 50% of the amount of credit available under the letters of credit discussed above and the amount by which the total of the term loan exceeds

$3,650,000 (limited to $5,275,000 at October 31, 1986). The amount of unused revolving line of credit at October 31, 1986 was $3,065,633. Borrowings available to Wheeled Coach at October 31, 1986, based on borrowing availability, was approximately $650,000.

JOHNSON PRODUCTS CO., INC. (AUG)

	1986	1985
Current assets:		
Cash	$ 996,000	$ 455,000
Receivables:		
Trade, less allowance for doubtful accounts of $425,000 in 1986 and $300,000 in 1985 (Note 7)	9,112,000	9,118,000
Other	120,000	502,000
Refundable income taxes	—	30,000
Inventories	4,112,000	5,897,000
Prepaid expenses	575,000	766,000
Total current assets	14,915,000	16,768,000

7. Financing

The Company's line of credit agreement with a bank, which was due to expire on November 15, 1986, provided for secured financing of up to $6.5 million based on eligible trade accounts receivable, inventory and fixed assets as defined in the agreement. Interest was at 2½ percent above the prime rate, and the agreement was collateralized by all of the Company's accounts receivable, inventory and property, plant and equipment.

The average outstanding balances were $5,900,000 and $5,700,000 with weighted average interest rates of 12 percent and 13 percent for fiscal 1986 and 1985, respectively.

On October 29, 1986, the Company entered into a new credit agreement with a different lender. The agreement provides for secured financing of up to $10 million for a three year period with renewal options. The loans bear interest at 4% above the prime rate (11.5% at August 31, 1986).

Up to $6 million of the financing is available on a revolving basis based on eligible accounts receivable and inventory. The remaining $4 million is in the form of a term note due in monthly installments of $33,333 beginning February, 1987, with a final payment of $2,800,000 on January 2, 1990.

The loans under the agreement are collateralized by all of the Company's accounts receivable, inventories, and property, plant and equipment. The agreement also restricts additional borrowings, investments and the payment of dividends.

Subsequent to signing the agreement, the Company borrowed sufficient funds to repay existing short-term indebtedness. Accordingly, $4,000,000 of the term loan, net of current maturities, has been classified as non-current in the accompanying consolidated balance sheet as of August 31, 1986.

ALLOWANCE FOR DOUBTFUL ACCOUNTS

Table 2-7 summarizes the captions used by the survey companies to describe an allowance for doubtful accounts. *APB Opinion No. 12* states that such allowances should be deducted from the related receivables and appropriately disclosed.

Approximately 8% of the survey companies, in addition to deducting an allowance for doubtful accounts from receivables, also deducted amounts for unearned discounts or finance charges or sale returns.

TABLE 2-7: DOUBTFUL ACCOUNT CAPTIONS

	1986	1985	1984	1983
Allowance for doubtful accounts	275	283	279	285
Allowance	151	151	151	145
Allowance for losses	27	30	30	30
Allowance for uncollectible accounts	7	10	11	11
Reserve	17	22	21	21
Reserve for doubtful accounts	10	7	7	8
Other caption titles	20	17	15	14
	507	520	514	514
Receivables shown net	15	11	10	11
No reference to doubtful accounts	78	69	76	75
Total Companies	**600**	**600**	**600**	**600**

TABLE 2-8: INVENTORY COST DETERMINATION

	Number of Companies			
	1986	1985	1984	1983
Methods				
Last-in first-out (lifo)	393	402	400	408
First-in first-out (fifo)	383	381	377	366
Average cost	223	223	223	235
Other	53	48	54	52
Use of LIFO				
All inventories	23	26	26	31
50% or more of inventories	229	231	215	204
Less than 50% of inventories	74	83	82	93
Not determinable	67	62	77	80
Companies Using LIFO	**393**	**402**	**400**	**408**

TABLE 2-9: INDUSTRY CLASSIFICATION OF COMPANIES USING LIFO

	1986 No.	1986 %*	1985 No.	1985 %*
Foods:				
Meat products	4	50	4	57
Dairy products	2	67	2	50
Canning, etc.	2	50	2	50
Packaged and bulk	11	65	10	56
Baking	1	33	1	25
Sugar, confections, etc.	4	100	4	100
Beverages	5	83	5	83
Tobacco products	4	80	4	80
Textiles	19	76	15	68
Paper products	20	91	19	95
Printing, publishing	11	55	11	65
Chemicals	24	96	25	100
Drugs, cosmetics, etc.	17	57	16	59
Petroleum	25	89	27	93
Rubber products	9	91	7	78
Shoes—manufacturing, merchandising, etc.	5	71	5	63
Building:				
Cement	2	50	2	67
Roofing, wallboard	9	90	9	82
Heating, plumbing	1	33	1	33
Other	12	63	12	67
Steel and iron	15	88	14	88
Metal—nonferrous	11	69	13	76
Metal fabricating	18	95	18	100
Machinery, equipment and supplies	26	72	26	68
Electrical equipment, appliances	9	47	11	55
Electronic equipment	10	32	12	39
Business equipment and supplies	6	30	7	35
Containers	7	88	10	91
Autos and trucks (including parts, accessories)	18	67	16	64
Aircraft and equipment, aerospace	5	42	4	40
Railway equipment, shipbuilding, etc.	4	67	3	50
Controls, instruments, medical equipment, watches and clocks, etc.	10	56	11	61
Merchandising:				
Department stores	4	100	7	100
Mail order stores, variety stores	2	100	2	100
Grocery stores	15	94	14	82
Other	4	67	4	67
Motion pictures, broadcasting	—	—	—	—
Widely diversified, or not otherwise classified	42	50	49	56
Total Companies	**393**	**66**	**402**	**67**

*Percent of total number of companies for each industrial classification included in the survey.

INVENTORIES

Chapter 4 of *ARB No. 43* states that the "primary basis of accounting for inventories is cost . . ." and "a departure from the cost basis of pricing the inventory is required when the utility of the goods is no longer as great as its cost . . ." Approximately 90% of the survey companies use lower of cost or market, an acceptable basis for pricing inventories when circumstances require a departure from cost, to price all or a portion of their inventories.

Table 2-8 summarizes the methods used by the survey companies to determine inventory cost and indicates the portion of inventory cost determined by LIFO. During 1986, 2 survey companies adopted or extended the use of LIFO and 3 survey companies discontinued using LIFO for certain or all of their inventory. As indicated in Table 2-8, it is not uncommon for a company to use more than one method in determining the total cost of inventory. Methods of inventory cost determination classified as Other in Table 2-8 include specific identification, accumulated costs for contracts in process, and "current cost."

Table 2-9 shows by industry classification the number of companies using LIFO and the percentage relationship of those companies using LIFO to the total number of companies in a particular industry classification.

Seventy-five 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. Twenty-nine companies disclosed the effect on income from using LIFO rather than FIFO or average cost to determine inventory cost.

Examples of disclosure and reporting practices for inventories follow.

LIFO

AMERICAN MAIZE-PRODUCTS COMPANY (DEC)

	1986	1985
	(in thousands)	
Current assets:		
Cash	$ 2,384	$ 6,577
Short-term investments, at cost plus accrued interest (approximates market)	2,168	2,389
Accounts receivable, trade, less allowance for doubtful accounts of $1,195 in 1986 and $1,087 in 1985	38,296	32,499
Income tax refund receivable	2,310	969
Inventories (Notes 1 and 3)	80,320	53,414
Other assets	9,270	9,334
Total current assets	134,748	105,182

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Inventories: Inventories are stated at the lower of cost or market. The last-in, first-out (LIFO) method is used to determine the cost of corn and tobacco content in inventory. The average cost and the first-in, first-out (FIFO) methods are used to value the remaining inventories.

3. Inventories

Inventories consisted of the following:

Dollars in thousands At December 31,	1986	1985
Finished stock	$40,002	$35,502
Work-in-process	5,066	2,072
Raw materials	24,670	7,268
Stores and supplies	10,582	8,572
	$80,320	$53,414

At December 31, 1986 and 1985, $31,516,000 and $15,352,000, respectively, of inventories were valued using the LIFO method (see Note 1). These amounts are less than the corresponding replacement values by $3,765,000 at December 31, 1986 and $5,177,000 at December 31, 1985. During 1986, the carrying value of certain LIFO inventories was reduced by $2,139,000 to replacement cost (market). During 1985, certain LIFO inventory quantities were reduced, the effect of which increased the net loss by $101,000 ($.02 per share).

BROWN GROUP, INC. (OCT)

	1986	1985
	(Thousands)	
Current Assets		
Cash and cash investments	$ 36,200	$ 25,943
Receivables, net of allowances of $5,832 in 1986 and $6,302 in 1985	127,896	126,704
Inventories, net of adjustment to last-in, first-out cost of $68,736 in 1986 and $71,986 in 1985	309,426	308,949
Prepaid expenses and other current assets	20,441	17,916
Total Current Assets	493,963	479,512

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Inventories

Substantially all inventories are valued at the lower of cost or market, determined under the last-in, first-out (LIFO) method.

Note D. Inventories

Inventories are valued at the lower of cost or market determined principally by the last-in, first-out (LIFO) method and consist of the following (in thousands):

	November 1 1986	November 2 1985
Finished products	$285,517	$281,768
Work in process	4,678	5,765
Raw materials and supplies	19,231	21,416
	$309,426	$308,949

If the first-in, first-out (FIFO) cost method had been used, inventories would have been $68,736,000 and $71,986,000 higher at November 1, 1986, and November 2, 1985, respectively.

As a result of reducing certain inventory quantities valued on the LIFO basis, profits from liquidation of inventories were recorded which increased earnings by $1,800,000 ($.10 per share) and $1,100,000 ($.06 per share) in 1986 and 1985 respectively.

BURLINGTON INDUSTRIES, INC. (SEP)

	1986	1985
	(in thousands)	
Current assets:		
Cash	$ 40,013	$ 35,199
Short-term investments, at cost, which approximates market	54,857	50,118
Customer accounts receivable after deduction of $17,399 in 1986 and $20,340 in 1985 for doubtful accounts, discounts, returns and allowances	509,640	477,904
Sundry notes and accounts receivable	28,011	44,231
Inventories (Note C)	327,286	368,330
Prepaid expenses	12,856	9,145
Deferred income taxes	14,466	26,856
Total current assets	987,129	1,011,783

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Inventories: Inventories are valued at the lower of cost or market. Cost of substantially all components of textile inventories in the United States is determined using the dollar value Last-in, First-out (LIFO) method. All other inventories are valued principally at average cost.

Note C. Inventories

Inventories are summarized as follows (in thousands):

	1986	1985
Inventories at average cost:		
Raw materials	$ 54,124	$ 66,248
Stock in process	124,599	131,359
Produced goods	259,576	325,575
Dyes, chemicals and supplies	33,024	37,389
	471,323	560,571
Less excess of average cost over LIFO	144,037	192,241
Total	$327,286	$368,330

Inventories valued using the LIFO method comprised approximately 65% of consolidated inventories at September 27, 1986 and 76% at September 28, 1985.

The 1986 decrease in excess of average cost over LIFO was due to the liquidation of LIFO inventory quantities carried at lower costs prevailing in prior years, principally due to the sale of the company's Domestics division, and lower cotton prices. The effect of the liquidation of LIFO inventory quantities was to increase fiscal 1986 net earnings by approximately $8,875,000 or 32 cents per share of which $6,003,000 or 21 cents per share was related to the sale of the company's Domestics division.

EAGLE-PICHER INDUSTRIES, INC. (NOV)

	1986	1985
	(In thousands)	
Current Assets		
Cash and short-term investments	$ 78,937	$ 12,723
Receivables, less allowances of $1,487 in 1986 and $2,924 in 1985	87,799	89,858
Income tax refund receivable	9,200	26,059
Due from insurance carriers	12,905	16,547
Inventories—Note A	75,100	75,644
Prepaid income taxes and expenses	10,484	8,492
Total Current Assets	274,425	229,323

NOTES TO FINANCIAL STATEMENTS

Accounting Policies (In Part)

Inventories

Inventories are valued at the lower of cost or market. The last-in first-out (LIFO) method was used for substantially all inventories.

A. Inventories

Inventories consisted of:

	(In thousands of dollars)	
	1986	1985
Finished goods	$25,386	$27,752
Work-in-process	28,031	30,188
Raw materials and supplies	31,362	29,376
	84,779	87,316
Allowance to value inventory at cost on the LIFO method	9,679	11,672
	$75,100	$75,644

Approximately $1,200,000 of the decrease in the allowance shown above is due to the sale of Faulkner Concrete Pipe Co. in 1986.

GENERAL SIGNAL CORPORATION (DEC)

	1986	1985
	($000)	
Current assets:		
Cash, including cash equivalents—1986, $11,859; 1985, $231	$ 43,601	$ 30,333
Short-term investments at cost, which approximates market	80,133	47,362
Accounts receivable, less allowance—1986, $10,196; 1985, $10,355	296,305	324,036
Contracts in progress	66,640	62,142
Inventories (note 3)	360,382	426,677
Prepaid expenses	40,197	36,446
Total current assets	887,258	926,996

NOTES TO FINANCIAL STATEMENTS

1 (In Part) Summary of Significant Accounting Policies and Related Matters

Inventories Inventories are stated at the lower of cost or market. Certain domestic inventories are valued using the last-in, first-out (LIFO) method. Remaining inventories are valued using the first-in, first-out (FIFO) method.

3. Inventories

December 31,	1986	1985
	($ in thousands)	
Finished goods	$103,405	$128,409
Work in process	126,667	158,708
Raw material and purchased parts	167,972	177,047
Total FIFO cost	398,044	464,164
Excess of FIFO cost over LIFO inventory value	(37,662)	(37,487)
Net carrying value	$360,382	$426,677

LIFO inventories were approximately $165,396,000 and $173,371,000 at December 31, 1986 and 1985. Included in the December 31, 1985 LIFO inventories are $26,793,000 of inventories converted to LIFO in 1985. The conversion's effect on net earnings was not significant. During 1986, 1985, and 1984, certain LIFO inventory quantities were reduced, resulting in a liquidation of items carried at lower costs that prevailed in prior years. The effect on net earnings was not significant in any year.

Progress payments related to long-term contracts, netted against work in process at year end, were $8,535,000 in 1986 and $35,192,000 in 1985.

TRINITY INDUSTRIES, INC. (MAR)

	1986	1985
	(in thousands)	
Current assets:		
Cash and short-term investments	$ 7,484	$ 4,609
Accounts receivable, less allowance for doubtful accounts ($1,761 in 1986 and $1,719 in 1985)	71,944	68,744
Income tax refund receivable	—	4,900
Contract receivables not yet billed	14,225	18,838
Inventories	78,150	112,495
Prepaid retirement plans expense	23,757	—
Other current assets	12,337	10,286
Total current assets	207,897	219,872

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Summary of Accounting Policies (In Part)

Inventories and investments are valued at the lower of cost or market. Inventory cost is determined on a LIFO (last-in, first-out) method. Market is replacement cost or net realizable value.

Inventories

(in thousands)

	March 31	
	1986	1985
Finished goods	$11,003	$ 23,915
Work in process	7,364	11,912
Cost related to long-term contracts, net of progress billings of $518 and $1,264 at March 31, 1986 and 1985, respectively	23,231	28,776
Raw materials and supplies	39,076	52,036
Allowance to state inventories at LIFO cost	(2,524)	(4,144)
	$78,150	$112,495

During fiscal 1984 certain inventory quantities were reduced. Such reduction resulted in liquidation of LIFO inventory quantities carried at lower costs prevailing in prior years as compared with purchases during those fiscal years, increasing net income by approximately $589,000.

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

	1986	1985
	(in thousands)	
Current assets		
Cash	$ 8,045	$ 9,650
Short-term investments, at cost which approximates market	45,000	123,362
Receivables:		
Trade	274,342	304,787
Other	15,439	16,023
	289,781	320,810
Less: Allowance for doubtful accounts	2,718	2,604
	287,063	318,206
Inventories	235,490	265,968
Net assets of discontinued commercial printing operations	—	40,246
Deferred tax benefits	21,592	49,258
Other current assets	7,607	8,371
Total current assets	604,797	815,061

NOTES TO FINANCIAL STATEMENTS

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

Inventories: The inventories are stated at the lower of cost, determined principally by the LIFO method, or market.

Note E. Inventories

The inventories are summarized as follows:

(Dollar amounts in thousands)	1986	1985
Raw materials	$ 22,415	$ 38,911
Work in process	40,719	56,290
Goods in process	66,399	78,090
Finished goods	120,160	125,889
Supplies, waste, etc	2,743	3,254
	252,436	302,434
Less: Allowance to reduce carrying value to LIFO basis	16,946	36,466
	$235,490	$265,968

The decrease in the LIFO allowance in 1986 is attributable to the effect of the divestiture of certain divisions anticipated in the 1985 restructuring plan, which amounted to approximately $2,800,000, and the remainder due to lower cotton costs resulting from the Food Security Act of 1985.

Reductions in inventory quantities in 1985 and 1984 resulted in a liquidation of LIFO inventory quantities carried at costs prevailing in prior years which are lower than current costs. The effect of these reductions was to decrease the loss from continuing operations by approximately $697,000 ($.04 per share) in 1985 and increase income from continuing operations by $674,000 ($.04 per share) in 1984.

WEYERHAEUSER COMPANY (DEC)

	1986	1985
	(in thousands)	
Current assets:		
Cash, including interest bearing time deposits $78,652 and $79,274	$ 36,294	$ 33,652
Short-term investments, at cost which approximates market	1,764	6,040
Receivables, less allowances $4,832 and $6,100	597,116	520,582
Inventories (Note 2):		
Logs and chips	68,471	40,961
Lumber, plywood and panels	86,741	83,842
Pulp, newsprint and paper	47,377	44,126
Containerboard, paperboard, containers and cartons	59,682	67,905
Other products	161,717	142,565
Total product inventories	423,988	379,399
Materials and supplies	175,540	167,376
Prepaid expenses	108,816	93,148
Total current assets	1,343,518	1,200,197

NOTES TO FINANCIAL STATEMENTS

(Dollar amounts in thousands)

Note 2. Inventories

Inventories are stated at the lower of cost or market. Cost includes labor, materials and production overhead. The last-in, first-out (LIFO) method is used to cost the majority of domestic raw materials, in process and finished goods inventories; either the first-in, first-out (FIFO) or average cost method is used to cost all other inventories. Had the FIFO method been used to cost all inventories the amounts at which product inventories are stated would have been $178,122 and $183,001 greater at December 28, 1986 and December 29, 1985, respectively.

The Company has acquired companies in transactions accounted for as tax free exchanges for federal income tax purposes. For financial reporting purposes a new basis of accounting for the acquired companies' LIFO inventories was established. Under "purchase accounting" the acquired companies' LIFO inventories are greater than those reportable for federal income tax purposes by $1,638, $1,898 and $4,678 at December 28, 1986, December 29, 1985 and December 30, 1984, respectively. The effect upon income was to increase (decrease) cost of goods sold by $260, $(499) and $592 for the years 1986, 1985 and 1984, respectively.

FIFO

AFG INDUSTRIES, INC. (DEC)

	1986	1985
	(in thousands)	
Current assets:		
Cash and certificates of deposit	$ 26,902	$ 2,301
Marketable securities	173,717	64,292
Accounts and notes receivable (less allowance for doubtful accounts of $6,125 and $3,838)	48,499	39,942
Inventories	47,587	38,263
Prepaid expenses	1,946	3,062
Total current assets	298,651	147,860

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Inventories—Inventory values are determined on the first-in, first-out method and are stated at the lower of cost or market.

5. Inventories

Inventories consist of:

	December 31,	
	1986	1985
	(in thousands)	
Raw materials and supplies	$18,062	$ 9,447
Work in process	3,649	2,852
Finished and semifinished	25,876	25,964
	$47,587	$38,263

COLLINS & AIKMAN CORPORATION (FEB)

	1986	1985
	(in thousands)	
Current assets:		
Cash and temporary investments	$ 19,110	$ 20,947
Accounts receivable (less allowances: 1986-$3,932; 1985-$4,829)	159,136	132,854
Inventories:		
Yarn, raw materials and supplies	58,852	53,761
Work in process	36,257	31,299
Finished goods	86,838	71,996
	181,947	157,056
Prepaid expenses	9,317	6,328
Total current assets	369,510	317,185

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Accounting Policies

Inventories

Approximately 76% of the 1986 and 77% of the 1985 inventories are valued at cost on the first-in, first-out (FIFO) method or market, whichever is lower. The remaining inventories, all of which relate to the Company's wallcovering business segment, are valued at cost on the last-in, first-out (LIFO) method, which cost is lower than current replacement market.

BOBBIE BROOKS, INCORPORATED (DEC)

	1986	1985
	(000's)	
Current Assets		
Cash and cash equivalents	$11,483	$ 1,172
Receivable from pension plan	—	349
Due from factor	—	5,695
Trade receivables (less allowances of $30 and $160)	4,152	4,116
Inventories	3,248	7,876
Advance to suppliers	—	413
Prepaid expenses and other current assets	177	317
Total Current Assets	19,060	19,938

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note A (In Part): Significant Accounting Policies

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

Note G. Inventories

Major classes of inventories are as follows:

	December 31	
	1986	1985
	(000's)	
Raw materials	$2,291	$2,772
Work-in-process	248	621
Finished goods	709	4,483
	$3,248	$7,876

LEAR SIEGLER, INC. (JUN)

	1986	1985
	(in thousands)	
Current Assets		
Cash	$ 40,981	$ 32,023
Short-term investments—at cost which approximates market	13,159	11,596
Notes and accounts receivable (net of allowances for doubtful collections of $10,444 and $9,138)	380,194	346,871
Inventories:		
Raw materials	107,506	124,458
Work in process	123,697	142,055
Finished goods	98,664	127,793
Cost recoverable under contracts (net of progress billings of $111,340 and $83,509)	87,965	52,759
	417,832	447,065
Other current assets	59,062	34,638
Total current assets	911,228	872,193

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Inventories: Inventories of raw materials, work in process and finished goods are stated at the lower of cost or market. Cost is determined by the first-in, first-out (FIFO) method, except for inventories of certain acquired operations which are costed principally by the last-in, first-out (LIFO) method and aggregated $151,908,000 and $160,250,000 at June 30, 1986 and 1985, respectively. The excess of current cost over stated LIFO cost at June 30, 1986 and 1985 was approximately $22,841,000 and $19,791,000, respectively.

Average Cost

FORT HOWARD PAPER COMPANY (DEC)

	1986	1985
	(in thousands)	
Current assets:		
Cash and short-term investments	$ 10,698	$118,178
Receivables, less allowances of $2,600 and $2,000	150,984	116,321
Inventories	293,898	229,620
Total current assets	455,580	464,119

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Significant Accounting Policies

(B) Inventories—Inventories are carried at the lower of cost or market as described in Note 3.

3. Inventories

The components of inventory and their valuation methods are as follows:

December 31	1986	1985
	(expressed in thousands)	
Components:		
Raw materials and supplies	$132,617	$ 97,148
Finished and partly-finished products	161,281	132,472
	$293,898	$229,620
Valued at lower of cost or market:		
First-in, first-out (FIFO)	$ 82,581	$ 61,861
Last-in, first-out (LIFO)	150,616	117,844
Average cost by specific lot	60,701	49,915
	$293,898	$229,620

Had inventories valued on the LIFO basis been stated at current replacement costs, inventories would have been $5,120,000 and $2,877,000 lower than reported at December 31, 1986 and 1985, respectively.

LACLEDE STEEL COMPANY (DEC)

	1986	1985
	($000)	
Current Assets:		
Cash	$ 144	$ 1,137
Accounts receivable, less allowances of $920 in 1986 and $783 in 1985	27,395	24,077
Income taxes recoverable	—	190
Prepaid expenses	100	65
Inventories:		
Finished	33,845	28,821
Semi-finished	27,975	24,454
Raw materials	8,122	9,386
Supplies	16,308	14,151
Total inventories	86,250	76,812
Total Current Assets	113,889	102,281

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (In Part): Business and Accounting Policies

Inventories—

Inventories of finished and semi-finished products, raw materials and supplies are stated at the lower of cost, predominantly moving average, or market. Market determination is based on the net realizable value of the total of the components of each major category of inventory.

MOTOROLA, INC. (DEC)

	1986	1985
	(In millions)	
Current assets		
Cash	$ 42	$ 19
Short-term investments, at cost (approximating market)	143	157
Accounts receivable, less allowance for doubtful accounts (1986, $33; 1985, $32)	851	813
Inventories:		
Finished goods	194	187
Work in process and production materials	625	614
Future income tax benefits	206	170
Other current assets	178	149
Total current assets	2,239	2,109

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Accounting Policies

Inventories: Inventories are valued at the lower of average cost (which approximates computation on a first-in, first-out basis) or market (i.e., net realizable value or replacement cost).

THE QUAKER OATS COMPANY (JUN)

	1986	1985	1984
	(dollars in millions)		
Current Assets:			
Cash and short-term bonk deposits	$ 103.2	$ 70.7	$ 60.1
Marketable securities, at cost which approximates market value	6.3	17.0	5.0
Receivables—net of allowances.	536.9	505.1	484.9
Inventories:			
Finished goods	283.9	251.6	232.7
Grain and materials	99.0	94.0	105.4
Supplies	30.6	28.9	18.5
Total inventories	413.5	374.5	356.6
Other current assets	23.0	45.2	32.3
Total current assets	1,082.9	1,012.5	938.9

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Inventories. Inventories are valued at the lower of cost or market, using various cost methods. The percentage of year-end inventories valued using each of the methods is as follows:

June 30	1986	1985	1984
Average quarterly cost	51%	53%	57%
Last-in, first-out (LIFO)	21%	21%	23%
First-in, first-out (FIFO)	28%	26%	20%

If the LIFO method of valuing certain inventories were not used, total inventories would have been $18.8 million, $24.8 million and $23.6 million higher than reported at June 30, 1986, 1985 and 1984, respectively. As a result of reducing certain inventories valued on the LIFO basis, net income increased by $2.7 million or $.07 per share in fiscal year 1986.

The Company takes positions in the commodity futures market as part of its overall raw materials purchasing strategies in order to reduce the risk associated with price fluctuations of commodities used in manufacturing. The futures contracts are accounted for as hedges, and any gains and losses on these contracts are included as a part of product cost.

Production Cost

KAMAN CORPORATION (DEC)

	1986	1985
	(in thousands)	
Current assets:		
Cash	$ 1,807	$ 6,586
Marketable securities	—	29,213
Accounts receivable	109,400	79,557
Inventories	95,483	73,322
Other current assets	1,515	704
Total current assets	208,205	189,382

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In thousands)

Summary of Significant Accounting Policies (In Part)

Inventories—Inventory of merchandise for resale and parts are stated at cost (using the first-in, first-out and average costing methods) or market, whichever is lower. Contracts and work in process are valued at production cost represented by material, labor and overhead, including general and administrative expenses where applicable. Contracts and work in process are not recorded in excess of net realizable values.

Inventories

Inventories are comprised as follows:

	December 31, 1986	1985
Merchandise for resale	$69,400	$62,760
Contracts in process:		
U.S. Government	12,607	2,798
Commercial	1,381	1,720
Other work in process (including certain general stock material and parts)	12,095	6,044
Total	$95,483	$73,322

The aggregate amounts of general and administrative costs allocated to U.S. Government contracts during 1986, 1985 and 1984 were $36,932, $31,268 and $25,420, respectively. The estimated amounts of general and administrative costs remaining in U.S. Government contracts in process at December 31, 1986 and 1985, which amount to $4,394 and $473, respectively, are based on the ratio that such costs, as allocated, bear to the total costs incurred.

MARTIN MARIETTA CORPORATION (DEC)

	1986	1985
	($000)	
Current Assets:		
Cash and short-term investments	$ 194,995	$138,165
Notes and accounts receivable	421,602	459,810
Inventories	363,993	317,694
Other current assets	24,786	38,801
Net assets of discontinued operation	—	14,499
Total Current Assets	1,005,376	968,969

NOTES TO FINANCIAL STATEMENTS

Note A (In Part): Accounting Policies

Inventories Valuation. Inventories are stated at the lower of cost or market. Costs on long-term aerospace contracts in progress represent recoverable costs incurred for production, research and development, and selling, general, and administration, less amounts attributed to cost of sales, generally under percentage-of-completion accounting methods. Costs of other product and supply inventories are principally determined by the first-in, first-out (FIFO) method.

Note E: Inventories

(add 000)

	1986	1985
Costs on contracts in progress	$354,614	$293,103
Less progress payments	43,633	27,401
	310,981	265,702
Finished products	27,037	21,687
Products in process and raw materials	10,504	14,318
Expendable parts and supplies	15,471	15,987
Total	$363,993	$317,694

Title with respect to contracts-in-progress inventories of approximately $45,730,000 for 1986 and $53,200,000 for 1985 has been transferred to the U.S. Government.

Costs on contracts in progress at December 31, 1986 and 1985, did not include any significant amounts of production costs, unamortized tooling, other deferred costs, or claims and similar items subject to uncertainty concerning their realization.

Selling, general, and administrative costs in connection with production under aerospace long-term contracts were charged to inventories as incurred in the amounts of $222,350,000 in 1986 and $201,600,000 in 1985. The estimated amounts remaining in inventories were $15,770,000 at December 31, 1986, and $11,760,000 at December 31, 1985.

Specific Identification

GNI INCORPORATED (JUN)

	1986	1985
Current Assets:		
Cash and Time Deposits	$1,246,806	$ 587,619
Accounts Receivable, less allowance of $97,214 in 1986 and $95,047 in 1985	946,418	1,210,318
Inventories:		
Radioactive Materials	133,491	75,738
Other Materials	664,452	510,026
Total Inventories	797,943	585,764
Net Assets Held for Sale	208,458	752,856
Prepaid Expenses and Other Assets	123,320	116,882
Total Current Assets	3,322,945	3,253,439

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Significant Accounting Policies (In Part)

Inventories are stated at the lower of cost or market by first-in, first-out method, except that the cost of radioactive materials are determined by specific identification.

Market

CONAGRA, INC. (MAY)

	1986	1985
	(in thousands)	
Current assets		
Cash	$ 7,207	$ 41,164
Temporary investments	121,413	2,413
Receivables, less allowance for doubtful accounts of $21,694 and $17,832, respectively	478,265	400,002
Recoverable income taxes	566	21,939
Inventories (Note 3)		
Hedged commodities	237,095	233,851
Other	403,582	345,727
	640,677	579,578
Prepaid expenses	35,348	17,779
Total current assets	1,283,476	1,062,875

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(dollar amounts in thousands)

1 (In Part): Summary of Significant Accounting Policies

Inventories

Grain, flour and major feed ingredient inventories are hedged to the extent practicable and are generally stated at market including adjustments to market of open contracts for purchases and sales. Short-term interest expense incurred to finance hedged inventories is included in cost of sales in order to properly reflect gross margins on hedged transactions. Inventories not hedged are priced at the lower of average cost or market.

3. Inventories

The major classes of inventories at year end are as follows:

	1986	1985
Hedged commodities	$237,095	$233,851
Food products	179,098	169,559
Agricultural chemicals, fertilizer and feed	76,307	62,750
Retail merchandise	80,669	68,393
Other, principally ingredients and supplies	67,508	45,025
	$640,677	$579,578

PREPAID EXPENSES

Table 2-10 summarizes the prepaid expense captions appearing in the current asset section of the survey companies' balance sheets. Rarely is the nature of a prepaid expense caption disclosed. Examples of companies disclosing the nature of a prepaid expense caption follow.

TABLE 2-10: PREPAID ITEMS

	Number of Companies			
	1986	1985	1984	1983
Prepaid expenses	224	227	226	245
Prepaid expenses and other current assets	104	107	103	91
Prepaid expenses and deferred taxes	18	22	21	23
Employee benefits	11	6	4	—
Prepaid expenses and other receivables	11	6	7	8
Prepaid expenses and advances	9	10	9	8
Prepaid expenses and supplies	7	7	8	8
Other captions indicating prepaid expenses	16	14	26	20

BROCKWAY, INC. (DEC)

	1986	1985
	(in thousands)	
Current assets:		
Cash	$ 4,704	$ 6,713
Short-term investments, at cost plus accrued interest (which approximates market)	1,008	74
Accounts and notes receivable (less allowance for doubtful accounts of $980 and $1,138)	74,277	79,809
Inventories	102,344	103,240
Prepaid and other current assets (Note 6)	19,644	7,320
Total current assets	201,977	197,156

Note 6 (In Part): Prepaid and Other Current Assets and Accrued Liabilities

The components of prepaid and other current assets and accrued liabilities at December 31, 1986 and 1985 are as follows:

	1986	1985
	(in thousands)	
Prepaid and other current assets:		
Prepaid employee benefit expenses	$15,000	—
Other (each less than 5% of current assets)	4,644	$7,320
	$19,644	$7,320

ELCOR CORPORATION (JUN)

	1986	1985
Current Assets		
Cash	$ 2,874,055	$ 2,421,005
Trade receivables, less allowance of $1,216,054 and $1,546,428	23,050,931	21,626,701
Inventories	12,430,175	14,041,992
Prepayments and other	4,048,283	2,126,011
Total current assets	42,403,444	40,215,709

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Current Assets and Current Liabilities (In Part)

At June 30, 1986, a $2.4 million prepayment to the Company's insurance carrier for casualty insurance costs was included in Prepayments and Other compared to a $1.3 million prepayment at June 30, 1985.

SCHOLASTIC INC. (MAY)

	1986	1985
	(in thousands)	
Current assets:		
Cash (includes short-term investments of $5,854 in 1986 and $8,452 in 1985)	$ 6,796	$ 9,983
Accounts receivable (less allowance for doubtful accounts of $2,031 in 1986 and $1,924 in 1985)	15,041	14,314
Due from disposition of assets	314	498
Pension fund receivable	—	5,200
Inventories:		
Paper	1,569	4,113
Books and other	27,622	27,361
Prepaid expenses (principally advance magazine publishing and book promotion costs)	2,155	2,508
Total current assets	53,497	63,977

SQUARE D COMPANY (DEC)

	1986	1985
	(in thousands)	
Current Assets:		
Cash and cash equivalents (including time deposits of: 1986-$36,634; 1985-$19,464)	$ 47,102	$ 27,025
Short-term investments	26,762	21,774
Receivables, less allowances (1986-$11,652; 1985-$10,640)	215,858	228,554
Inventories	153,648	184,649
Insurance and other prepaid expenses	37,855	37,795
Total Current Assets	481,225	499,797

SUPER VALU STORES, INC. (FEB)

	1986	1985
Current Assets:		
Cash	$ 1,043,000	$ 912,000
Receivables, less allowance for losses of $8,790,000 in 1986 and $6,136,000 in 1985	148,541,000	109,173,000
Inventories	576,541,000	402,137,000
Supplies and prepaid expenses (Note A)	22,446,000	6,967,000
Deferred income tax benefits	8,955,000	5,484,000
Investment in direct financing leases-current	6,626,000	6,448,000
Total Current Assets	764,152,000	531,121,000

NOTES TO FINANCIAL STATEMENTS

A (In Part): Summary of Significant Accounting Policies

Prepaid expenses:

A Voluntary Employee's Beneficiary Association (VEBA) trust was established in fiscal year 1986 to fund certain employee benefits provided by the company's health care plans. Prepaid expenses at February 22, 1986 include $13,973,000 which was funded to the trust for estimated eligible benefits to be paid in fiscal year 1987.

TIME INCORPORATED (DEC)

	1986	1985
	(in millions)	
Current Assets		
Cash and equivalents	$ 417	$ 172
Receivables, less allowances of $137 million in 1986 and $122 million in 1985	433	380
Note receivable from Temple-Inland	—	50
Inventories—at the lower of cost or market	181	125
Programming	194	164
Prepaid promotion and other	206	151
Total Current Assets	1,431	1,042

NOTES TO FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (In Part)

Promotion. Promotion costs related to sales of book and record series and book clubs are amortized over a 12-month period. Other promotion costs are primarily expensed within the year incurred.

WASTE MANAGEMENT, INC. (DEC)

	1985	1986
	($000)	
Current Assets		
Cash and short-term investments	$ 24,930	$198,092
Accounts receivable, less allowance of $8,190 in 1985 and $10,095 in 1986	314,464	318,484
Refundable income taxes	36,425	—
Employee receivables	3,654	6,103
Contract costs incurred in excess of unrecognized revenue billed	44,772	10,250
Parts and supplies	31,576	33,030
Prepaid expenses	47,883	71,667
Total Current Assets	$503,704	$637,626

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (In Part): Summary of Accounting Policies

Prepaid Expenses

Preparation costs for individual secure land disposal cells are recorded as prepaid expenses and amortized as the airspace is filled. Unamortized prepaid cell construction cost at December 31, 1985 and 1986 was $26,750,000 and $45,312,000, respectively. The cost for constructing such airspace has increased in 1986 as new regulations have modified the liner construction technology.

YORK INTERNATIONAL CORPORATION (DEC)

	1986	1985
Current Assets:		
Cash and Cash Equivalents	$ 16,454	$ 5,638
Receivables	120,209	119,602
Inventories	91,736	67,459
Prepayments and Other Current Assets	21,039	8,797
Total Current Assets	249,438	201,496.

NOTES TO FINANCIAL STATEMENTS

Note 5: Prepayments and Other Current Assets

The components of prepayments and other current assets are summarized below at December 31:

(thousands of dollars)	1986	1985
Deferred Income Tax Assets	$13,809	$5,984
Prepaid Insurance	3,947	—
Supplies & Maintenance Contracts	1,176	290
Other	2,107	2,523
Total Prepayments and Other Current Assets	$21,039	$8,797

OTHER CURRENT ASSET CAPTIONS

Table 2-11 summarizes the nature of accounts (other than cash, marketable securities, inventories, and prepaid expenses) appearing in the current asset section of the balance sheets of the survey companies. Examples of such other current asset accounts follow.

TABLE 2-11: OTHER CURRENT ASSET CAPTIONS

	Number of Companies			
	1986	1985	1984	1983
Nature of Asset				
Deferred income taxes......	147	129	126	120
Property held for sale.......	52	42	50	46
Unbilled costs................	31	34	28	27
Advances or deposits........	11	8	10	10
Other—identified	29	36	32	33
Other current assets	170	160	149	142

Deferred Income Tax

BRIGGS & STRATTON CORPORATION (JUN)

	1986	1985
Current Assets:		
Cash	$ 4,229,000	$ 3,841,000
Certificates of Deposit............	38,046,000	21,158,000
Receivables, Less Allowances of $258,000 and $266,000 respectively.......................	52,204,000	56,489,000
Inventories—		
Finished Products and Parts ..	29,076,000	27,107,000
Work in Process	32,807,000	34,978,000
Raw Materials	4,849,000	7,525,000
Total Inventories	66,732,000	69,610,000
Future Income Tax Benefits......	5,338,000	14,000
Prepaid Employee Health Care ..	12,465,000	16,000,000
Prepaid Expenses	9,261,000	14,246,000
Total Current Assets..............	188,275,000	181,358,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Future Income Tax Benefits: Future income tax benefits, classified as a current asset, represent the tax effect of timing differences relating to current assets and current liabilities. These result in a higher taxable income than that recorded in the accounts for financial reporting purposes.

INTERNATIONAL PAPER COMPANY (DEC)

	1986	1985
	(In millions)	
Current Assets		
Cash and temporary investments, at cost, which approximates market	$ 200	$ 271
Accounts and notes receivable, less allowances of $36 million in 1986 and $25 million in 1985	663	378
Inventories	705	425
Deferred income taxes (Note 3)............	44	22
Other current assets..........................	16	9
Total Current Assets..........................	1,628	1,105

Note 3 (In Part): Income Taxes

Current assets include deferred income taxes of $44 million and $22 million at December 31, 1986 and 1985, respectively. These result from items expensed for financial reporting purposes which have not yet been taken as tax deductions ("timing differences"). The tax effects of these timing differences are classified as current since they are attributable to current assets and liabilities and are expected to be taken as tax deductions in the near term.

TEXAS INSTRUMENTS INCORPORATED (DEC)

	1986	1985
	($ millions)	
Current assets		
Cash and short-term investments	$ 214.4	$ 158.8
Accounts receivable, less allowance for losses of $51.1 in 1986 and $68.1 in 1985......................................	669.7	620.1
Inventories (net of progress billings)........	609.5	447.7
Deferred income taxes.......................	250.5	273.4
Prepaid expenses.............................	37.3	30.7
Total current assets	1,781.4	1,530.7

NOTES TO FINANCIAL STATEMENTS

Income Taxes (In Part)

Deferred income tax assets represent the income tax benefits of future tax deductions. The deduction amounts were previously expensed in the company's financial statements as a result of using more conservative financial accounting practices than those required by income tax statutes. A current Financial Accounting Standards Board (FASB) exposure draft on accounting for income taxes proposes accounting rules on deferred income taxes which, if enacted, would essentially require the company to eliminate its net deferred income tax assets from the balance sheet and record a deferred tax liability for certain undistributed earnings of non-U.S. subsidiaries. Based on year-end 1986 consolidated balances, the accounting effect is estimated to be a reduction in assets of $324 million and an increase in liabilities of $42 million, and a reduction in retained earnings of approximately $366 million with a corresponding retroactive reduction in prior years' income amounts. Approximately $250 million of the decrease in total assets would reduce current assets, and, therefore, working capital. There would be no cash flow impact from these accounting adjustments. In the future, deferred income tax assets may be recorded as the company pays U.S. and certain non-U.S. income taxes. The company has expressed its objections to the proposed FASB statement which, in the company's opinion, would inappropriately change accounting principles in this area. A decision by the FASB is expected in late 1987.

Property Held for Sale

CLARK EQUIPMENT COMPANY (DEC)

	1986	1985
	(in thousands)	
Current Assets:		
Cash	$ 7,453	$ 8,134
Short-term investments, at cost plus accrued interest	51,031	76,198
Accounts and notes receivable, less allowance for doubtful accounts of $4,266 and $3,015 at respective dates	34,819	37,056
Accounts receivable from associated companies	—	30,611
Inventories	155,731	138,084
Investment in discontinued finance subsidiaries at equity in underlying net assets (Page 16)	211,322	—
Prepaid expenses	10,303	5,628
Total current assets	470,659	295,711

Discontinued Finance Operations

During November 1986, the Board of Directors of Clark approved the sale of Clark Equipment Credit Corporation (Clark Credit) and its consolidated subsidiaries to The Chase Manhattan Corporation. This sale was completed in March 1987 for approximately $188 million.

As a result of this sale, the Company's investment in Clark Credit has been included in current assets in the Balance Sheet as of December 31, 1986, and the Statement of Income (Loss) has been presented to reflect Clark Credit as a discontinued operation for all years presented.

Condensed financial information of Clark Equipment Credit Corporation and consolidated subsidiaries follows:

	Amounts in millions		
Year ended December 31,	1986	1985	1984
Total revenues	$ 177.1	$ 187.2	$174.0
Pre-tax income	25.4	28.9	29.1
Net income	14.2	16.8	19.3
As at December 31,	1986	1985	
Total assets	$1,216.8	$1,177.5	
Total liabilities	1,036.2	980.0	

Amounts include supplemental payments from Clark, net of tax, of $9.1 million, $6.5 million and $3.8 million in 1986, 1985 and 1984, respectively. These amounts were paid by Clark pursuant to certain Clark Credit lending arrangements to enable Clark Credit to maintain a certain ratio of earnings to fixed charges. The income from discontinued finance operations shown in the Statement of Income (Loss) excludes these supplemental payments.

The Company also plans to divest Clark Equipment Overseas Finance Corporation (CLEO) and its wholly-owned overseas finance subsidiaries during 1987. As a result of this decision, the Company's investment in CLEO has been included in current assets in the Balance Sheet as of December 31, 1986, and the Statement of Income (Loss) has been presented to reflect CLEO as a discontinued operation for all years presented.

Condensed financial information of Clark Equipment Overseas Finance Corporation and consolidated subsidiaries follows:

	Amounts in millions		
Year ended December 31,	1986	1985	1984
Total revenues	$ 23.0	$ 19.0	$19.2
Pre-tax income	1.8	.9	(.6)
Net income	1.0	.6	(.1)
As at December 31,	1986	1985	
Total assets	$200.6	$148.4	
Total liabilities	169.9	125.6	

IROQUOIS BRANDS, LTD. (DEC)

	1986	1985
Current assets:		
Cash and equivalents	$16,770,000	$ 3,902,000
Receivables:		
Trade, less allowance for doubtful accounts of $483,000 in 1986 and $567,000 in 1985	15,295,000	16,169,000
Other	845,000	1,113,000
Inventories	12,148,000	16,295,000
Deferred tax benefits and other current assets	4,353,000	2,284,000
Net realizable value of assets held for resale	3,771,000	—
Total current assets	53,182,000	39,763,000

NATIONAL DISTILLERS AND CHEMICAL CORPORATION (DEC)

	1986	1985
	(in millions)	
Current assets		
Cash	$ 34.0	$ 29.1
Short-term investments	53.3	18.2
Receivables—less allowance for doubtful accounts of $10.5—1986, $6.7—1985	400.6	335.9
Inventories	308.3	416.9
Prepaid expenses and other assets	30.0	12.8
Net assets held for sale (Note 2)	380.6	
Total current assets	1,206.8	812.9

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollar amounts in millions except for per share data)

Note 2 (In Part): Discontinued Operations

In September 1986, the Company announced its intention to sell its spirits and wine segment. A formal plan for disposal was developed and it is anticipated that the sale will be completed during 1987 and will not result in a net loss. As part of this plan, in January 1987, the Company entered into a definitive agreement for the sale of its Almaden Vineyards wine operation.

During 1985 the Company sold its property/casualty insurance business and during the year 1984, the Company sold the business and properties of its metal segment and the petroleum refining and marketing operations of its energy segment.

The results of operations of these businesses are accounted for as discontinued operations in the Consolidated Statement of Income. A summary of the net assets of the spirits and wine segment at December 31, 1986, which have been classified as net assets held for sale, and summary information relating to all discontinued operations is as follows:

	December 31, 1986
Current assets	$295.1
Other assets	165.0
	460.1
Current liabilities	64.5
Other liabilities	15.0
	79.5
Net assets held for sale	$380.6

H. H. ROBERTSON COMPANY (DEC)

	1986	1985
	(Thousands)	
Current assets:		
Cash	$ 2,817	$ 816
Temporary investments—at cost	1,090	5,451
Accounts and notes receivable, less allowance for doubtful accounts: 1986, $4,689; 1985, $5,352	146,960	163,364
Inventories:		
Finished products	11,472	11,664
Work in process	17,162	26,080
Materials and supplies	30,682	39,672
Total inventories, at current costs	59,316	77,416
Less excess of current costs over LIFO stated values	1,622	1,003
Inventories—net	57,694	76,413
Refundable income taxes	3,721	18,608
Net assets of discontinued operations	12,263	—
Other	10,315	13,747
Total current assets	234,860	278,399

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Discontinued Operations

On December 9, 1986, the Board of Directors authorized the sale of the Company's IRD Mechanalysis subsidiaries, which manufacture, sell and service industrial instruments. On January 30, 1987, the Company sold these subsidiaries for $24,250,000. The pre-tax gain on the sale of this business segment of approximately $11,000,000 will be recognized in the Company's first quarter 1987 financial statements. Net revenues of IRD were $32,285,000, $29,185,000 and $29,118,000 for 1986, 1985 and 1984, respectively. Amounts in the consolidated income statement for the years 1985 and 1984 have been restated to conform to the 1986 discontinued operations presentation.

At December 31, 1986, the components of total net assets of discontinued operations, which are included in the consolidated balance sheet, are as follows:

(Thousands)	
Working Capital:	
Cash	$ 714
Accounts and notes receivable—net	6,476
Inventories	7,552
Other current assets	550
Accounts payable	(1,713)
Short-term debt	(1,533)
Other accrued liabilities	(3,921)
Total working capital	8,125
Noncurrent:	
Fixed assets—net	5,954
Other assets	141
Long-term debt	(1,267)
Deferred income taxes	(690)
Total noncurrent	4,138
Total net assets of discontinued operations	$12,263

Unbilled Costs

CBI INDUSTRIES, INC. (DEC)

	1986	1985
	($000)	
Current assets		
Cash	$ 9,695	$ 20,209
Temporary cash investments, at cost which approximates market	59,155	24,756
Accounts receivable less allowance of $11,800 in 1986 and $10,900 in 1985	179,708	206,046
Contracts in progress with accumulated costs exceeding related progress billings		
Accumulated costs	195,569	135,996
Progress billings	(155,817)	(105,342)
Inventories	38,929	37,702
Other current assets	33,390	14,003
Total current assets	$360,629	$333,370

EMERSON ELECTRIC CO. (SEP)

	1986	1985
	(in millions)	
Current assets		
Cash	$ 4.8	9.1
Short-term investments, at cost which approximates market	283.6	79.4
Receivables, less allowances of $14.7 in 1986 and $13.7 in 1985	791.6	723.2
Costs and estimated earnings on long-term contracts, less progress billings of $117.6 in 1986 and $123.6 in 1985	80.8	30.8
Inventories:		
Finished products	409.6	410.6
Raw materials and work in process	735.2	745.1
Total inventories	1,144.8	1,155.7
Other current assets	126.7	87.2
Total current assets	2,432.3	2,085.4

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Long-Term Contracts

Income on long-term contracts, principally government and defense contracts, is recognized on the percentage-of-completion or unit-of-delivery basis. On contracts where the percentage-of-completion method is used, costs and estimated earnings in excess of progress billings are shown as a current asset. Unbilled costs on unit-of-delivery contracts are included in inventory. Payments received in excess of costs incurred on long-term contracts are shown as a current liability.

UNC INCORPORATED (DEC)

	1986	1985
	(in thousands)	
Current assets		
Cash and short-term investments	$ 11,496	$ 27,141
Accounts receivable, less allowance for doubtful accounts of $3,909 and $2,899, respectively	94,418	112,774
Costs and estimated earnings in excess of billings on uncompleted contracts	29,645	16,884
Inventories	45,990	36,579
Other	8,273	9,801
Total current assets	189,822	203,179

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. Contracts in Process

Costs and estimated earnings on uncompleted long-term construction contracts consist of the following:

	December 31,	
(Dollars in thousands)	1986	1985
Costs incurred and estimated earnings on uncompleted contracts	$576,747	$570,565
Less billings to date	547,102	553,754
	$ 29,645	$ 16,811

The net amounts above are included in the consolidated balance sheets under the following captions:

Costs and estimated earnings in excess of billings on uncompleted contracts	$29,645	$16,884
Other current liabilities	—	(73)
	$29,645	$16,811

Substantially all of the amounts billed at December 31, 1986 and 1985 relate to contracts with the U.S. government, which has a security title in the components being fabricated.

Unbilled amounts are recorded on the percentage-of-completion method and are recoverable from the customer upon shipment of the product, presentation of bills or completion of the contract. Substantially all of these unbilled amounts are collectible during 1987.

At December 31, 1986, retainage receivable, included in accounts receivable, amounted to $11,747,000 which is anticipated to be collected as follows: 1987, $5,773,000; 1988, $3,020,000; and the balance thereafter.

M/A-COM, INC. (SEP)

	1986	1985
	(in thousands)	
Current assets:		
Cash and marketable securities	$290,759	$ 52,628
Accounts receivable, less allowance for doubtful accounts of $3,787 and $8,039, respectively	116,943	183,869
Unbilled revenue under customer contracts	78,114	89,628
Inventories	108,586	194,668
Other current assets	8,054	16,394
Net assets of discontinued operations	59,225	—
Total current assets	661,681	537,187

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Revenue Recognition

Revenue is recognized generally when a product is shipped and services are performed. Long-term contracts are accounted for using the percentage-of-completion method, whereby revenue and gross margin are recognized throughout the performance period of the contract. The effect of changes in estimates of total contract costs are recorded currently. If estimates of cost indicate a loss, provision is made currently for the total loss anticipated.

Unbilled revenue under customer contracts represents revenue earned under the percentage-of-completion method but not yet billable under the terms of the contract. These amounts are billable based on the terms of the contract which include shipment of the product, achievement of milestones or completion of the contract.

KEVLIN MICROWAVE CORPORATION (MAY)

	1986	1985
Current assets:		
Cash and temporary investments, at cost, which approximates market	$3,190,446	$2,989,411
Accounts receivable, net of allowance for doubtful accounts of $20,000 in 1986 and in 1985	1,274,610	1,433,702
Inventories	1,174,900	1,028,585
Costs and estimated earnings in excess of billings on uncompleted contracts	185,560	638,782
Prepaid income taxes	52,544	—
Prepaid expenses and other current assets	45,640	47,573
Total current assets	$5,923,700	$6,138,053

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Revenue Recognition. For financial statement purposes, revenues and profits are recorded using the percentage-of-completion method for certain contracts based on the product type, contract size and duration of time to completion. The percentage of completion is determined by relating the actual cost of work performed to date to the current estimated total cost of the respective contracts. Revenues and profits on all other contracts are recorded as shipments are made. If estimated total costs on any of these contracts indicate a loss, the entire amount of the estimated loss is recognized immediately.

Costs and estimated earnings in excess of billings on uncompleted contracts comprise amounts of revenue recognized on contracts for which billings have not been rendered. In accordance with industry practice the Company includes in current assets and liabilities amounts realizable and payable under long-term contracts.

Deposits

OWENS-CORNING FIBERGLAS CORPORATION (DEC)

	1986	1985
	(In thousands)	
Current Assets		
Cash	$ 3,927	$ 10,470
Time deposits and marketable securities (at cost, which approximates market)	4,786	21,568
Restricted funds (Notes 7 and 22)	85,043	—
Receivables	443,730	528,363
Inventories:		
On first-in, first-out method—		
Finished goods	167,377	235,989
Work in process	15,921	76,896
Materials and supplies	121,265	183,053
Less—Allowance to reduce inventories to last-in, first-out method	(75,718)	(94,304)
Net inventories	228,845	401,634
Net assets held for sale	392,823	—
Deferred national income taxes	68,301	45,618
Other current assets	20,117	22,774
Total current assets	1,247,572	1,030,427

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7 (In Part): Long-Term Debt

In connection with the recapitalization, the Company was required to deposit 116,707,000 Swiss Francs (approximately $70,000,000) in trust at December 31, 1986 and restricted for payment of the Company's bonds payable in Swiss Francs. The Company has initiated a program to repurchase these bonds in 1987. Funds to pay the bondholders will be provided from the Swiss Franc deposit. The Company also retired commercial paper and bank debt under the revolving credit agreement established in 1985, and other issues of long-term debt at no significant gain or loss, and terminated interest rate conversion agreements resulting in a $6,000,000 loss which is included in the restructuring cost.

22. Restricted Funds

The Company has 222,885,000 Brazilian cruzados (approximately $15,000,000) of restricted funds deposited in a Brazilian bank account representing a recent dividend payment from a Brazilian subsidiary. These funds are expected to be available to the Company in 1987.

The Company also has 116,707,000 Swiss Francs (approximately $70,000,000) in trust and restricted for payment of the Company's bonds payable in Swiss Francs (Note 7).

VALERO ENERGY CORPORATION (DEC)

	1986	1985
	($000)	
Current Assets:		
Cash, including temporary cash investments	$ 19,606	$ 71,530
Receivables, less allowance for doubtful accounts of $6,456 (1986) and $5,999 (1985)	178,310	248,971
Inventories	95,149	160,170
Prepaid expenses and other	19,020	9,224
	312,085	489,895

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (In Part):

Futures Contracts

The Company enters into futures contracts to hedge against a portion of the price risk associated with price declines from holding inventories of feedstocks and refined products. Changes in the market value of open futures contracts are accounted for as additions to or reductions from inventory. Gains and losses resulting from changes in the market value of futures contracts are recognized in cost of sales when the related inventory is sold. Commodity futures deposits of approximately $10.3 million are included in prepaid expenses and other as of December 31, 1986.

WILLAMETTE INDUSTRIES, INC. (DEC)

	1986	1985
	(in thousands)	
Current assets:		
Cash, including time deposits	$ 1,252	8,107
Notes and accounts receivable, less allowance for doubtful accounts of $1,871 (1985-$1,700)	110,442	89,561
Inventories	106,781	103,868
Deposits on timber cutting contracts	5,452	3,257
Prepaid expenses	6,842	5,898
Total current assets	230,769	210,691

Hedged Investments

BECTON, DICKINSON AND COMPANY (SEP)

	1986	1985
	($000)	
Current Assets		
Cash	$ 8,112	$ 8,398
Short-term investments	164,728	109,956
Trade receivables, less allowances of $14,777 in 1986 and $10,494 in 1985	252,199	208,242
Inventories:		
Materials	68,747	49,025
Work in process	64,365	47,237
Finished products	135,218	86,480
	268,330	182,742
Prepaid expenses and other—Note G	89,426	67,146
Total Current Assets	782,795	576,484

Note G. Prepaid Expenses and Other

Included, at cost, in Prepaid expenses and other at September 30, 1986 and 1985, respectively, are $51,994,000 and $49,617,000 of fully hedged investments in gold.

Broadcast Rights

TRIBUNE COMPANY (DEC)

	1986	1985
	(In thousands)	
Current assets		
Cash and short-term investments	$ 28,211	$ 35,140
Accounts receivable (less allowances of $17,400 and $14,100)	262,373	251,994
Inventories	82,106	89,625
Broadcast rights	133,590	112,381
Prepaid expenses and other	33,567	17,462
Total current assets	539,847	506,602

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Broadcast Rights

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

PROPERTY, PLANT, AND EQUIPMENT

Paragraph 5 of *APB Opinion No. 12* states:

Because of the significant effects on financial position and results of operations of the depreciation method or methods used, the following disclosures should be made in the financial statements or in notes thereto:

a. Depreciation expense for the period,

b. Balances of major classes of depreciable assets, by nature or function, at the balance-sheet date,

c. Accumulated depreciation, either by major classes of depreciable assets or in total, at the balance-sheet date, and

d. A general description of the method or methods used in computing depreciation with respect to major classes of depreciable assets.

Tables 2-12 and 2-13 show the assets classified as Property, Plant, and Equipment by the survey companies. Examples of Property, Plant, and Equipment disclosures follow.

Table 2-14 summarizes the descriptive captions used to describe the accumulated allowance for depreciation.

CLASSIFIED BY NATURE OF PROPERTY

ADAMS-RUSSELL CO., INC. (SEP)

Balance Sheet

	1986	1985
	(in thousands)	
Total current assets	$ 3,403	$69,714
Property, Plant and Equipment, Net	$54,075	$56,500

Statement of Income

	1986	1985	1984
		(in thousands)	
Costs and Expenses:			
Operating Expenses	$16,157	$15,776	$13,687
Selling, general and administrative expenses	12,533	11,352	10,524
Depreciation and amortization	8,674	8,076	6,074
Total	$37,364	$35,204	$30,285

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

(c) Property, Plant and Equipment

The Company records additions to property, plant and equipment at cost, which includes amounts for materials, labor, overhead and interest.

Property, plant and equipment are being depreciated over their estimated useful lives using principally the straight-line method for financial reporting purposes. Leasehold improvements are being amortized over the lives of the related leases using the straight-line method.

TABLE 2-12: LAND CAPTIONS

	1986	1985	1984	1983
Land	393	395	402	399
Land and improvements	111	112	107	106
Land and buildings	29	29	28	25
Land combined with other identified assets	16	12	10	14
No caption with term *land*	14	16	14	13
	563	564	561	557
Line of business classification	37	36	39	43
Total Companies	**600**	**600**	**600**	**600**

The costs of assets retired or sold, together with the related accumulated depreciation, are removed from the accounts, and any profit or loss on disposition is credited or charged to earnings.

3. Property, Plant and Equipment

	Estimated Life	September 28, 1986	September 29, 1985
(Dollars in thousands)			
At Cost—			
CATV systems	5–12 years	$80,697	$75,533
Machinery and equipment	5–8 years	1,068	970
Furniture and fixtures	10 years	839	695
Vehicles	3 years	2,578	2,293
Buildings	20–30 years	1,134	1,090
Land	—	516	516
Leasehold improvements	life of lease	1,178	991
Total cost		$88,010	$82,088
Less—			
Allowances for depreciation		33,935	25,588
Net Book Value		$54,075	$56,500

Certain land and buildings have been pledged as collateral. Interest of $37,000, $24,000, and $160,000 was capitalized in 1986, 1985 and 1984, respectively, as a cost of property, plant and equipment.

TABLE 2-13: DEPRECIABLE ASSET CAPTIONS

	1986	1985	1984	1983
Buildings				
Buildings	270	270	270	271
Buildings and improvements	204	199	196	192
Buildings and land or equipment	64	64	63	62
Buildings combined with other identified assets	6	8	11	12
No caption with term *buildings*	18	15	18	17
	562	556	558	554
Line of business classification	38	44	42	46
Total Companies	**600**	**600**	**600**	**600**
Other Depreciable Asset Captions	**Number of Companies**			
Machinery and/or equipment	440	443	447	443
Machinery and/or equipment combined with other assets	96	90	84	86
Construction in progress	256	240	242	244
Leasehold improvements	104	105	109	114
Leased assets	85	99	108	111
Automobiles, marine equipment, etc.	74	76	77	77
Furniture, fixtures, etc.	44	47	52	50
Assets leased to others	17	19	15	16

TABLE 2-14: ACCUMULATED DEPRECIATION

	1986	1985	1984	1983
Accumulated depreciation	309	301	301	293
Accumulated depreciation and amortization	167	161	160	162
Accumulated depreciation, amortization and depletion	33	37	40	35
Accumulated depreciation and depletion	23	20	18	18
Allowance for depreciation	30	30	29	30
Allowance for depreciation and amortization	18	25	22	28
Other captions	20	26	30	34
Total Companies	**600**	**600**	**600**	**600**

GANNETT CO., INC. (DEC)

Consolidated Balance Sheets

	1986	1985
Total current assets	$ 570,589,000	$ 473,394,000
Property, plant and equipment:		
Land	64,899,000	52,493,000
Buildings and improvements	432,852,000	306,083,000
Advertising display structures	190,975,000	188,155,000
Machinery, equipment and fixtures	1,077,567,000	792,130,000
Construction in progress	46,664,000	42,486,000
	1,812,957,000	1,381,347,000
Less accumulated depreciation	(581,446,000)	(499,424,000)
Net property, plant and equipment	1,231,511,000	881,923,000

Consolidated Statements of Income

	1986	1985	1984
Operating expenses:			
Cost of sales and operating expenses, exclusive of depreciation	$1,564,545,000	$1,231,209,000	$1,102,003,000
Selling, general and administrative expenses, exclusive of depreciation	497,244,000	370,163,000	321,085,000
Depreciation	111,229,000	85,512,000	75,922,000
Amortization of intangible assets	31,980,000	18,017,000	14,591,000
Total	2,204,998,000	1,704,901,000	1,513,601,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Property and depreciation—Property, plant and equipment is recorded at cost, and depreciation is provided generally on a straight-line basis over the estimated useful lives of the assets. The principal estimated useful lives are: buildings and improvements, 10 to 40 years; machinery, equipment and fixtures, four to 25 years; outdoor advertising display structures, five to 30 years. Major renewals, betterments, relocation of outdoor advertising structures and interest incurred during the construction period of major additions are capitalized. Expenditures for the removal of outdoor advertising structures, maintenance, repairs and minor renewals are charged to expense as incurred. When depreciable assets are retired or sold, the cost and related allowance for depreciation are removed from the accounts and the resulting gain or loss is reflected in earnings.

CAMERON IRON WORKS, INC. (JUN)

	1986	1985
	($000)	
Total Current Assets	$476,177	$444,961
Property, Plant and Equipment		
Land	17,607	11,182
Buildings and improvements	220,181	222,921
Machinery and equipment	616,886	594,704
Incomplete construction	5,447	9,602
	860,121	838,409
Less—Accumulated depreciation	489,993	460,943
Net Property, Plant and Equipment	370,128	377,466

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Accounting Policies

Property, Plant and Equipment

These assets are carried at cost and depreciation is provided on a straight-line basis over their estimated useful lives. Maintenance and repair costs are expensed as incurred. Gains or losses on the disposal of property, plant and equipment are reflected in earnings. The straight-line depreciation rates used are as follows:

Buildings	2½% to 12%
Machinery and equipment	8% to 20%
Patterns and dies	20% to 33⅓%
Furniture and fixtures	10% to 20%
Automobiles and trucks	16⅔% to 33⅓%

Incentive grants awarded to the Company's foreign subsidiaries in connection with the construction of plant facilities are deferred and amortized over the estimated lives of the related facilities.

3. Supplementary Profit and Loss Information

The following amounts were charged against earnings in 1986, 1985 and 1984:

	(Thousands of Dollars)		
	1986	1985	1984
Depreciation	$39,213	$35,596	$66,197
Maintenance and repairs	31,236	34,141	34,388
Taxes, other than payroll and income—			
Property	9,409	8,079	11,556
Other	3,341	3,360	2,589

COURIER CORPORATION (SEP)

Consolidated Balance Sheets

	1986	1985
Total current assets	$32,010,000	$33,431,000
Property, plant and equipment (Note A):		
Land	545,000	545,000
Buildings and improvements	9,846,000	9,638,000
Favorable building lease/option (Note H)	2,908,000	—
Machinery and equipment	55,789,000	43,629,000
Furniture and fixtures	1,152,000	1,081,000
Construction in progress	571,000	1,922,000
	70,811,000	56,815,000
Less—Accumulated depreciation	(30,801,000)	(27,926,000)
	40,010,000	28,889,000

Consolidated Statements of Changes in Financial Position

	1986	1985	1984
Continuing operations:			
Income from continuing operations	$3,711,000	$4,736,000	$5,337,000
Charges to income not requiring use of cash:			
Depreciation and amortization	4,534,000	3,390,000	3,007,000
Deferred income taxes	1,734,000	(247,000)	(980,000)
Cash provided from continuing operations	9,979,000	7,879,000	7,364,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A (In Part): Summary of Significant Accounting Policies

Property, Plant and Equipment

Property, plant and equipment are recorded at cost, including interest on funds borrowed to finance the acquisition or construction of major capital additions. Such interest amounted to $258,000 in fiscal 1986 and $17,000 in 1985; no interest was capitalized in 1984. For financial reporting purposes, the Company provides for depreciation of plant and equipment on a straight-line basis over the following estimated useful lives:

Buildings and improvements	10 to 40 years
Machinery and equipment	3 to 20 years
Furniture and fixtures	3 to 20 years

Leasehold improvements are amortized on a straight-line basis over the shorter of the useful life of the improvement or the term of the lease. The favorable building lease is amortized over the life of the lease. Expenditures for maintenance and repairs are charged against income as incurred; betterments which increase the value or materially extend the life of the related assets are capitalized. When assets are sold or retired, the cost thereof and accumulated depreciation are removed from the related accounts and any gain or loss is credited to or charged against income.

H. Acquisition

In October 1985, the Company purchased the stock of The Alpine Press, Inc. for notes payable to stockholders of Alpine totalling $6.8 million; approximately $5.7 million of these notes have been paid through September 27, 1986. The operating results of Alpine subsequent to the acquisition date have been included in the accompanying consolidated financial statements. Assets acquired in the transaction, including a favorable lease and purchase option with respect to Alpine's plant, were written up to their fair market value in accordance with the purchase method of accounting for acquisitions.

If Alpine had been included in the consolidated results of the Company in previous years, reported sales would have been higher by approximately $15 million in fiscal 1985 and $12 million in 1984. Net income for fiscal 1985 and 1984 would have been comparable to that reported in the accompanying financial statements as earnings generated by Alpine would have been offset by a related increase in net interest expense.

MEREDITH CORPORATION (JUN)

	1986	1985
	(in thousands)	
Total Current Assets	$157,901	$152,210
Property, Plant, and Equipment (at cost)	191,728	178,376
Less accumulated depreciation	(79,522)	(69,778)
Net Property, Plant, and Equipment	112,206	108,598

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Accounting Policies

c. Property, Plant, and Equipment

Depreciation expense is provided primarily on the straight-line method over the estimated useful lives of the assets. Expenditures for maintenance, repairs, and minor replacements are charged to operations, and expenditures for major replacements and betterments are added to the property, plant, and equipment accounts. The cost and accumulated depreciation of property, plant, and equipment retired or sold are eliminated from the property accounts at the time of retirement or sale and the resulting gain or loss is recorded in income.

3. Property, Plant, and Equipment

A comparative summary of property, plant, and equipment follows:

	1986	1985	1984
	(in thousands)		
Land and improvements	$ 6,173	$ 6,128	$ 4,889
Buildings and improvements	49,123	47,116	40,458
Machinery and equipment	129,602	121,180	101,710
Leasehold improvements	2,989	2,659	2,044
Construction in progress	3,841	1,293	2,721
	191,728	178,376	151,822
Less accumulated depreciation	79,522	69,778	53,952
	$112,206	$108,598	$ 97,870
Depreciation expense for the year	$ 14,750	$ 13,013	$ 11,735

For each classification of property, plant, and equipment, depreciable life is as follows:

	Depreciable Life
Buildings and improvements	5 to 45 years
Machinery and equipment	3 to 20 years
Leasehold improvements	4 to 10 years

SETON COMPANY (DEC)

	1986	1985
Total current assets	$48,811,518	$38,052,111
Property, plant and equipment—net	21,477,129	20,472,210

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (In Part): Accounting Policies

Property, plant and equipment:

Property, plant and equipment is carried at cost, less accumulated depreciation and amortization. Depreciation charges are computed under the straight-line method based on the estimated useful lives of the related assets.

Note 5. Property, Plant and Equipment

Property, plant and equipment consists of the following:

	1986	1985	Useful Lives
Land	$ 1,527,837	$ 1,487,087	
Buildings and improvements	14,499,067	13,105,401	10–36 years
Machinery and equipment	18,046,556	16,700,118	5–10 years
Transportation equipment	601,196	492,965	4–5 years
	34,674,656	31,785,571	
Less accumulated depreciation and amortization	13,197,527	11,313,361	
Totals	$21,477,129	$20,472,210	

Depreciation and amortization of property, plant and equipment was $2,692,000, $2,285,000 and $1,771,000 in 1986, 1985 and 1984, respectively.

VULCAN MATERIALS COMPANY (DEC)

Consolidated Balance Sheets

	1986	1985
	(in thousands)	
Total current assets	$315,008	$332,436
Investments and long-term receivables	8,289	7,402
Property, plant and equipment, net (Note 4)	491,129	477,590

Consolidated Statements of Funds Provided and Used

	1986	1985	1984
		(in thousands)	
Continuing operations			
Earnings from continuing operations	$ 93,217	$ 79,639	$ 81,459
Add items not requiring funds:			
Depreciation, depletion and amortization	77,104	68,609	70,576
Provision for deferred income taxes	12,759	10,370	5,658
Decrease in undistributed earnings of nonconsolidated companies	495	8,802	1,223
Amortization of block power purchase deposit	3,870	—	—
Other, net	1,263	1,048	2,228
Funds provided by continuing operations	188,708	168,468	161,144

NOTES TO FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Property, Plant and Equipment

Property, plant and equipment are carried at cost less allowances for accumulated depreciation, depletion and amortization.

The cost of properties held under capital leases is equal to the lower of the net present value of the minimum lease payments or the fair value of the leased property at the inception of the lease.

Depreciation, Depletion and Amortization

Depreciation is computed by the straight-line method at rates based upon the estimated service lives of the various classes of assets, which include machinery and equipment, buildings and land improvements. Amortization of capitalized leases is included with depreciation expense.

Cost depletion on depletable quarry land is computed by the unit of production method based upon estimated recoverable units.

Leaseholds are amortized over varying periods not in excess of applicable lease terms.

4. Property, Plant and Equipment

Balances of major classes of assets and allowances for depreciation, depletion and amortization at December 31 are as follows (in thousands of dollars):

	1986	1985
Land and land improvements	$ 82,350	$ 71,428
Buildings	53,134	49,921
Machinery and equipment	916,065	854,880
Leaseholds	2,074	1,888
Construction in progress	6,412	7,850
Total	1,060,035	985,967
Less allowances for depreciation, depletion and amortization	568,906	508,377
Property, plant and equipment, net	$ 491,129	$477,590

The company capitalized interest cost of $190,000 in 1986 and $2,113,000 in 1985 with respect to qualifying construction projects. Total interest cost incurred before recognition of the capitalized amount was $7,456,000 in 1986 and $7,787,000 in 1985.

Balances referable to capitalized leases, which are included in property, plant and equipment, at December 31 are as follows (in thousands of dollars):

	1986	1985
Land and land improvements	$ 16	$ 16
Buildings	59	59
Machinery and equipment	10,421	10,357
Total	10,496	10,432
Less allowance for amortization	7,458	7,035
Property, plant and equipment, net	$ 3,038	$ 3,397

Amortization of capitalized leases amounted to $394,581 in 1986, $428,470 in 1985 and $638,610 in 1984.

In 1986 the company made two changes in account classifications to provide more useful data. The separate classification of leasehold improvements was discontinued and the costs and related allowances for depreciation were reclassified to respective cost and allowance accounts for land improvements and buildings. Also, the direct write-off of the carrying costs of depletable land and leaseholds was discontinued. Depletable land and leaseholds are now carried at original cost with separate allowance accounts for accumulated cost depletion and amortization. Amounts for 1985 in the above tables have been restated to reflect these changes.

WITCO CORPORATION (DEC)

Consolidated Balance Sheets

	1986	1985
	($000)	
Total Current Assets	$412,152	$408,024
Property, Plant and Equipment, less accumulated depreciation and depletion of $401,083 and $347,425	367,789	360,950
Intangibles Applicable to Companies Acquired, less accumulated amortization of $3,213 and $2,908	15,682	15,924
Deferred Costs and Other Assets	24,145	25,394
Total Assets	$819,768	$810,292

Consolidated Statements of Income

	1986	1985	1984
		($000)	
Costs and Expenses			
Cost of goods sold	$1,043,101	$1,169,630	$1,212,831
Selling and administrative expenses	149,823	138,130	139,183
Depreciation and depletion.	50,785	48,321	41,639
Interest	12,045	11,343	14,482
Total Costs and Expenses	1,255,754	1,367,424	1,408,135

NOTES TO FINANCIAL STATEMENTS

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

Property, Plant and Equipment: Property, plant and equipment is stated at cost. Depreciation is provided principally using the straight-line method based on estimated useful lives. Cost of oil and gas producing properties and development costs associated with those properties are capitalized in accordance with the successful efforts method of accounting. Depletion of oil and gas producing properties is computed using the unit of production method based on proved reserves for mineral rights and proved developed reserves for development costs.

Note 4: Property, Plant and Equipment

Capital expenditures totaled $60,102,000 in 1986 and $71,093,000 in 1985. A summary of property, plant and equipment follows:

(thousands of dollars)	1986	1985
Land	$ 11,557	$11,289
Mineral rights leaseholds	14,056	14,029
Intangible development costs	46,775	44,772
Buildings and building improvements	82,612	80,904
Machinery, fixtures and equipment	594,867	539,663
Assets under construction	19,005	17,718
	768,872	708,375
Accumulated depreciation and depletion	401,083	347,425
	$367,789	$360,950

At December 31, 1986, the estimated costs to complete authorized projects under construction amounted to $55,989,000.

The Company capitalized interest of $1,539,000 (1986), $2,653,000 (1985) and $1,521,000 (1984) related to qualifying assets under construction. Total interest incurred, including capitalized amounts during these same periods, was $13,584,000, $13,996,000 and $16,003,000, respectively.

FUNCTIONAL CLASSIFICATION

AMERICAN PETROFINA, INCORPORATED (DEC)

Consolidated Balance Sheets

	1986	1985
	(in thousands)	
Total current assets	$ 684,029	$ 713,455
Investments in and advances to affiliates	57,330	61,261
Net property, plant and equipment, at cost, based on successful efforts method (note 2)	972,631	1,012,617
Deferred charges and other assets, at cost less applicable amortization	62,979	29,923
	$1,776,969	1,817,256

Consolidated Statements of Operations

	1986	1985	1984
		(in thousands)	
Costs and expenses:			
Cost of raw materials and products purchased	$1,486,883	$1,817,095	$1,603,607
Direct operating expenses	262,464	287,071	247,578
Selling, general and administrative expenses	74,739	79,363	70,129
Taxes, other than on income	31,841	34,788	31,553
Dry holes, delay rentals and abandonments	16,156	20,352	21,261
Depreciation, depletion, amortization and lease impairment (note 2)	128,290	171,730	98,018
Interest	65,333	70,405	54,964
Less interest capitalized	(3,940)	(10,356)	(23,494)
	2,061,766	2,470,448	2,103,616

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

(e) Property, Plant and Equipment

The Company accounts for oil and gas properties in accordance with Statement of Financial Accounting Standards No. 19. Costs to acquire mineral interests in oil and gas properties, to drill exploratory wells which find proved reserves and to drill and equip development wells, are capitalized and geological and geophysical costs and costs to drill exploratory wells which do not find proved reserves are expensed.

Unproved oil and gas properties which are individually significant are periodically assessed for impairment of value and a loss is recognized at the time of impairment by providing an impairment allowance. The remaining unproved oil and gas properties are aggregated and an overall impairment allowance is provided based on the Company's prior experience. Capitalized costs of proved oil and gas properties are depreciated and depleted by the unit-of-production method based on proved oil and gas reserves as estimated by the Company's engineers.

Substantially all other property, plant and equipment is depreciated by the straight-line method at rates based on the estimated useful lives of the classes of property. Depreciation rates used are as follows:

Refining and marketing facilities	5% to 33⅓%
Petrochemical facilities	6⅔% to 33⅓%
Pipelines	4% to 18¼%
Other	10% to 33⅓%

The Company capitalizes interest as a component of the cost of construction and development projects in progress.

Repairs and maintenance are charged to earnings as incurred. Renewals and betterments are capitalized. When assets are sold, retired or otherwise disposed of, the applicable costs and allowances are removed from the accounts and the resulting gain or loss is recognized.

2. Property, Plant and Equipment

A summary of property, plant and equipment follows:

	December 31	
	1986	1985
	(in thousands)	
Proved oil and gas properties	$ 617,264	574,038
Unproved oil and gas properties	63,829	97,682
Refining and marketing facilities	749,798	729,668
Petrochemical facilities	149,308	157,538
Marine transportation	105,272	105,142
Pipelines	30,848	30,378
Other	29,026	26,866
	1,745,345	1,721,212
Less accumulated depreciation, depletion, amortization and lease impairment	772,714	708,695
	$ 972,631	1,012,617

Property, plant and equipment includes capitalized lease obligations of $129,287,000 and $128,732,000 and related accumulated depreciation of $113,632,000 and $113,445,000 at December 31, 1986 and 1985, respectively.

Marine transportation consists of two U.S. flag very large crude carriers which have been capitalized pursuant to Statement of Financial Accounting Standards No. 13. Based on an assessment of future demand for the tankers, the Company concluded that the undepreciated cost of the tankers would not be recovered. As a result, the Company recorded $43,018,000 of additional depreciation in December 1985 to fully depreciate the tankers.

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

Consolidated Balance Sheet

	1986	1985
	(in millions)	
Total Current Assets	$ 8,960	$ 8,876
Property, Plant and Equipment—Note 12	31,859	29,826
Less: Accumulated Depreciation, Depletion and Amortization	16,162	14,631
	15,697	15,195
Investment in Affiliates	469	280
Other Assets	1,607	789
Total Assets	26,733	25,140

Consolidated Income Statement

	1986	1985	1984
		(in millions)	
Cost of Goods Sold and Other Operating Charges	$15,129	$17,898	$18,627
Selling, General and Administrative Expenses	2,350	2,077	2,024
Depreciation, Depletion and Amortization	2,119	1,796	1,736
Exploration Expenses, Including Dry Hole Costs and Impairment of Unproved Properties	550	561	524
Research and Development Expense	1,156	1,144	1,097
Interest and Debt Expense	438	513	565
Taxes Other Than on Income	2,656	2,282	2,345
Gains from Sales of Businesses	(140)	(27)	(14)
Loss on Restructuring of Investments	178	226	—
Early Retirement Program Expense	—	200	—
Total	24,436	26,670	26,904

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Property, Plant and Equipment

Property, plant and equipment (PP&E) is carried at cost, and, except for petroleum and coal PP&E, is generally classified in depreciable groups and depreciated by an accelerated method that produces results similar to the sum-of-the-year's digits method. Depreciation rates range from 4% to 12% per annum on direct manufacturing facilities and from 2% to 10% per annum on other facilities; in some instances appropriately higher or lower rates are used.

Petroleum and coal PP&E, other than that described below, is depreciated on the straight-line method at various rates calculated to extinguish carrying values over estimated useful lives.

Generally, the gross carrying value of PP&E (including petroleum and coal) surrendered, retired, sold, or otherwise disposed of is charged to accumulated depreciation, depletion and amortization; any salvage or other recovery therefrom is credited to accumulated depreciation, depletion and amortization. Maintenance and repairs are charged to operations; replacements and betterments are capitalized.

Oil and Gas Properties

The company's exploration and production activities are accounted for under the successful efforts method. Costs of acquiring unproved properties are capitalized, and impairment of those properties, which are individually insignificant, is provided for by amortizing the cost thereof based on past experience or the estimated holding period. Geological, geophysical, and delay rental costs are expensed as incurred. Costs of exploratory dry holes are expensed as the wells are determined to be dry. Costs of productive properties, production and support equipment, and development costs are capitalized and amortized on a unit-of-production basis.

Coal Properties

Costs of undeveloped properties and development costs applicable to the opening of new coal mines are capitalized and amortized on a unit-of-production basis. Costs of additional mine facilities required to maintain production after a mine reaches the production stage, generally referred to as "receding face costs," are expensed as incurred; however, costs of additional air shafts and new portals are capitalized and amortized.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Millions of dollars, except per share amounts)

12. Property, Plant and Equipment

	December 31 1986	1985
Biomedical Products	$ 829	$ 765
Industrial and Consumer Products	2,281	1,992
Fibers	6,434	6,035
Polymer Products	4,000	4,123
Agricultural and Industrial Chemicals	4,396	3,863
Petroleum Exploration and Production	7,635	7,333
Petroleum Refining, Marketing and Transportation	2,294	2,076
Coal	2,855	2,581
Corporate	1,135	1,058
	$31,859	$29,826

Property, Plant and Equipment includes gross assets acquired under capital leases of $235 and $224 at December 31, 1986 and 1985; related amounts included in accumulated depreciation, depletion and amortization were $75 and $65 at December 31, 1986 and 1985.

Maintenance and repairs expense was $1,440 in 1986, $1,424 in 1985, and $1,504 in 1984.

INVESTMENTS

Although there is a presumption that consolidated financial statements are usually necessary for a fair presentation when one company has a controlling interest in another company, there are instances when consolidation of a subsidiary is not appropriate. *APB Opinion No. 18* stipulates that the equity method should be used to account for investments in subsidiaries, corporate joint ventures, and minority owned companies when an investor has "the ability to exercise significant influence over operating and financial policies of an investee even though the investor holds 50% or less of the voting stock." *Opinion No. 18* considers an investor to have the ability to exercise significant influence when it owns 20% or more of the voting stock of an investee. *Opinion No. 18* also sets forth procedures to be followed and disclosures to be made by an investor in applying the equity method. *FASB Interpretation No. 35* was issued to clarify the criteria for applying the equity method of accounting to minority owned companies.

In addition to investments accounted for by the equity method many of the survey companies used the term *Investments* to describe holdings of marketable equity securities, bonds, or property not held for productive purposes. As mentioned in the Section on "Marketable Securities in Current Assets," *Statement of Financial Accounting Standards No. 12* stipulates that marketable equity securities, whether presented as a current or noncurrent asset, should be carried at lower of aggregate cost or market value.

Examples of investment presentations and disclosures follow.

TABLE 2-15: INVESTMENTS—VALUATION BASES

	Number of Companies			
	1986	**1985**	**1984**	**1983**
Equity	316	336	330	345
Cost	118	125	127	127
Cost less allowances for losses	8	11	11	12
Lower of cost or market	19	27	33	23

Equity Method

ADDSCO INDUSTRIES INC. (JUN)

Consolidated Balance Sheets

	1986	1985
Total Current Assets	$25,099,506	$14,449,303
Investments		
Unconsolidated affiliated companies—at equity	283,682	252,501

Consolidated Statements of Operations

	1986	1985	1984
Loss from Operations	$(4,800,875)	$(4,180,620)	$(10,103,840)
Other Income			
Income (loss) from unconsolidated affiliated companies, net of income taxes	31,181	32,018	(135,393)
Investment income	148,595	428,132	599,567
Other	421,734	282,649	420,099
Total Other Income	601,510	742,799	884,273
Loss Before Income Taxes	(4,199,365)	(3,437,821)	(9,219,567)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (In Part):

Principles of consolidation:

The accompanying consolidated financial statements include the accounts of ADDSCO Industries, Inc. and all majority owned subsidiaries. Investment in an unconsolidated 50% owned affiliate is accounted for by the equity method. All material intercompany transactions and accounts are eliminated in consolidation.

Investments in Unconsolidated affiliated Companies

Investments in unconsolidated affiliates are accounted for using the equity method.

Pinto Island Metals Company, Inc., previously engaged in scrap metal sales, was liquidated during the year ended June 30, 1984. The Company owned 51% of Pinto Island Metals Company, Inc. prior to liquidation. The Company owns 50% of Pinto Island Land Company, Inc. which is engaged in leasing wharfage.

Summarized combined financial information for these unconsolidated affiliates is as follows:

	1986	1985
At June 30:		
Total assets	$581,214	$521,589
Total liabilities	13,851	16,588
For the years ended June 30:		
Revenues	190,194	227,709
Net income	62,362	63,605

The Company's investment in unconsolidated affiliates was $283,682 and $252,501 at June 30, 1986 and 1985, respectively.

ALCO STANDARD CORPORATION (SEP)

Consolidated Balance Sheets

	1986	1985
	(in thousands)	
Total current assets	$752,532	$861,605
Investments and Long-Term Receivables		
Investment in Alco Health Services Corporation	62,255	
Other investments	37,533	58,766
Long-term receivables	22,191	26,169
	121,979	84,935

Consolidated Statements of Income

	1986	1985	1984
	(in thousands)		
Operating income	$126,783	$124,287	$117,028
Health Services Transactions (note 11)			
Gain on issuance and sale of stock	11,358	31,928	
Equity in earnings from September 1, 1986	635		
Minority interest prior to September 1, 1986	(6,263)	(954)	
	5,730	30,974	
Unusual charges		(25,062)	
Income before taxes from continuing operations	132,513	130,199	117,028

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Accounting Policies

Alco Health Services

The company's ownership in Alco Health Services Corporation was reduced below 50% on August 31, 1986 and equity accounting has been adopted since that date. Accordingly, the balance sheet at September 30, 1986 does not include the assets and liabilities of Alco Health Services Corporation and the income statement for the year ended September 30, 1986 includes eleven months of revenues and costs on a fully consolidated basis (note 11).

11: Health Services Transactions

In August 1985, the company formed Alco Health Services Corporation (AHS) by contributing inventories, properties, and other assets of Alco's Health Services Segment, subject to its liabilities. Immediately thereafter, AHS completed an initial public offering of 4,700,000 shares of its common stock, realizing $70,382,000 in net proceeds. As a result of the offering, the company's interest in AHS was reduced to 60%. The company recognized a gain of $31,928,000 which resulted from the sale of AHS stock at a value greater than the company's basis. This gain was originally reported in 1985, net of unusual charges totaling $25,062,000 (note 12), and the net gain, after minor tax benefits, amounted to $7,519,000 (per share: primary $.34; fully diluted $.31).

In November 1985, AHS issued 1,110,000 shares of its common stock in an acquisition resulting in a gain of $2,164,000 to Alco Standard Corporation and a reduction of its ownership to 56%.

In August 1986, the company sold 1,000,000 shares of its AHS stock in a secondary public offering realizing net proceeds of $19,475,000. The gain on this transaction, after income taxes of $4,926,000, was $4,268,000. This sale reduced the company's ownership to 48%. As a result of the percentage ownership falling below 50%, the assets and liabilities of AHS were removed from the consolidated balance sheet as of August 31, 1986 and equity accounting was adopted (note 1).

These two fiscal 1986 transactions resulted in a net gain of $6,432,000 (per share: $.30; fully diluted $.27).

At September 30, 1986, the company's consolidated retained earnings included approximately $9,500,000 of undistributed AHS earnings and the market value of its AHS investment was $118,125,000.

During 1986, AHS issued $100,000,000 principal amount of 6¼% convertible subordinated debentures due 2001 which are convertible into 3,809,524 shares of AHS common stock. If conversion had occurred at September 30, 1986, the company's ownership interest would have been reduced to 37%.

Summary financial information for AHS per its annual report to stockholders as of and for its year ended September 30 was as follows:

(in thousands)	1986	1985	1984
Current assets	$ 332,149	$192,929	$159,500
Noncurrent assets	53,045	24,587	21,420
Current liabilities	151,798	113,805	95,959
Noncurrent liabilities	103,921	3,102	3,314
Revenues	1,285,811	955,377	766,654
Gross profit	113,493	91,500	80,425
Net income	15,640	12,964	10,354

GERBER PRODUCTS COMPANY (MAR)

Consolidated Statements of Financial Position

	1986	1985
	($000)	
Total Current Assets	$289,970	$278,344
Other Assets		
Investment in unconsolidated companies—Note D	30,852	30,695
Investment in bonds		10,080
Nontrade notes receivable	5,511	11,492
Miscellaneous receivables, prepayments and other accounts	25,495	15,382
Intangible assets, less amortization (1986-$8,797; 1985-$6,282)	31,768	27,477
	93,626	95,126

Consolidated Statements of Operations

	1986	1985	1984
		($000)	
Net sales	$836,801	$793,735	$690,587
Transportation revenues	131,064	135,708	114,856
Interest, royalties and other income	3,143	6,547	9,098
Share of earnings of unconsolidated companies	1,690	2,541	1,440
	972,698	938,531	815,981

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Principles of Consolidation: The consolidated financial statements include the accounts of the Company and all wholly-owned subsidiaries except for those conducting insurance or leasing operations. Unconsolidated subsidiaries and a 49% owned Mexican affiliate are reflected in the accounts using the equity method of accounting. Insurance operations are included based on December 31 financial statements and a Costa Rican subsidiary and the Mexican affiliate are included on the basis of fiscal years ended January 31. Upon consolidation, all intercompany accounts, transactions and profits are eliminated.

Note D: Investment in Unconsolidated Companies

Summarized financial information of unconsolidated companies accounted for using the equity method is as follows:

	Mexican Affiliate	Insurance Operations	Leasing Operations
		(Thousands of Dollars)	
Assets:			
Investments		$32,521	
Deferred policy acquisition costs		18,805	
Net investment in leveraged leases			$14,473
Advances to parent company			1,547
Other	$13,658	3,647	280
	13,658	54,973	16,300
Liabilities:			
Future policy benefits		23,649	
Deferred income taxes		2,705	14,415
Payable to parent company	130	654	
Other	4,140	1,845	990
	4,270	28,853	15,405
Equity	$ 9,388	$26,120	$ 895
Revenues:			
Premium income		$16,990	
Investment income (loss)		3,268	$(1,601)
Other	$22,511	3,012	94
	22,511	23,270	(1,507)
Operating expenses	23,111	20,727	762
Earning (Loss) Before Income Taxes	(600)	2,543	(2,269)
Income taxes (credit)	65	1,030	(2,772)
Net Earnings (Loss)	$ (665)	$ 1,513	$ 503

Total assets and total revenues of unconsolidated companies were less than 10% of consolidated assets and revenues in both 1985 and 1984.

ASHLAND OIL, INC. (SEP)

Consolidated Balance Sheets

	1986	1985
	(in thousands)	
Investments and other assets		
Noncurrent net assets of operations held for sale	$ —	$157,000
Investments in and advances to unconsolidated subsidiaries and affiliates—Note D	162,958	172,492
Cost in excess of net assets of companies acquired (less accumulated amortization of $6,693,000 in 1986 and $4,626,000 in 1985)	52,740	50,107
Advance coal royalties	57,936	58,366
Other noncurrent assets	160,993	77,932
	434,627	515,897

Statements of Consolidated Income

Years Ended September 30

	1986	1985	1984
		(in thousands)	
Operating income	$473,038	$352,057	$252,023
Other income (expense)			
Interest income	28,751	20,309	19,723
Interest expense	(61,414)	(67,413)	(80,814)
Equity income—Note D	15,843	10,421	20,387
Other—net (including corporate administrative)	(83,867)	(57,014)	(67,446)
Divestitures and asset write-offs	—	(39,652)	(286,641)
Income (loss) before income taxes	372,351	218,708	(142,768)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note A (In Part): Significant Accounting Policies

Principles of consolidation

The consolidated financial statements include the accounts of Ashland and its majority-owned subsidiaries, except those engaged in insurance activities. Investments in engineering and construction joint ventures are accounted for on the equity method in the balance sheet and on the proportionate consolidation method in the income statement. Investments in other joint ventures, in 20% to 50% owned affiliates and in unconsolidated subsidiaries (including Integon Corporation prior to September 30, 1984) are accounted for on the equity method.

Note D: Unconsolidated Subsidiaries and Affiliates

Investments accounted for on the equity method as of September 30, 1986 are: Arch Mineral Corporation, a 50% owned coal company; LOOP INC. and LOCAP INC., 18.6% and 21.4% owned joint ventures operating a deepwater offshore port and related pipeline facilities in the Gulf of Mexico; and various petroleum, chemical and engineering companies. Prior to September 30, 1984, Integon Corporation was also accounted for on the equity method (see Note C). Summarized financial information reported by these investments and a summary of the amounts recorded in Ashland's consolidated financial statements follow.

(In thousands)	Arch Mineral Corporation	LOOP INC. and LOCAP INC.	Engineering joint ventures[1]	Other	Total
September 30, 1986					
Financial position					
Current assets	$ 98,382	$ 21,437	$46,970	$148,894	
Current liabilities	(92,501)	(105,354)	(35,204)	(115,508)	
Working capital	5,881	(83,917)	11,766	33,386	
Noncurrent assets	481,675	885,583	1,730	204,493	
Noncurrent liabilities	(284,667)	(757,132)	(649)	(161,211)	
Stockholders' equity	$202,889	$ 44,534	$12,847	$ 76,668	
Results of operations					
Sales and operating revenues	$383,091	$119,281	$ —	$288,870	
Gross profit	52,028	52,086	—	37,291	
Net income (loss)	27,918	(2,199)	—	1,162	
Amounts recorded by Ashland					
Investments and advances	109,574	6,424	9,054	37,906	$162,958
Equity income	13,963[2]	1,096	—	784	15,843
Dividends received	3,000	—	—	2,357	5,357
September 30, 1985					
Financial position					
Current assets	$ 89,627	$ 25,741	$75,052	$142,964	
Current liabilities	(80,935)	(145,798)	(45,582)	(98,008)	
Working capital	8,692	(120,057)	29,470	44,956	
Noncurrent assets	444,273	912,021	9,770	332,393	
Noncurrent liabilities	(272,002)	(745,231)	(6,908)	(280,155)	
Stockholders' equity	$180,963	$ 46,733	$32,332	$ 97,194	
Results of operations					
Sales and operating revenues	$340,074	$ 95,713	$ —	$269,345	
Gross profit	41,865	30,740	—	32,572	
Net income (loss)	20,748	(25,764)	—	(2,146)	
Amounts recorded by Ashland					
Investments and advances	98,611	5,328	4,809	63,744	$172,492
Equity income (loss)	10,442[2]	(1,452)	—	1,431	10,421
Dividends received	3,000	—	—	2,440	5,440
September 30, 1984					
Results of operations					
Sales and operating revenues	$280,581	$102,040	$ —	$240,503	
Gross profit	42,804	39,726	—	24,451	
Net income (loss)	27,739	(19,824)	—	(5,463)	
Amounts recorded by Ashland					
Equity income (loss)	13,903[2]	(3,689)	—	673	$ 10,887[3]
Dividends received	2,000	—	—	1,602	3,602

(1) Results of operations of engineering joint ventures are accounted for on the proportionate consolidation method in Ashland's consolidated income statements.

(2) In addition, Ashland received royalty income from Arch Mineral of $11,592,000 in 1986, $8,145,000 in 1985 and $8,712,000 in 1984.

(3) Excludes equity income from Integon of $9,500,000.

Equity Method—Investment Reduced Below Zero

MAPCO INC. (DEC)

Consolidated Balance Sheet

	1986	1985
	(in Thousands)	
Total current liabilities	$234,967	$523,171
Long-Term Debt, excluding amounts payable within one year	391,089	408,890
Deferred Items:		
Deferred income tases	259,828	220,088
Other (Note 6)	29,167	21,113
	288,995	241,201

Consolidated Statement of Income

	1986	1985	1984
		(in Thousands)	
Income from Consolidated Continuing Operations	$79,028	$105,336	$44,308
Loss of Unconsolidated Affiliate (net of applicable income taxes) (Note 6)	(746)	(1,313)	(3,334)
Income from Continuing Operations	78,282	104,023	40,974

Note 6: Investment in Affiliate

MAPCO's 45% investment in the Seminole project, a pipeline company (which operates a natural gas liquids pipeline from West Texas to the Texas Gulf Coast) and a financing partnership, is recorded using the equity method.

Condensed financial information for the Seminole project in total is as follows (in thousands):

Condensed Balance Sheet		
December 31,	1986	1985
Current Assets:		
Cash	$ 86	$ 3,431
Receivables	4,781	5,099
Prepaid expenses	893	636
Total current assets	5,760	9,166
Property, Plant and Equipment—net	178,045	182,747
Other	1,158	1,841
	$184,963	$193,754
Current Liabilities:		
Notes payable	$ 1	$ 8
Long-term debt—current	2,300	1,835
Accounts payable	3,153	6,489
Accrued interest	679	809
Other	3,207	5,824
Total current liabilities	9,340	14,965
Long-Term Debt	185,237	189,113
Deferred Income Taxes	21,714	14,805
Stockholders' Deficit	(31,328)	(25,129)
	$184,963	$193,754

Condensed Statement of Income			
Year Ended December 31,	1986	1985	1984
Operating Revenues	$29,613	$28,526	$26,182
Expenses:			
Operating	8,644	7,902	10,025
Depreciation	5,439	5,529	5,312
General and administrative	668	513	504
Interest	14,439	17,020	21,069
Other expense (income)—net	(44)	(89)	143
	29,146	30,875	37,053
Pre-Tax Income (Loss)	467	(2,349)	(10,871)
Income Taxes	6,925	6,796	4,749
Net Loss	$ (6,458)	$ (9,145)	$(15,620)

The financing partnership has a bank credit agreement providing long-term financing for up to $192,700,000, with MAPCO's share of the commitment amounting to $90,000,000. The agreement provides for future reduction of the total commitment of $2,300,000, in 1987, $25,800,000 annually 1988 through 1991, $25,980,000 in 1992 and 1993, $24,740,000 in 1994 and $10,500,000 in 1995. In addition to the credit agreement, the partnership on each partner's behalf may use other financing alternatives. At December 31, 1986, the partnership was satisfying MAPCO's portion of the debt requirement through the issuance of commercial paper and borrowings under the credit agreement and at December 31, 1985, entirely through commercial paper. Participants in the Seminole project are contingently liable as guarantors of their respective portions of the financing partnership's debt, with MAPCO contingently liable for $86,466,000 and $87,531,000 as of December 31, 1986 and 1985, respectively. The credit agreement limits total indebtedness of the partnership to $242,700,000. There are no working capital limitations under the agreement. The results of MAPCO's interest in the financing partnership are included in MAPCO's Federal income tax return.

MAPCO's recorded deficit in the Seminole project was $17,490,000, $14,058,000 and $10,922,000 at December 31, 1986, 1985 and 1984, respectively, and is classified in "Deferred Items—Other." MAPCO has continued to apply the equity method and reduce its recorded value below zero due to MAPCO being contingently liable as a guarantor for its portion of the debt requirements of the Seminole project.

Cost Method

AMERICAN BILTRITE INC. (DEC)

	1986	1985
	(In thousands)	
Total Current Assets	$43,493	$33,918
Other Assets		
Investments in affiliated companies—Note D	2,232	1,932
Mortgage receivable		841
Other assets	208	378
	2,440	3,151

Note D: Investments in Affiliated Companies

Investments in affiliated companies consist of the following:

	1986	1985
	(In thousands of dollars)	
Compania Hulera Sula, S.A., Honduras; a 50% owned affiliate	$1,382	$1,382
50% interest in K&M Associates	850	550
	$2,232	$1,932

The investment in Compania Hulera Sula, S.A., had been accounted for on the equity method until October 1, 1983 (equity in earnings was $140,000 in 1983). Equity in earnings subsequent to this date have not been recognized due to the uncertainty of the political climate in Honduras. ABI expects to ultimately realize at least the carrying value ($1,382,000) of this investment.

On June 30, 1983, ABI acquired for $550,000 a 50% interest in K&M Associates ("K&M"), a national jewelry supplier. K&M is a partnership consisting of three general partners, each having an equal vote. Partnership earnings are distributed annually to the partners based upon a predetermined formula. Under the terms of the partnership agreement, the partnership will terminate in 1988, at which time any partner can acquire the business or the business will be liquidated.

Because of the temporary nature of the K&M investment, the inability of ABI to exercise significant influence over the partnership's operations or financial policies, and the fact that ABI's share of profits cannot be determined accurately on an interim basis, the investment in K&M is carried at cost and income is recognized when profit distributions are received. The Company received a profit distribution of $1,974,000 in 1986, $1,691,000 in 1985 and $151,000 in 1984 based on K&M's results of operations for its fiscal year ended March 31, 1986, 1985 and 1984, respectively. ABI's equity in the net assets of the K&M partnership, based on K&M's unaudited interim financial statements, was $2,745,000 at December 31, 1986 ($2,740,000 at December 31, 1985 and $2,750,000 at December 31, 1984). Based on K&M's expected results of operations for their year ending March 31, 1987, ABI could receive a 1987 profit distribution in the range of $1,600,000 to $2,000,000.

During 1986, ABI reinvested $300,000 into K&M increasing the total investment from $550,000 to $850,000, and loaned K&M $400,000 in the form of short-term notes payable on demand. This amount is grouped with accounts receivable on the accompanying balance sheets. In addition, ABI is guarantor on a $3,500,000 line of credit for K&M at a bank. At December 31, 1986, there was no outstanding balance on the line of credit.

BORG-WARNER CORPORATION (DEC)

	1986	1985
	($ millions)	
Total current assets	$ 740.8	$ 709.7
Investments and advances	229.5	342.6
Property, plant and equipment	1,005.2	846.2
Other assets	406.8	169.4
Investment in discontinued operations	470.5	696.3
	$2,852.8	$2,764.2

NOTES TO FINANCIAL STATEMENTS

Balance Sheet Information (In Part)

Detailed balance sheet data as of December 31:

(millions of dollars)	1986	1985
Investments and advances		
Chilton Corporation	$ —	$106.0
Hughes Tool Company	91.0	133.4
Other affiliates	55.3	44.7
Other investments	83.2	58.5
Total investments and advances	$229.5	$342.6

* * * * *

Borg-Warner's 18 percent investment in Hughes Tool Company is accounted for on the cost method as a long-term marketable security. Prior to 1986, this investment had been accounted for using the equity method. The change was made because the company felt it no longer could exercise significant influence over the affiliate's operations.

Dividends received from equity affiliates totaled $3.2 million in 1986, $6.5 million in 1985 (including $5.0 million from Hughes), and $11.4 million in 1984 (including $6.9 million from Hughes).

As of December 31, 1985, Borg-Warner had spent $106 million for Chilton Corporation common stock. During 1986, the acquisition was completed and Chilton was consolidated.

Investment in Hughes Tool Company

Beginning in 1986, Borg-Warner's investment in Hughes Tool Company was accounted for on the cost method as a long-term marketable security. Accordingly, its carrying value of $91 million at December 31, 1986, based upon quoted market prices, is net of an unrealized loss of $39.2 million that is recorded as a valuation reserve in shareholders' equity. Dividends of $3.2 million in 1986 reduced the investment carrying value. The quoted market value which is subject to fluctuation in Hughes Tool stock price was $132.6 million on February 17, 1987. In 1985 and 1984, the Hughes investment was accounted for on the equity method. At December 31, 1985 the carrying value was $133.4 million, the quoted market value was $137.8 million and Borg-Warner's equity in underlying net assets was $170.7 million.

Including amortization of the original excess of its equity in underlying net assets over cost, Borg-Warner's equity in Hughes Tool's net earnings for 1985 was $3 million or 3 cents per share. Its equity in the net loss of Hughes Tool for 1984 was $22.8 million, or 25 cents per share, including Borg-Warner's share of a write-off of surplus inventory and fixed assets. No income taxes have been provided on the undistributed portion of net earnings.

The following is a summary of financial data for Hughes Tool as of the statement dates indicated:

Balance sheet data (millions of dollars)	December 31, 1985
Total assets	$1,750.4
Total liabilities	$ 812.7
Total stockholders' equity	$ 937.7

Income statement data (millions of dollars)	Year ended December 31, 1985	1984
Net sales	$1,260.9	$1,215.7
Net income (loss)	$ 4.1	$ (133.8)

McDERMOTT INTERNATIONAL, INC. (MAR)

	1986	1985
	(In thousands)	
Net Property, Plant and Equipment	$1,305,932	$1,153,658
Investments in Government Obligations, at Amortized Cost	1,098,792	977,206
Excess of Cost Over Fair Value of Net Assets of Purchased Businesses Less Accumulated Amortization of $80,604,000 at March 31, 1986 and $69,315,000 at March 31, 1985	345,257	345,590
Other Assets	101,359	101,092

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Investments in Government Obligations

At March 31, 1986 McDermott International held $1,098,792,000 (amortized cost) of primarily government securities as a long-term investment, as compared to $977,206,000 (amortized cost) at March 31, 1985. The market value of these securities was $1,334,343,000 and $965,361,000 at March 31, 1986 and March 31, 1985, respectively. The face amount at March 31, 1986 was $1,077,300,000.

NATIONAL SERVICE INDUSTRIES, INC. (AUG)

	1986	1985
	(In thousands)	
Property, Plant, and Equipment—net	$202,221	$178,537
Other Assets:		
Goodwill and restrictive covenants	5,002	4,282
Investment in tax benefits	24,671	26,938
Miscellaneous	5,272	3,506
Total Other Assets	34,945	34,726

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Accounting Policies

Investment in Tax Benefits

During fiscal 1982, the Company acquired Federal tax benefits under the safe harbor leasing provisions of the Economic Recovery Tax Act of 1981 from Oglethorpe Power Corporation for $31,500,000. The tax benefits consisted of investment tax credits and Accelerated Cost Recovery System (ACRS) deductions on $180,000,000 of power generating equipment. In October, 1983, an additional payment of $13,909,000 was made based on the receipt of energy tax credits and more favorable depreciation deductions. Further payments of approximately $6,753,000 are due in 1990. The purchase has been recorded as an investment in tax benefits. The net gain from the purchase of investment tax credits and energy tax credits is being amortized into other income at a constant rate of return based on the Company's unrecovered investment at the beginning of each accounting period. The amortization of this net gain totaled $1,547,000 in 1986, $1,839,000 in 1985, and $2,212,000 in 1984. The investment in ACRS deductions is being amortized into other expenses based on a constant rate of return. The investment amortized was $593,000 in 1986 and $271,000 in 1985.

TESORO PETROLEUM CORPORATION (SEP)

	1986	1985
	(in thousands)	
Net Property, Plant and Equipment	$297,374	$445,133
Investment in Tesoro Bolivia Petroleum Company (Note D)	37,237	42,655
Other Assets:		
Notes receivable from Trinidad	2,014	45,929
Production loan receivable, net of allowance of $13,574 ($8,088 in 1985)	1,155	7,209
Other	12,944	9,765
Total Other Assets	16,113	62,903

ACCOUNTING POLICIES

Investment in Tesoro Bolivia Petroleum Company

Effective January 1, 1984, the Company discontinued consolidating the financial position and results of operations of Tesoro Bolivia Petroleum Company in its consolidated financial statements due to economic conditions in Bolivia and commenced accounting for its investment in Tesoro Bolivia on the cost method. For further information regarding Tesoro Bolivia, see Note D.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note D: Investment in Tesoro Bolivia Petroleum Company

The Company's investment in Tesoro Bolivia, a wholly-owned subsidiary, is accounted for on the cost method due to the critical economic conditions in Bolivia. This investment is comprised of two hydrocarbon contracts of operation, receivables from the sale of natural gas and condensate, and other capital assets. Reductions in the cost of this investment during 1986 and 1985 have been due primarily to receipts under the countertrade arrangements discussed below.

Yacimientos Petroliferos Fiscales Bolivianos (YPFB), the Bolivian state-owned oil and gas company, continues to be in arrears in its payment for natural gas and condensate purchased from Tesoro Bolivia and its two joint-venture partners. In addition, Tesoro Bolivia is not being paid for current deliveries of natural gas and condensate, except for the receipt of sufficient local currency to cover current operating expenses. In order to recover amounts due from YPFB, Tesoro Bolivia and its partners created multiparty countertrade arrangements with Argentina, Bolivia and YPFB. Under these arrangements, Tesoro Bolivia and its partners receive commodities in Argentina, which are subsequently sold for cash, as payment for natural gas and condensate purchased by YPFB. During fiscal 1986, one such arrangement was reached with the Bolivian Government and YPFB under which Tesoro Bolivia will receive $10 million (before expenses), of which Tesoro Bolivia had received approximately $4.2 million (before expenses) at September 30, 1986.

Management is currently discussing additional arrangements with the Bolivian Government and YPFB to further recover amounts due Tesoro Bolivia. Management believes that the Company will ultimately recover the carrying value of its investment in Tesoro Bolivia.

THE WILLIAMS COMPANIES (DEC)

	1986	1985
	(Millions)	
Total current assets	$1,036.6	$ 774.3
Investments (Note 3)	333.6	653.0
Property, plant and equipment—net	2,425.6	2,786.4
Other assets and deferred charges	112.1	123.7
Total assets	$3,907.9	$4,337.4

Note 3: Investing Activities

(Millions)	1986	1985
Investments:		
Accounted for on an equity basis:		
Peabody Holding Company, Inc. (30.7%)*	$ —	$181.0
Northern Border Pipeline Company (12.25%)	72.0	70.6
Other	6.7	9.2
	78.7	260.8
Accounted for at cost:		
Texasgulf Inc.	150.0	361.7
Other	104.9**	30.5
	254.9	392.1
	$333.6	$653.0

*Included in assets of discontinued operations in 1986.

**Includes $100 million of deferred consideration resulting from the sale of Agrico.

Williams acquired a 15 percent interest in Texasgulf Inc. as a result of Texasgulf's 1985 acquisition of a subsidiary of Agrico. Under a shareholder agreement, Williams has certain rights, including the rights to sell the shares to the majority owner under various specified terms beginning in 1989 and to require Texasgulf to register the shares for public offering beginning in 1990.

Most of the rights under the shareholder agreement, including the right to sell to the majority owner, are not transferable in the event Williams sells the shares or there is a change in control of Williams. These factors, along with the current severely depressed industry conditions and no contractual obligation on the part of the majority owner to purchase the shares before 1989, cause the Texasgulf shares to be currently salable at only a fraction of their longer term value. As a part of the financial restructuring which resulted in the sale of Agrico, Williams recorded a pretax provision for loss of $212 million to reduce the carrying amount of the investment to $150 million, which represents Williams' current assessment of the investment in view of the disposition rights mentioned above.

Lower of Aggregate Cost or Market Value

EVANS & SUTHERLAND COMPUTER CORPORATION (DEC)

Total current assets	$ 81,337,243	$ 71,172,265
Property, plant and equipment, at cost	56,565,983	47,674,621
Less accumulated depreciation and amortization	18,948,991	14,726,171
Net property, plant and equipment	37,616,992	32,948,450
Notes receivable	262,019	438,388
Long-term investments, at cost (note 8):		
Marketable securities (market value of $19,800,000 at December 26, 1986 and $24,800,000 at December 27, 1985)	3,033,993	2,880,750
Other	2,287,109	1,486,602
Total long-term investments	5,321,102	4,367,352
Other assets, at cost, less accumulated amortization of $154,660 in 1986 and $101,440 in 1985	376,644	405,761
	$124,914,000	$109,332,216

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

(h) Marketable Securities

Marketable securities are stated at the lower of cost or market. Market is determined using the closing published market price.

(8) Long-Term Investments

Long-term investments are stated at cost and are summarized as follows:

	1986	1985
Marketable securities—		
VLSI Technology, Inc.	$2,880,750	$2,880,750
Adobe Systems, Inc.	153,243	—
	3,033,993	2,880,750
Other investments	2,287,109	1,486,602
	$5,321,102	$4,367,352

VLSI Technology, Inc.—The Company owned 1,725,000 voting, common shares of VLSI Technology, Inc. (VTI) at December 26, 1986 and December 27, 1985. The Company's investment in VTI, an electronics manufacturing company, represents less than a ten percent ownership. The Company also has certain rights to VTI's production capacity and manufacturing technology and non-exclusive use of its design tools.

A realized gain of $946,625 on the sale of 75,000 shares of VTI was included in the determination of net income in 1985.

The cost of the shares sold was based on the average cost of all the shares held at the time of sale.

Gross unrealized gains on the VTI investment amounted to $15,663,000 and $21,919,000 at December 26, 1986 and December 27, 1985, respectively. As of February 27, 1987, gross unrealized gains on the investment amounted to $25,150,000.

Adobe Systems, Inc.—The Company owned 52,466 shares of common stock of Adobe Systems, Inc. (ASI) at December 26, 1986. The Company's investment in ASI represents approximately a one percent ownership. Gross unrealized gains on the ASI investment amounted to $1,185,000 at December 26, 1986. As of February 27, 1987, gross unrealized gains on the investment amounted to $2,250,000.

Other Investments—The Company owned 1,658,426 shares at December 26, 1986 and December 27, 1985 of convertible preferred stock in a private company engaged in the development of products employing wafer-scale integration technology. The investment, $942,247 in 1986 and 1985, represents less than 15 percent ownership. At December 26, 1986, the Company also had a total of $702,555 in loans to such company which were included as additional long-term investments.

SCOPE INDUSTRIES (JUN)

	1986	1985
Total current assets	$40,170,500	$30,676,188
Notes Receivable	70,317	709,006
Property and Equipment, at Cost:		
Machinery and equipment	13,367,163	12,030,452
Land, buildings and improvements	7,363,566	6,675,017
	20,730,729	18,705,469
Less accumulated depreciation and amortization	10,469,792	8,809,347
	10,260,937	9,896,122
Marketable Securities, at lower of cost or market:		
(Market $18,052,852 in 1986 and $23,177,500 in 1985—Note 2)	16,230,820	21,090,800
	$66,732,574	$62,372,116

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Marketable Securities:

The current and non-current portfolios of marketable securities are each stated at the lower of aggregate cost or market at the balance sheet date and consist of common and preferred stocks and notes. Dividend and interest income are accrued as earned.

Unrealized losses on current marketable securities are charged to income. Unrealized losses on non-current marketable securities are recorded directly in a separate shareowners' equity account. Realized gains or losses are determined on the specific identification method and are reflected in income.

Note 2: Marketable Securities

In fiscal year 1984, the Company transferred its current holdings in various banks' common stocks to non-current marketable securities. A $932,908 unrealized loss resulting from the transfer was charged against income.

In fiscal year 1986, the Company transferred its current holdings in various stocks to non-current marketable securities. No gain or loss was recognized on this transfer.

Included in revenues is a net gain of $5,250,228 (1986); $1,866,656 (1985); $617,879 (1984) realized on the sale of marketable securities.

At June 30, 1986 gross unrealized gains and losses on marketable securities were as follows:

	Non-Current
Gross unrealized gains	$5,477,180
Gross unrealized losses	(3,655,148)

An additional unrealized gain of $191,532 exists at June 30, 1986 relating to a short sale of marketable securities.

NONCURRENT RECEIVABLES

Chapter 3, Section A of *ARB No. 43* states that the concept of current assets excludes "receivables arising from unusual transactions (such as the sale of capital assets, or loans or advances to affiliates, officers, or employees) which are not expected to be collected within twelve months." *APB Opinion No. 21* requires the imputation of a realistic interest rate to most long-term receivables not bearing interest or bearing an interest rate lower than the prevailing rate. Exceptions to the aforementioned requirement are listed in paragraph 3 of *Opinion No. 21*. Table 2-16 summarizes the balance sheet captions used to describe noncurrent receivables. Examples of noncurrent receivables follow.

ARMADA CORPORATION (DEC)

	1986	1985
Total current assets	$34,223,000	$31,176,000
Sublease receivables	1,241,000	—
Property, plant and equipment, net of accumulated depreciation	23,841,000	24,069,000
Cost in excess of assigned values of acquired company, net of amortization	1,124,000	1,167,000
	$60,429,000	$56,412,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8 (In Part): Lease Commitments and Receivables

Subleases

The Company subleases several installation shops to its franchisees under essentially the same terms and conditions as the original lease. Generally, the lease and sublease are entered into at or about the same time. Certain of the original leases for these shops are classified as capital lease obligations. The corresponding sublease receivable is presented in the table below.

TABLE 2-16: NONCURRENT RECEIVABLES

	1986	1985	1984	1983
Caption Title				
Notes Receivable	40	27	25	30
Long-Term Receivables	31	36	33	35
Noncurrent Receivables	8	7	N/C	N/C
Other	34	38	50	51
Receivables combined with other investments, deposits, etc.	56	55	59	65
Total Presentations	**169**	**163**	**167**	**181**
Number of Companies				
Presenting noncurrent receivables	167	163	164	178
Not presenting noncurrent receivables	433	437	436	422
Total Companies	**600**	**600**	**600**	**600**

N/C—Not Compiled.

Minimum rentals due under non-cancellable subleases are as follows:

Year Ending December 31	Capital Subleases	Operating Subleases
1987	$ 154,000	$ 328,000
1988	158,000	304,000
1989	166,000	306,000
1990	166,000	313,000
1991	173,000	327,000
Remaining years	3,091,000	4,151,000
Total minimum sublease payments	3,908,000	$5,729,000
Less: Amount representing the time value of money	2,667,000	
Present value of net minimum sublease payments, all long-term	$1,241,000	

COPPERWELD CORPORATION (DEC)

	1986	1985
	(in thousands)	
Other Assets:		
Investment in affiliates	$ 4,549	$ 4,794
Net assets of CSC Industries, Inc.	40,518	50,030
Note receivable from CSC Industries, Inc.	20,000	14,785
Other	24,155	24,102
	89,222	93,711

Note 7 (In Part): Discontinued Operations and Restructuring Costs

On January 20, 1987, the Corporation declared a distribution of shares of the Common Stock of CSC Industries, Inc. (the Corporation's specialty bar subsidiary in Warren, Ohio) on a pro rata basis to the holders of Copperweld Corporation's Common Stock of record on February 6, 1987. Accordingly, financial statements for the Corporation reflect CSC Industries, Inc. as a discontinued operation for all years presented.

Net assets (total assets less total liabilities) of CSC Industries, Inc. are presented as a single line item in the Corporation's balance sheet. Effective with the distribution of the CSC Industries, Inc. Common Stock in the first quarter of 1987, these net assets will no longer be a part of the Corporation's balance sheet.

The net assets of CSC Industries, Inc. (in thousands of dollars) are comprised of the following at December 31, 1986 and 1985:

	1986	1985
Assets:		
Accounts receivable, net	$15,443	$ 9,570
Inventories	28,403	25,857
Other current assets	1,608	3,015
Property, plant and equipment, net	64,393	65,717
Other assets	121	143
Liabilities:		
Accounts payable	22,166	7,073
Current maturities of long-term debt	1,046	1,048
Accrued liabilities	15,211	17,675
Long-term debt	7,153	8,198
Other liabilities and credits	3,874	5,493
Note payable to Copperweld Corporation	20,000	14,785
Net assets	$40,518	$50,030

The note receivable from CSC Industries, Inc. of $20,000,000 in 1986 represents financing previously provided to CSC Industries, Inc. from the Corporation. The note is payable over a 10 year period at a 9.6% interest rate. Interest is payable quarterly, beginning March 31, 1987. Principal payments on an annual basis begin in March 1988 at $1,500,000 through 1992, $2,000,000 through 1996, followed by a final principal payment of $4,500,000 in 1997. The note was originally planned at $25,000,000. Subsequently, however, it was decided to reduce the amount to $20,000,000 through a capital contribution of $5,000,000 to CSC Industries, Inc. from the Corporation. The Corporation has subordinated its rights under this note to those of the lender to CSC Industries, Inc. as a precondition to CSC Industries, Inc. receiving external financing.

EVEREST & JENNINGS INTERNATIONAL (DEC)

	1986	1985
	(In thousands)	
Property, plant and equipment, net	$ 68,116	$ 66,416
Real property and improvements not used in operations	828	10,539
Long-term note receivable	19,100	—
Excess of investment over net assets acquired, net	2,474	2,117
Other	580	1,610
	$167,774	$152,408

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Gains on Sale of Real Estate

In January 1986 the Company sold a major portion of its West Los Angeles property for $7,690,000 cash and a

$19,100,000 five-year note receivable with interest based on prevailing market rates. The Company recognized a gain on sale of $17,407,000. The sale agreement also calls for additional payments of up to $4,500,000, payable in cash upon the issuance of building permits for commercial space in excess of 500,000 square feet.

In June 1986 the Company sold a parcel of its West Los Angeles property for $2,700,000 cash, resulting in a gain of $1,640,000.

Four additional parcels of West Los Angeles property were sold during 1986 to certain officers, directors and principal shareholders for $1,630,000 cash, with gains totaling $1,238,000. These sales are believed by the Company to be on terms at least as favorable as those which could have been obtained in transactions involving third parties.

HON INDUSTRIES, INC. (DEC)

	1986	1985	1984
		($000)	
Total current assets	$142,175	$132,016	$118,989
Investment in Equipment Leases	4,786	5,106	5,490
Real Estate Held for Resale	1,981	11,247	13,525
Equity Investment in Affiliate	—	1,950	1,813
Property, Plant, and Equipment	87,560	73,225	71,348
Note Receivable	7,820	—	—
Other Assets	12,010	13,109	2,803
Total Assets	$256,332	$236,653	$213,968

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note Receivable

The note receivable represents the remaining noncurrent portion of a $9,800,000, 10% mortgage note secured by certain real estate held for resale which was sold in 1986. The note provides for monthly principal and interest payments of $129,500, with an additional $1,000,000 due on May 27, 1987, and the balance on November 1, 1988. The current portion of the note of $1,683,000 is included with prepaid expenses and other current assets.

THE MAYTAG COMPANY (DEC)

	1986	1985
	($000)	
Total Current Assets	$546,447	$578,001
Other Assets		
Marketable securities	17,128	16,696
Prepaid pension contribution	25,976	16,213
Notes receivable from disposition of business	20,000	
Miscellaneous	8,037	9,246
Total Other Assets	71,141	42,155

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Discontinued Operations

On January 13, 1987, the Company sold, effective as of December 31, 1986, its wholly-owned subsidiary, Toastmaster Inc., for approximately $32,000,000 in cash and $20,000,000 in notes. The selling price approximates the carrying amount of Toastmaster's net assets. The notes receivable bear interest at 7½% and are due in annual installments commencing in January, 1992 of $2,000,000 with final payment of $14,000,000 in 1995. Operating results for Toastmaster have been reported as discontinued operations. Net sales of the discontinued operations were $114,122,000, $121,661,000 and $138,713,000 in 1986, 1985 and 1984, respectively.

MINSTAR, INC. (DEC)

	1986	1985
	(In Thousands)	
Net property and equipment	$208,103	$233,569
Investments in Equity Securities	323,355	84,096
Long-Term Notes Receivable (Note 1)	39,072	12,620
Goodwill and Other Intangible Assets	48,936	49,874
Other Assets	22,619	22,914

Note 1 (In Part):

Long-term Notes Receivable:

Long-term notes receivable arise principally from business divestitures and real estate sales. These notes bear interest at rates from 9% to 13.25%. At December 31, 1986, future payments receivable under these notes receivable are $18.6 million in 1987, $2.0 million in 1988, $23.1 million in 1989, $4.1 million in 1990, $2.9 million in 1991 and $7.0 million thereafter. The current portion of these long-term notes is included in accounts receivable in the accompanying consolidated balance sheets.

TRIANGLE INDUSTRIES, INC. (DEC)

	1986	1985
	(in thousands)	
Total current assets	$1,304,547	$ 876,780
Property, plant and equipment, net	1,025,016	456,737
Investments and other assets		
Investments in unconsolidated affiliates	148,743	43,770
Receivables due after one year—Note D	37,083	48,833
Excess of cost over net assets of businesses acquired	397,756	12,082
Deferred costs and other assets	114,373	39,700
	697,955	144,385
	$3,027,518	$1,477,902

Note D: Notes and Accounts Receivable

Notes and accounts receivable at December 31 consist of the following:

(In thousands)	1986	1985
Current		
Accounts receivable	$419,582	$278,129
Notes receivable	19,785	10,915
Less allowance for doubtful accounts	(39,838)	(18,270)
	$399,529	$270,774
Due after one year		
Accounts receivable	$ 9,009	$ 13,725
Notes receivable	35,074	42,131
Less allowance for doubtful accounts	(7,000)	(7,023)
	$ 37,083	$ 48,833

UNIMED, INC. (SEP)

	1985	1986
Net property, plant and equipment	$1,601,263	$1,600,678
Other assets:		
Long-term receivable (note 7)	956,364	777,740
Other	29,167	70,756

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7 Sale of Trademarks

On May 6, 1983, the Company entered into an agreement with its major foreign customer pursuant to which, effective January 1, 1983, the Company sold its entire right, title, and interest in the trademarks for the sale of Serc in countries formerly covered in a royalty agreement with the customer. Pursuant to the terms of the agreement, the sales price, which is payable in foreign currencies and amounted to $4,469,400 at the transaction date, will be paid in predetermined quarterly installments over a seven-year period beginning May 1, 1983 and ending February 1, 1990. This receivable has been discounted at the transaction date to a carrying value of $3,480,441 to reflect an appropriate market rate of interest.

A summary of the long-term receivable, less the current portion, at September 30, 1985 and 1986 is as follows:

	1985	1986
Receivable from sale of trademarks, adjusted for unrealized gains or losses on foreign currency translation	$1,677,779	$1,368,591
Less unamortized discount based on imputed interest rate of 10%	304,031	171,316
	1,373,748	1,197,275
Less current portion (included in other receivables)	417,384	419,535
Long-term receivable	$ 956,364	$ 777,740

A summary of remaining payments (principal and interest) to be received in connection with this sales transaction, based on the foreign exchange rates in effect on May 6, 1983, is as follows:

1987	$493,376
1988	335,968
1989	335,968
1990	167,984

TRANSTECH INDUSTRIES, INC. (DEC)

	1986	1985
Other Assets		
Real estate held for investment and sale	$3,688,024	$ —
Due from officers (Note 8)	1,562,000	—
Other	2,446,049	1,766,546
	7,696,073	1,766,546

Note 8 (In Part): Long-term Debt

On November 16, 1986, the Company issued $1,562,000 principal amount of 9½% convertible debentures due November 15, 1993, with interest payable semi-annually to two of its officers. These debentures are convertible into the Company's common stock at $7.81 per share. In consideration for these debentures, the two officers signed promissory notes in the amount of $1,562,000, with interest at 9¾%, payable semi-annually, with the balance due in 1992.

INTANGIBLE ASSETS

APB Opinion No. 17 sets forth requirements as to accounting for intangible assets. *Opinion No. 17* stipulates that all intangible assets acquired after October 31, 1970 or recognized in business combinations initiated after October 31, 1970 be amortized over a period not to exceed 40 years and that "financial statements should disclose the method and period of amortization."

Effective for financial statements for fiscal years beginning after December 15, 1985, *Statement of Financial Accounting Standards No. 86* specifies that costs of developing and producing computer software products be capitalized. Disclosure requirements relating to capitalized computer software costs are stated in paragraph 11 of *SFAS No. 86*.

Table 2-17, which summarizes intangible assets by type and by accounting treatment, shows the prevalence of goodwill recognized in a business combination. Table 2-17 excludes certain assets often considered to be intangible which are classified as components of Property, Plant, and Equipment.

Table 2-18 summarizes the amortization periods used by the survey companies to amortize intangible assets. It is not uncommon for a company to use more than one period for one type of intangible. For instance, a company may disclose in the Summary of Accounting Policies that it amortizes goodwill over a period not exceeding 40 years and in a subsequent note disclose that it amortizes goodwill related to a certain acquisition over a specified number of years.

Examples of intangible asset disclosures follow.

Goodwill

CRANE CO. (DEC)

	1986	1985
	(In thousands)	
Other Assets:		
Construction funds	$12,308	$11,895
Intangibles less accumulated amortization of $6,642 ($1,925 in 1985)	15,740	20,483
Other	11,305	12,859
	39,353	45,237
Cost in Excess of Net Assets Acquired less accumulated amortization of $8,119 ($6,544 in 1985)	34,222	25,673

FINANCIAL REVIEW

Accounting Policies (In Part):

Intangibles—Cost in excess of net assets acquired is being amortized on a straight-line basis principally over forty years. Other intangible assets are being amortized on a straight-line basis over their estimated useful lives which average five years.

INSILCO CORPORATION (DEC)

	1986	1985
	(In Thousands)	
Total current assets	$279,903	$268,835
Investment in Unconsolidated Finance Subsidiaries	109,727	93,226
Receivables from Sales of Subsidiaries	5,291	8,641
Fixed Assets		
Land	17,430	16,412
Buildings	69,450	68,754
Machinery and equipment	163,953	155,373
	250,833	240,539
Less—Accumulated depreciation	90,659	88,017
	160,174	152,522
Intangible Assets, less accumulated amortization of $15,405 (1985-$12,486)	102,015	89,304
Other Assets	61,488	46,712
	$718,598	$659,240

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (In Part): Accounting Policies

Intangible Assets

Goodwill associated with businesses acquired prior to November 1, 1970 ($13,591,000) is not being amortized since there has been no decrease in value. The remaining intangibles, including goodwill, of $88,424,000 at December 31, 1986 and $62,451,000 at December 31, 1985, are being amortized using the straight-line method over periods of up to forty years.

MARRIOTT CORPORATION (DEC)

	1986	1985
	(in millions)	
Other Assets		
Investments in and advances to affiliates	$ 484.5	$368.5
Long-term receivables	144.1	205.9
Assets held for sale	386.4	158.2
Intangible assets	403.2	64.3
Other	125.8	162.2
	1,544.0	959.1

NOTES TO FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (In Part):

Intangible Assets

Intangible assets, primarily food service management contracts and cost in excess of the net assets of businesses acquired (goodwill), are reported net of accumulated amortization of $33.6 million in 1986 and $17.4 million in 1985. Goodwill of $11.8 million recorded prior to October 31, 1970 (at which time amortization became mandatory) is not being amortized because, in management's judgment, it has continuing value. The remaining intangibles, including goodwill of $75.3 million at January 2, 1987, are being amortized on a straight-line basis over periods of up to 40 years. Amortization expense totaled $16.2 million in 1986, $5.8 million in 1985 and $4.1 million in 1984.

ILLINOIS TOOL WORKS INC (DEC)

	1986	1985
Net plant and equipment	$317,829,000	$137,001,000
Investment in Operating Affiliates	7,448,000	23,606,000
Investment in and Advances to Unconsolidated Subsidiaries	54,167,000	61,154,000
Goodwill	198,374,000	15,215,000
Other Assets	100,575,000	22,654,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Goodwill totaled $198,374,000 at December 31, 1986 and $15,215,000 at December 31, 1985, net of accumulated amortization of $7,625,000 and $2,871,000, respectively. Goodwill represents the excess cost over fair value of the net assets of purchased businesses and is being amortized on a straight line basis, primarily over 40 years. Amortization expense amounted to $4,761,000 in 1986 and $389,000 in 1985 and is included in Income (Loss) From Other Sources.

MASCO CORPORATION (DEC)

	1986	1985
Total current assets	$ 786,850,000	$ 729,860,000
Equity Investments in Affiliates	240,030,000	187,590,000
Other Investments, Affiliate	256,000,000	356,000,000
Property and Equipment	492,860,000	343,210,000
Excess of Cost Over Acquired Net Assets	384,310,000	77,930,000
Other Assets	66,100,000	42,710,000
	$2,226,150,000	$1,737,300,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Accounting Policies (In Part)

Depreciation and Amortization. Depreciation is computed principally using the straight-line method over the estimated useful lives of the assets. Annual depreciation rates are as follows: buildings and land improvements, 2½ to 10 percent, and machinery and equipment, 8 to 33⅓ percent. Depreciation was $36.2 million, $31.6 million and $34.4 million in 1986, 1985 and 1984, respectively. The excess of cost over net assets of acquired companies is being amortized using the straight-line method over periods not exceeding 40 years. Purchase costs of patents are being amortized using the straight-line method over their remaining lives. Amortization of the above intangible assets was $7.6 million, $2.9 million and $4.8 million in 1986, 1985 and 1984, respectively.

Excess of Cost Over Acquired Net Assets and Other Assets

	(In Thousands) At December 31	
	1986	1985
Excess of cost over net assets of acquired companies, net	$384,310	$77,930
Other assets, including purchased patents, net	$ 66,100	$42,710

At December 31, 1986 and 1985, accumulated amortization of excess of cost over net assets of acquired companies,

TABLE 2-17: INTANGIBLE ASSET VALUATION

	Number of Companies			
	1986	1985	1984	1983
Assets Being Amortized				
Goodwill recognized in a business combination	322	301	279	270
Patents, patent rights	63	60	55	50
Trademarks, brand names, copyrights	39	30	26	21
Licenses, franchises	23	25	21	23
Software	18	7	3	—
Other—described	27	16	10	11
Intangible assets (not otherwise described)	35	34	24	24
Assets Not Being Amortized				
Goodwill recognized in a business combination	84	97	102	111
Trademarks, brand names, copyrights	5	5	7	6
Other—described	1	2	1	2
Intangible assets (not otherwise described)	5	—	2	4
Other Bases				
Nominal value	2	2	2	2
Basis not determinable	23	24	20	22

and patents was $22.8 million and $17.2 million, respectively. The increase in excess of cost over net assets of acquired companies, net at December 31, 1986, is attributable to purchase acquisitions in 1986.

NORTEK, INC. (DEC)

	1986	1985
	(In Thousands)	
Other Assets:		
Goodwill less accumulated amortization of $6,551,000 and $3,929,000	$134,487	$ 78,434
Deferred debt expense, net	14,443	15,134
Other	40,135	51,001
	189,065	144,569

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Goodwill (Cost of Purchased Businesses in Excess of Net Assets Acquired)

The Company has classified as goodwill the cost in excess of fair value (including tax attributes) of the net assets of companies acquired in purchase transactions. Goodwill is being amortized on a straight-line method over 40 years. Amortization charged to the consolidated statement of operations amounted to $2,837,000, $1,670,000, and $1,254,000 for 1986, 1985 and 1984, respectively.

TABLE 2-18: AMORTIZATION PERIOD—1986

	Number of Companies				
	Goodwill	Patent	Trademark	License	Software
Period					
40	151	—	5	1	—
"Not exceeding 40"	73	5	4	2	—
25-30	16	—	—	—	—
20	18	—	1	1	—
10-15	18	3	1	1	—
Legal/estimated life	15	44	22	10	9
Other	31	11	6	8	9

MELVILLE CORPORATION (DEC)

Consolidated Balance Sheets

	1986	1985
Net property, plant, equipment and leasehold improvements	$471,649,971	$424,085,347
Leased property under capital leases, net of accumulated amortization	38,527,575	37,493,948
Deferred charges and other assets	13,400,035	13,151,850
Goodwill, net of accumulated amortization of $20,898,054 in 1986 and $17,279,293 in 1985	123,759,799	127,368,560

Consolidated Statements of Changes in Financial Position

	1986	1985	1984
Source of Funds:			
Continuing operations:			
Net earnings from continuing operations	$238,332,165	$219,811,607	$199,635,741
Expenses not requiring cash outlay:			
Depreciation and amortization	64,071,451	59,605,837	53,618,357
Amortization of goodwill	3,618,761	3,463,641	3,369,313
Minority interests in net earnings	47,753,410	47,969,340	44,821,125
Increase in deferred Federal income taxes	11,540,345	10,578,171	8,123,167
Continuing operations	365,316,132	341,428,596	309,567,703

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (In Part)

Depreciation and Amortization: Depreciation and amortization of plant, equipment and leasehold improvements are provided for accounting purposes on a straight-line method over the estimated useful lives of the assets. Amortization of leased property under capital leases is computed on a straight-line basis over the life of the lease. The excess of cost over the net assets of companies acquired (goodwill) is being amortized on a straight-line basis over forty years.

SEALED POWER CORPORATION (DEC)

	1986	1985
	(In thousands)	
Net property, plant and equipment	$187,989	$176,553
Other Assets	21,241	25,560
Costs in Excess of Net Assets of Businesses Acquired (Note 1D)	37,682	38,794

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Accounting Policies

D. Costs in Excess of Net Assets of Businesses Acquired

The Company amortizes costs in excess of the net assets of businesses acquired on a straight-line method over the estimated periods benefited, not to exceed 40 years. Such amortization was $1,112,000 in 1986, $1,063,000 in 1985 and $703,000 in 1984.

THE TIMES MIRROR COMPANY (DEC)

	1986	1985
	(In thousands)	
Other Assets		
Goodwill	$ 760,462	$438,996
Other intangibles	185,301	133,109
Other assets	203,303	55,023
	1,149,066	627,128

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Goodwill and Other Intangibles

Goodwill recognized in business combinations accounted for as purchases subsequent to October 31, 1970 ($747,009,000 at December 31, 1986, and $421,064,000 at December 31, 1985—net of amortization of $66,296,000 and $63,638,000, respectively), is being amortized over a period of 40 years. Goodwill arising from business combinations consummated prior to November 1, 1970, is not being amortized because, in the opinion of management, it has not diminished in value. Amortization expense amounted to $13,302,000 for 1986, $11,698,000 for 1985 and $10,546,000 for 1984.

Other intangibles are being amortized on a straight-line basis over their estimated useful lives from 5 to 40 years. Amortization expense amounted to $11,452,000 for 1986, $7,574,000 for 1985 and $135,000 for 1984.

VF CORPORATION (DEC)

Consolidated Balance Sheets

	1986	1985
	(in thousands)	
Intangible Assets	$448,414	$100,297
Other Assets	40,734	7,554

Statements of Changes in Consolidated Financial Position

	1986	1985	1984
	(in thousands)		
Operations			
Net earnings	$129,350	$139,417	$124,746
Add items not requiring cash:			
Depreciation	43,975	40,238	24,998
Amortization of intangibles	10,991	9,837	1,844
Deferred taxes and other charges	15,532	12,070	4,503
Funds provided by operations	199,848	201,562	156,091

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In thousands)

Note B (In Part): Accounting Policies

Intangible Assets represent the excess of costs over net tangible assets of businesses acquired, less accumulated amortization of $22,622 and $11,631 at January 3, 1987 and January 4, 1986. These costs are amortized by the straight-line method over five to forty years.

Patents

BECTON, DICKINSON AND COMPANY (SEP)

Consolidated Balance Sheets

	1986	1985
	($000)	
Intangibles		
Patents	$116,595	$ 5,248
Goodwill	31,642	18,749
Other	87,234	65,027

Consolidated Statements of Changes in Financial Position

	1986	1985	1984
	($000)		
Funds Provided from Operations			
Income before extraordinary credit	$111,913	$ 88,002	$ 63,403
Depreciation and amortization	65,231	56,913	56,021
Amortization of intangibles	6,897	2,477	3,106
Deferred income taxes	17,181	24,460	21,711
	201,222	171,852	144,241
Extraordinary credit	10,017	—	—
Total Funds Provided from Operations	211,239	171,852	144,241

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (In Part):

Intangibles

Intangibles include goodwill, which represents costs in excess of net assets of companies acquired, and patents. Patents and goodwill are being amortized over periods, ranging from ten to forty years, using the straight-line method.

DRESSER INDUSTRIES, INC. (OCT)

	1986	1985	1984
	(In Millions)		
Total Current Assets	$1,828.4	$1,964.9	$2,094.5
Investments and Other Assets			
Investments in unconsolidated subsidiaries and affiliates	517.5	367.0	240.7
Intangibles	9.4	10.8	12.7
Long-term receivables and investments	7.5	7.8	28.4
Other assets and deferred income taxes	59.0	44.2	30.1
Total Investments and Other Assets	593.4	429.8	311.9

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Intangibles

The difference between purchase price and fair values at date of acquisition of net assets of businesses acquired after October 31, 1970 is amortized on a straight-line basis over the estimated period benefited. The costs of patents acquired in connection with business acquisitions are amortized on a straight-line basis over the remaining economic life of the respective patents, but in no event longer than the remaining legal life.

Note F: Intangibles

Intangibles relate to businesses acquired and consist principally of the acquisition costs allocated to patents and to the difference between purchase price and fair value at date of acquisition of net assets purchased (goodwill). At October 31, 1986, 1985 and 1984, unamortized costs allocated to patents were $2.6, $4.8 and $12.7 million, respectively. At October 31, 1986 and 1985, net goodwill was $6.8 million and $6.0 million, respectively. At October 31, 1984, net goodwill was a credit of $10.7 million and was included in other long-term liabilities.

Patent amortization was $2.3 million in 1986, $3.8 million in 1985 and $2.3 million in 1984. The unamortized cost of $10.2 million of patents acquired in 1977 was written off in 1985 because they had no remaining value. Amortization of goodwill increased earnings by $1.2 million in 1986, $.5 million in 1985, and $1.5 million in 1984. Approximately $7.7 million of the goodwill arising from acquisitions prior to October 31, 1970 is not being amortized.

Trademarks

RJR NABISCO, INC. (DEC)

	1986	1985
	(in Millions)	
Net property, plant and equipment	$5,512	$4,828
Trademarks, goodwill and other intangibles (Note 6)	4,875	4,609
Other assets and deferred charges	698	647
Net assets of discontinued operations	—	791

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Trademarks, Goodwill and Other Intangibles

Trademarks and goodwill are generally being amortized on a straight-line basis over a 40-year period.

NOTES TO FINANCIAL STATEMENTS

(In millions of dollars)

Note 6. Trademarks, Goodwill and Other Intangibles

This account consisted of the following items, valued at cost, at December 31:

	1986	1985
Trademarks	$ 299	$ 378
Goodwill	4,808	4,260
Other intangibles	10	93
	5,117	4,731
Less amortization	242	122
	$4,875	$4,609

Licenses

ADAMS-MILLIS CORPORATION (DEC)

	1986	1985
Total Current Assets	$70,871,000	$39,511,000
Other Assets:		
Intangible assets	9,179,000	565,000
Notes receivable	1,301,000	1,316,000
Cost in excess of fair value of net assets acquired	1,197,000	490,000
Other	115,000	66,000
Total Other Assets	11,792,000	2,437,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Summary of Accounting Policies (In Part)

Intangible Assets

Intangible assets consist primarily of acquired license agreements which are stated at cost net of accumulated amortization, which is provided using the straight-line method over the period of the agreements, two to six years. Accumulated amortization was $1,220,000 in 1986, $1,217,000 in 1985 and $645,000 in 1984.

THE EASTERN COMPANY (DEC)

	1986	1985
Other Assets		
Goodwill less accumulated amortization ($57,827 in 1986 and $44,381 in 1985)	$145,617	$209,064
Patents, licenses and trademarks, less accumulated amortization ($198,026 in 1986 and $137,824 in 1985)	371,005	372,146
Prepaid pension cost	307,931	—
Sundry	120,214	114,924
	944,767	696,134

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Intangibles: Patents are amortized on a straight-line basis over the lives of the patents. Licenses are generally amortized on a straight-line basis over periods of 5 to 17 years.

Goodwill is being amortized over periods from seven to twenty years.

Franchises

GENERAL CINEMA CORPORATION (OCT)

	1986	1985
	(in thousands)	
Total investments	$509,495	$464,592
Other assets	21,356	30,848
Intangibles, principally beverage franchises	54,479	51,887

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Intangibles, principally beverage franchises

Intangibles acquired prior to fiscal 1971 are not amortized because management considers their value to be of a permanent nature. Intangibles resulting from acquisitions subsequent to fiscal 1970 in the amount of $26,063,643 are amortized on the straight-line basis, over 40 years. The amortization amounted to $723,000 in 1986, $662,000 in 1985 and $270,000 in 1984.

Software

DSC COMMUNICATIONS CORPORATION (DEC)

	1986	1985
	(In thousands)	
Net property and equipment	$116,796	$134,187
Other Assets		
Noncurrent receivables	11,598	8,155
Capitalized software development costs	6,460	—
Cost in excess of net assets of business acquired	3,130	—
Other	6,494	7,042
Total other assets	27,682	15,197

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (In Part)

Contract Development Costs

Costs incurred in the development of software and hardware under specific contracts with customers are capitalized at the lower of cost or net realizable value and charged to cost of revenue generally upon delivery to the customer.

Research and Development Expenditures

Effective January 1, 1986, the Company began capitalizing certain software development costs not under contract with customers in accordance with Statement of Financial Accounting Standards No. 86, "Accounting for the Costs of Computer Software to be Sold, Leased, or Otherwise Marketed" (the Statement). Prior to 1986, all such costs were charged to research and development expense during the period incurred. Capitalization of software development costs begins upon the establishment of technological feasibility as defined in the Statement. The establishment of technological feasibility and the ongoing assessment of recoverability of capitalized software development costs requires considerable judgement by management with respect to certain external factors, including, but not limited to, technological feasibility, anticipated future gross revenues, estimated economic life and changes in software and hardware technologies.

Amortization of capitalized software costs is provided on a product-by-product basis at the greater of the amount computed using (a) the ratio of current gross revenues for a product to the total of current and anticipated future gross revenues or (b) the straight-line method over the remaining estimated economic life of the product. Generally, an original estimated economic life of two years is assigned to capitalized software development costs. During 1986, the Company capitalized $8,042,000 of software development costs and $1,582,000 of such costs were amortized to cost of revenue, which increased 1986 earnings before extraordinary gain and net earnings by $5,727,000 ($.14 per share).

All other research and development expenditures are charged to research and development expense in the period incurred.

DATACOPY CORPORATION (DEC)

	1986	1985
Total current assets	$ 8,617,268	$5,092,761
Restricted bank certificate of deposit		320,672
Property and equipment, net	1,385,899	1,360,825
Software development costs, net	1,099,317	382,004
Total assets	$11,102,484	$7,156,262

NOTES TO FINANCIAL STATEMENTS

Note 4. Software Development Costs

In 1985, the Company adopted Financial Accounting Standards Board Statement No. 86, "Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed" (FASB Statement No. 86). In accordance with FASB Statement No. 86, the Company capitalizes certain costs incurred internally in creating computer software modules. Costs incurred prior to the onset of development and production of software modules are charged to research and development expense. At the time production of a software module commences, the module is considered to be a working model under FASB Statement No. 86. Thereafter, software development costs are capitalized until the module is available for general release. At this time, the module performs the primary functions described in the original specifications, contains the convenience features required for it to be usable in a production environment, and is completely documented. Amortization is provided on the basis of units shipped to total anticipated units shipped: however, the annual amortization expense, at a minimum, will not be less than 20% of the capitalized costs.

Capitalized costs consist of salaries and an allocation of indirect costs and amounted to $800,526 in 1986 and $396,293 in 1985. Amortization of these costs amounted to $83,213 and $14,289 in 1986 and 1985, respectively. Costs incurred to improve and support existing modules are charged to expense as incurred.

DELUXE CHECK PRINTERS, INCORPORATED (DEC)

Consolidated Balance Sheets

	1986	1985
	(in thousands)	
Property—net	$203,344	$187,930
Intangibles		
Software	47,011	5,604
Other intangible assets	46,656	11,567
Total	93,667	17,171
Less accumulated amortization	5,972	2,428
Intangibles—net	87,695	14,743

Consolidated Statements of Changes in Financial Position

	1986	1985	1984
		(in thousands)	
Cash From Operating Activities			
Net income	$121,109	$104,215	$ 87,816
Non-cash items included in net income:			
Depreciation	28,535	25,551	23,479
Amortization of intangibles	3,544	402	
Stock purchase discount	4,613	3,992	3,570
Deferred income taxes and investment credit	5,101	13,210	12,052
Equity in undistributed (earnings) loss of Data Card	1,277	(3,417)	(2,286)
Other, including certain working capital amounts	(5,703)	5,358	(8,913)
Net cash from operating activities	158,476	149,311	115,718

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Significant Accounting Policies

Intangible Assets—Software primarily represents the fair market value of internally developed software of acquired subsidiaries and is being amortized by the straight-line method over periods not exceeding seven years. Other intangible assets principally include the values assigned to goodwill, agreements not to compete, customer files, service contracts, and trademarks and are being amortized by the straight-line method over periods not exceeding 20 years.

Customer Lists

BROWNING-FERRIS INDUSTRIES, INC. (SEP)

	1986	1985
	(In Thousands)	
Total current assets	$ 276,131	$222,893
Property and Equipment, at cost, less accumulated depreciation of $505,793 and $437,713	793,145	652,086
Other Assets:		
Cost over fair value of net tangible assets of acquired businesses, net of accumulated amortization of $9,445 and $8,453	30,986	28,154
Other intangible assets, net of accumulated amortization of $26,285 and $18,188	71,011	43,470
Solid waste revenue bond funds	3,143	3,106
Investments, at cost, pledged	—	7,918
Other	51,269	42,257
Total assets	$1,225,685	$999,884

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Intangible assets. The cost over fair value of net tangible assets of acquired businesses is amortized on the straight-line method over periods not exceeding 40 years. Other intangible assets, substantially all of which are customer lists, are amortized on the straight-line method over their estimated lives, typically no more than seven years.

Covenants Not To Compete

BISHOP GRAPHICS, INC. (SEP)

	1986	1985
Other assets:		
Lease receivables, net of current portion, less allowances of $31,000 in 1986 and $6,000 in 1985	$313,000	$ 97,000
Covenants not to compete (Note 10)	105,000	155,000
Deposits and other	77,000	66,000
	495,000	318,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

10. Acquisition:

On October 31, 1983, the Company acquired assets of the Newport Beach, California branch operation of P.A.S. Graphics, Inc. (a drafting and art supply center). The acquisition included the purchase of a building and land leasehold interest, accounts receivable, inventory, leasehold improvements and furniture and fixtures. The total purchase price was $1,105,000, including assumption of the note described in Note 4.

In addition, the Company is required to pay the principal shareholders of P.A.S. Graphics, Inc. $58,000 per year over a five-year period under the terms of non-competition agreements ($290,000 in the aggregate). The net present value of the remaining payments under the covenants of $105,000 at September 30, 1986 is capitalized in other assets on the Company's consolidated balance sheet and is being amortized on a straight-line basis over the life of the agreements.

Drawings

DRAVO CORPORATION (DEC)

	1986	1985
	(in thousands)	
Total current assets	$318,442	294,058
Investments in and advances to unconsolidated affiliates	25,568	19,269
Drawings, patents and other intangible assets	405	8,679
Other assets	17,510	23,866

NOTES TO FINANCIAL STATEMENTS

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

Intangible Assets: Intangible assets, including purchased patents, drawings, agreements and goodwill, are amortized on a straight-line basis over their estimated useful lives of from five to ten years.

Purchased Technology

SCIENTIFIC MICRO SYSTEMS, INC. (DEC)

Consolidated Balance Sheets

	1986	1985
Total current assets	$30,108,000	$22,380,000
Note receivable and deposits	—	369,000
Property, equipment and capitalized software, at cost less accumulated depreciation and amortization	6,402,000	5,199,000
Purchased technology, less accumulated amortization of $1,957,000 and $1,286,000	1,398,000	2,069,000
Goodwill and other intangible assets, less accumulated amortization of $1,201,000 and $796,000	3,684,000	4,089,000
	$41,592,000	$34,106,000

Consolidated Statements of Operations

	1986	1985	1984
Net sales	$65,273,000	$39,469,000	$41,103,000
Cost of goods sold	46,458,000	28,429,000	24,168,000
Gross profit on sales	18,815,000	11,040,000	16,935,000
Less—other costs and expenses:			
Research, development and engineering	4,841,000	4,705,000	3,816,000
Selling, general and administrative	9,030,000	7,658,000	6,033,000
Interest and other expense (income)	(34,000)	79,000	603,000
Amortization of goodwill and purchased technology	1,076,000	1,085,000	996,000
Income (loss) before provision for income taxes	3,902,000	(2,487,000)	5,487,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Significant Accounting Policies (In Part)

Intangible assets

The excess of the Company's investment in an acquired business over the fair value of net assets acquired (goodwill) is being amortized on a straight-line basis over its estimated useful life, twelve years.

Technology acquired in connection with a business acquisition is being amortized on a straight-line basis over its estimated useful life, five years.

OTHER NONCURRENT ASSET CAPTIONS

Table 2-19 summarizes the nature of assets (other than property, investments, noncurrent receivables, and intangible assets) classified as noncurrent assets on the balance sheets of the survey companies. Table 2-19 shows that 23 survey companies reported amounts relating to employee benefit plans as a noncurrent asset. For 21 of the 23 companies, the asset was prepaid pension cost which, in accordance with *Statement of Financial Accounting Standards No. 87*, is recognized when periodic pension cost is less than pension plan contributions.

Examples of other noncurrent asset presentations and disclosures, except assets leased to others, follow. Examples of assets leased to others are presented in connection with Table 2-28.

TABLE 2-19: OTHER NONCURRENT ASSETS

	Number of Companies			
	1986	1985	1984	1983
Property held for sale.......	58	64	59	50
Segregated cash or securities.......	46	62	51	47
Employee benefit plans......	23	—	—	—
Assets leased to others.....	21	23	30	29
Debt issue costs............	20	15	13	14
Deferred income taxes......	16	13	13	13
Cash surrender value of life insurance..........	10	10	8	8
Start up costs...............	7	4	8	9
Prepaid expenses............	6	6	6	7
Other identified noncurrent assets..............	62	71	62	65

Property Held For Sale

HONEYWELL INC. (DEC)

	1986	1985
	(in Millions)	
Other Assets		
Long-term receivables..............................	$ 35.2	$ 13.7
Goodwill..	81.7	124.1
Patents, licenses and trademarks................	234.2	
Software and other intangibles....................	338.4	
Other...	98.3	94.2
Net assets of discontinued operations............	638.8	681.0

NOTES TO FINANCIAL STATEMENTS

(Dollars in Millions)

2 (In Part): Discontinued Operations

In the fourth quarter of 1986 the Board of Directors authorized the disposition of the major portion of Honeywell's Information Systems (HIS) business. On December 1, 1986 a Memorandum of Understanding was signed by Honeywell, Compagnie des Machines Bull, and NEC Corporation wherein Honeywell will sell interests in HIS to Compagnie des Machines Bull and NEC Corporation. Compagnie des Machines Bull will initially acquire 42.5 percent of HIS and NEC Corporation 15 percent. Consummation of the sale is expected to take place by March 31, 1987. Honeywell will have the right, which management has committed to exercise, to require Compagnie des Machines Bull to purchase an additional 22.6 percent of HIS on December 31, 1988, thus reducing Honeywell's ownership to 19.9 percent.

The operating results of HIS for 1986, 1985 and 1984 are presented in the consolidated income statement under the caption "Income (loss) from discontinued operations" and include:

	1986	1985	1984
Sales..................................	$1,708.5	$1,631.8	$1,536.6
Income (loss) before income taxes.	(59.8)	57.1	55.3
Income taxes.........................	(56.5)	1.3	4.8
Income (loss).........................	$ (3.3)	$ 55.8	$ 50.5

The estimated loss of $407.7 on disposal of HIS in 1986 includes a discount from net book value of $250.0 in the selling price, a $62.0 after-tax noncash transfer from the accumulated foreign currency translation component of stockholders' equity, and tax costs of approximately $45.8, primarily in certain foreign locations. The net assets of discontinued operations on the balance sheet of $638.8 at December 31, 1986 represent the estimated net realizable value of the portion of the operations to be sold, and consist primarily of receivables, inventory, property and miscellaneous liabilities. Honeywell's remaining 19.9 percent investment is included in "Investments and advances—other companies".

McCORMACK RESOURCES, INC. (DEC)

	1986	1985
	(in thousands)	
Other assets..	$11,200	$ 25,315
Net assets of discontinued operations (Note 3).	51,195	179,790

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3 (In Part): Discontinued Operations

The consolidated financial statements and accompanying footnotes for the prior years have been restated to reflect discontinued operations. The net assets of the discontinued businesses, at their expected net realizable values, have been reclassified in the Consolidated Balance Sheets as *Net assets of discontinued operations*. The operating results of these discontinued segments prior to June 30, 1986 are shown separately in the Consolidated Statements of Income as *Income (loss) from discontinued operations, net of income taxes*. The results for the discontinued segments subsequent to June 30, 1986 were considered in the *Loss on disposal of discontinued operations, net of income taxes.*

PACCAR INC. (DEC)

	1986	1985
	($000)	
Total Current Assets	$ 635,242	$ 664,169
Investments and Other Assets		
Investments in unconsolidated companies and advances (1986—$4,386 and 1985—$5,650)	199,325	181,482
Investment in Trico and other assets	32,478	8,071
Assets held for sale	13,085	
	244,888	189,553
Property, Plant and Equipment, Net	199,320	203,728
	$1,079,450	$1,057,450

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note C. Assets Held for Sale

The Company closed its Kenworth plant in Kansas City, Missouri on April 30, 1986 and its Peterblit plant in Newark, California on October 3, 1986. Assets held for sale include these facilities and idle land and buildings located in Renton, Washington. The estimated net realizable value of these properties exceeds their net book value.

PHELPS DODGE CORPORATION (DEC)

	1986	1985
	(In thousands)	
Current assets	$ 484,627	$ 371,632
Estimated net realizable value of 1984 restructuring assets to be sold	178,902	182,302
Investments and long-term receivables	55,534	64,097
Property, plant and equipment	1,283,682	1,025,461
Other assets and deferred charges	15,982	4,367
	$2,018,727	1,647,859

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5. Asset Restructuring

The Corporation recorded a non-recurring pre-tax charge of $195 million in its 1984 results to restructure certain of its operations. Included in the charge was a writedown of $85 million resulting from the Corporation's decision to dispose of its energy operations (Note 6). The charge also reflected the estimated net realizable value of certain other assets (described below) that were scheduled for sale, writeoffs of smelter equipment and other facilities that had been rendered obsolete by environmental requirements or other economic considerations, estimated pension, retirement and other employee benefit costs resulting from this restructuring and the estimated costs incident to the shutdown of the Ajo and Morenci smelters, the Safford and Ajo mines and certain other operations. The carrying value of these closed facilities at December 31, 1986, aggregated approximately $330 million.

The 1986 and 1985 Consolidated Balance Sheets reflect the estimated net realizable value of assets scheduled for sale under the 1984 restructuring program, including energy operations (Note 6) and the assets described below. In 1986 and 1985 the Corporation received $109 million ($75 million of which was attributable to the sale of a fifteen percent interest in the Morenci, Arizona copper mining property) and $35.2 million, respectively, from its 1984 restructuring program. The Corporation intends to sell an additional fifteen percent undivided interest in the Morenci properties.

Other assets intended to be sold under the 1984 restructuring program include the Corporation's interest in Black Mountain Mineral Development Company (Pty.) Limited ("Black Mountain") and the Corporation's investments in its Far Eastern manufacturing affiliates located in Thailand, the Philippines and India.

SCHLUMBERGER LIMITED (DEC)

	1986	1985
	(in thousands)	
Investments in Affiliated Companies	$ 310,639	$ 720,479
Long-Term Investments and Receivables	124,965	230,372
Net Assets of Fairchild Semiconductor at Realizable Value	150,000	—
Fixed Assets less accumulated depreciation	1,832,460	3,125,216
Excess of Investment Over Net Assets of Companies Purchased less amortization	118,000	534,319
Other Assets	63,718	31,649

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Discontinued Operations (In Part)

On October 23, 1986, the Company announced an agreement in principle to sell 82% of its Fairchild Semiconductor operations to Fujitsu Limited. The Fairchild operations will be integrated with Fujitsu's U.S. semiconductor business and certain Fujitsu European semiconductor businesses.

As a result of the pending sale, the operating results of the Fairchild Semiconductor business have been reported as discontinued operations in the Consolidated Statement of Operations for 1986 and prior years. The net assets of Fairchild Semiconductor as of December 31, 1986 are shown at realizable value in the Consolidated Balance Sheet. The loss on disposal of $200 million and the estimated operating losses during the phase-out period (January 1, 1987 to closing date) of $70 million have been recorded in 1986 as part of the aggregate discontinued operations loss.

Segregated Funds

THE ALLEN GROUP INC. (DEC)

	1986	1985
	(in Thousands)	
Total current assets	$209,471	$157,103
Property, Plant and Equipment, at cost, less accumulated depreciation and amortization	76,003	58,198
Unexpended Plant and Equipment Funds raised through industrial revenue bonds	4,617	16,689

COLT INDUSTRIES INC. (DEC)

	1986	1985
	(In thousands)	
Other Assets		
Costs in excess of net assets acquired, net of amortization	$163,185	$167,530
Funds held by trustee for capital projects	3,683	7,803
Other assets	141,754	77,742

ELXSI LTD. (DEC)

	1986	1985
	(in Thousands)	
Total current assets	$28,572	$51,699
Restricted short-term investments at cost, which approximates market	5,259	7,505
Property and equipment, net of accumulated depreciation and amortization	5,082	12,903
Assets related to discontinued development activities, at estimated net realizable value	13,101	18,603
Investments, at cost	600	500
Deposits and other long-term assets	1,189	2,155
	$53,803	$93,365

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in Thousands)

Note 3. Cash and Short-Term Investments

Cash and short-term investments and restricted short-term investments at December 28, 1986 and December 29, 1985 are represented primarily by investments in major bank certificates of deposit and commercial notes. The restricted short-term investment classified as a current asset at December 28, 1986 will be released in August 1987, absent any claims by Digital in connection with the sale of the Company's semiconductor interconnector and packaging technology in August 1986 (see Note 9). Restricted short-term investments classified as long-term assets are pledged as security under debt agreements (see Note 8).

Note 8 (In Part): Capital Equipment Leases

The Company has entered into equipment lease agreements with various unrelated entities. In addition to the leased equipment, short-term investments totaling $5,259 at December 28, 1986 have been pledged by the Company as security for the lease payments and are classified as noncurrent restricted short-term investments. The Company is responsible for all taxes, assessments and other costs of ownership under all the lease agreements. Certain agreements require the maintenance of defined minimum levels of working capital and tangible net worth as well as certain financial ratios.

GENERAL ELECTRIC COMPANY (DEC)

	1986	1985
	(In millions)	
Current assets	$14,288	$12,546
Property, plant and equipment—net	9,841	7,900
Funds held for business development (note 13)	397	726
Other investments	3,914	3,150
Intangible assets	3,581	222
Other assets	2,570	1,618
Total assets	$34,591	$26,162

Note 13: Funds Held for Business Development

Funds held for longer-term future business development are invested in a variety of securities, principally state, county and municipal bonds and corporate preferred stocks. Estimated realizable value of these investments was about the same as cost at December 31, 1986 and 1985.

THE PENN TRAFFIC COMPANY (JAN)

	1987	1986
	(In thousands)	
Other Assets:		
Marketable securities and bonds at cost (market value of $270 and $252, respectively)	$ 148	$ 159
Restricted debt funds	8,101	
Other assets and deferred charges	4,879	2,128
	13,128	2,287

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Restricted Debt Funds—During 1986, the Company entered into a long-term debt agreement for construction of a new perishables distribution center. The principal amount has been included in long-term debt, and the unexpended proceeds at January 31, 1987 have been reported as restricted debt funds. Such unexpended funds have been invested in interest-bearing securities.

STANADYNE, INC. (DEC)

	1986	1985
	(In thousands)	
Net Property, Plant and Equipment	$144,717	$140,663
Unexpended Plant and Equipment Funds	3,474	5,847
Intangible and Other	6,985	8,227

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3 (In Part): Debt

In December, 1984, the Company issued a note to a government authority in the amount of $8,000,000 under an Industrial Revenue Bond arrangement for the purpose of acquiring property, plant and equipment in Tallahassee, Florida. Interest is payable at 64% of the prime lending rate.

As of December 31, 1986, all but $3,474,000 of the proceeds from issuance of the $8,000,000 floating rate note have been used for the intended purposes. These unused funds are on deposit with trustees. Unexpended amounts, if any, remaining at the completion of the projects will be refunded in accordance with the terms of the agreements.

Prepaid Pension Costs

E-SYSTEMS, INC. (DEC)

	1986	1985
	(In Thousands)	
Total Current Assets	$441,331	$327,606
Other Assets		
Prepaid pension costs—Note I	15,593	—
Deferred charges and other	495	1,571
	16,088	1,571

Note I (In Part): Employee Benefits

The following table sets forth the funded status and amounts recognized in the Consolidated Balance Sheet at December 31, 1986 for the Company's U.S. defined benefit pension plans excluding the SERP (in thousands):

Actuarial present value of benefit obligations:	
Vested benefit obligation	$(175,448)
Accumulated benefit obligation	$(225,168)
Projected benefit obligation	$(285,552)
Plan assets at fair value	434,500
Plan assets in excess of projected benefit obligation	148,948
Unrecognized net loss	39,735
Unrecognized net asset at January 1, 1986, net of amortization	(173,090)
Prepaid pension cost	$ 15,593

Debt Issue Costs

DART GROUP CORPORATION (JAN)

	1987	1986
Share of Equity in Crown Books Corporation	$ —	$8,737,000
Other Assets	1,017,000	755,000
Excess of Purchase Price Over Net Assets Acquired	238,000	—
Debenture Costs, net of amortization (Note 5)	2,866,000	5,333,000
Deferred Income Tax Benefit	8,193,000	5,660,000

Note 5: 14% Subordinated Debentures

On October 3, 1985, the Corporation sold debentures with an aggregate principal amount of $250,000,000 bearing a 14% interest rate. The debentures will mature on September 15, 1995 and are unsecured subordinated obligations of the Corporation. Interest is payable semiannually on March 15 and September 15. The Corporation may redeem the debentures at any time beginning September 15, 1985, as a whole or from time to time in part, through maturity, at specified redemption prices ranging from 113.0% of principal in declining percentages of principal amount through 1992 when the percentage is set at 100% of principal amount. The cost of issuing the debentures, totaling $5,505,000, and discount of $2,500,000 are being amortized over the life of the debentures, using the straight-line method and interest method, respectively. Amortization of these items for the year ended January 31, 1987 was $480,000 and $126,000, respectively, and $172,000 and $37,000, respectively, for the year ended January 31, 1986.

During the year ended January 31, 1987, the Corporation repurchased, in open market transactions, $100,050,000 in face amount of the debentures for $111,998,000, including accrued interest. The unamortized cost of issuing these debentures and the unamortized discount, $1,987,000 and $946,000, respectively, and the redemption premium paid have been expensed in the current period, and classified as an extraordinary item, net of applicable income tax benefits.

KERR GLASS MANUFACTURING CORPORATION (DEC)

	1986	1985
	(in thousands)	
Net property, plant and equipment	$63,157	$63,326
Certificates of deposit	6,300	1,800
Debt issuance costs, net of amortization of $130 and $88 at December 31, 1986 and 1985, respectively	2,198	213
Other assets	4,190	3,496

NOTES TO FINANCIAL STATEMENTS

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

Debt Issuance Costs

Debt issuance costs are being amortized by the use of the straight-line method over the terms of the related debt agreements.

OAK INDUSTRIES INC. (DEC)

	1986	1985
	(in thousands)	
Total plant and equipment	$35,560	$39,303
Other Assets:		
Notes receivable	736	6,800
Investments in and advances to affiliated companies	847	702
Certificates of deposit	4,000	4,876
Capitalized debt expense, less amortization (Note 1)	559	4,877
Other assets	2,600	3,962
Total other assets	8,742	21,217

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Statement of Accounting Policies

Capitalized Debt Expense

The Company capitalizes all expenses related to its issuance of public debt. The resulting capitalized debt expense ($559,000 and $4,877,000 at December 31, 1986 and 1985, respectively) is classified in other assets on the consolidated balance sheet. The capitalized debt expense related to each issue of public debt is amortized to expense on the straight-line method over the life of that particular debt issue. During the years 1986, 1985 and 1984, the Company amortized $380,000, $817,000 and $327,000, respectively, of capitalized debt expense. In 1986, the Company wrote off $3,938,000 of capitalized debt expense associated with public debt retired in the current year.

Deferred Income Taxes

JOHNSON & JOHNSON (DEC)

	1986	1985
	(in Millions)	
Total current assets	$3,201.6	$2,896.5
Marketable securities, non-current, at cost, which approximates market value	156.4	148.7
Property, plant and equipment, net	1,916.3	1,839.9
Deferred taxes on income (Note 9)	43.2	—
Intangible assets, net	393.1	76.9
Other assets	166.1	133.1
Total assets	$5,876.7	$5,095.1

Note 9 (In Part): Income Taxes

Tax benefits of $300 million were provided in 1986 related to the redirection charges and over-the-counter capsule products withdrawal costs of $680 million. The major portion of the tax benefits will be realized in 1986 and 1987. The current deferred tax benefits are included in prepaid expenses and other receivables. Tax benefits of a long-term nature are included in deferred taxes on income.

Cash Surrender Value

DUPLEX PRODUCTS INC. (OCT)

	1986	1985
Other assets		
Cash surrender value of life insurance policies, less loans of $872,000 in 1986 and in 1985	$ 375,000	$ 272,000
Notes receivable	1,646,000	501,000
Deposits and other	429,000	417,000
	2,450,000	1,190,000

JOHNSON PRODUCTS CO., INC. (AUG)

	1986	1985
Other assets:		
Cash value, officers' life insurance (Note 5)	$166,000	$435,000
Investments	244,000	244,000
Miscellaneous receivables	124,000	260,000
	534,000	939,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5. Cash Value, Officers' Life Insurance

The Company maintains life insurance policies on certain of its officers and employees. The policies are of two types, split-dollar insurance and key-man insurance. Under the split-dollar insurance, the Company pays the premium and receives, upon termination of the policy or the death of the insured, the cash surrender value of the policy and the insured designates a beneficiary to receive the balance of benefits paid. Under the key-man insurance, the Company receives the cash surrender value if the policy is terminated, or receives all benefits payable upon the death of the insured.

In 1986 and 1985, cash surrender values have been reduced by $2,626,000 and $2,098,000, respectively, in outstanding policy loans, since the Company has no current intention of repayment.

The face amount and net cash surrender value relating to key-man insurance were $4,833,000 and $42,000 in 1986 and $4,385,000 and $353,000 in 1985, respectively.

KENWIN SHOPS, INC. (DEC)

	1986	1985
Other Assets:		
Notes receivable—officers (noncurrent portion)	$23,500	$47,000
Cash surrender value of life insurance (net of loans of $42,073 in 1986 and 1985) (Note C)	13,509	11,839
Deposits, prepayments, etc	25,345	25,117
Total Other Assets	62,354	83,956

Note C: Cash Surrender Value of Life Insurance

The Company is the owner and beneficiary under insurance policies on the lives of two of its officers and a former officer, having face amounts totaling $84,000.

CURRENT LIABILITIES

Paragraphs 7 and 8 of Chapter 3A of *ARB No. 43,* as amended by *Statement of Financial Accounting Standards No. 6,* discuss the nature of current liabilities. Examples of the various types of current liabilities follow:

SHORT-TERM DEBT

THE BLACK & DECKER CORPORATION (SEP)

	1986	1985
	($000)	
Short-term borrowings	$211,882	$ 37,482
Accounts payable	124,924	129,110
Other accrued liabilities	349,431	342,374
Income taxes payable	6,739	11,323
Total Current Liabilities	692,976	520,289

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Thousands of Dollars)

10. Short-term Borrowings

	1986	1985
Commercial paper	$ 67,000	$ —
Bank loans	61,250	34,534
15.1% unsecured senior notes reclassified	73,000	—
Current maturity of long-term debt	10,632	2,948
	$211,882	$37,482

During September 1986, the Corporation recorded an extraordinary loss of $19,000 resulting from the early retirement of the 15.1% unsecured senior notes in the amount of $73,000. This transaction closed subsequent to the balance sheet date with the issuance of commercial paper. Accordingly, the debt has been reclassified as short-term.

In September 1986, the Corporation entered into a $90,000 revolving credit facility extending to December 31, 1988 with several commercial banks. The agreement provides for credit availability each July 1 to December 31 to support the issue of commercial paper during the peak seasonal period. Interest rates under the agreement can vary at the Corporation's option of either prime or at rates based on the London interbank borrowing rate, certificate of deposit, or banker's acceptances rates. Commitment fees of .25% per annum are paid during the availability period and .125% per annum during the holdover period.

In September 1986, the Corporation initiated a Euro Commercial Paper Program which makes available to the Corporation up to $100,000 of short-term financing at prevailing interest rates for periods ranging from 7 to 183 days. At September 28, 1986, $20,000 was outstanding under this program.

In September 1985, the Corporation entered into a $130,000 revolving credit facility with several commercial banks for a three-year period. The agreements provide for continuing availability of short-term funding with various rates of interest at the Corporation's option of either prime or at rates based on the London interbank borrowing rate, certificate of deposit, banker's acceptances, or other negotiated rates. This borrowing facility may also be used to support the issuance of commercial paper through a dealer at the best available open market interest rates for periods not in excess of 270 days. Commitment fees of .25% are paid on the unused lines.

Under the terms of informal line of credit arrangements, the Corporation may borrow up to an additional $196,000 on such terms as may be mutually agreed upon. These arrangements do not have termination dates and are reviewed periodically. No material compensating balances are required or maintained.

Under the Corporation's back-to-back loan agreements, $111,425 and $107,147 of short-term borrowings have been eliminated from the 1986 and 1985 balance sheets, respectively.

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

	1986	1985
	(in millions)	
Current Liabilities		
Accounts Payable	$2,346	$2,550
Short-Term Borrowings and Capital Lease Obligations—Note 15	1,625	723
Income Taxes	183	431
Other Accrued Liabilities	1,482	1,607
Total Current Liabilities	5,636	5,311

NOTES TO FINANCIAL STATEMENTS

(Dollars in millions)

15: Short-Term Borrowings and Capital Lease Obligations

	December 31 1986	1985
Bank borrowings:		
Foreign currencies	$ 180	$223
U.S. dollars	39	36
Commercial paper	1,016	256
Long-term borrowings payable within one year	252	69
Industrial development bonds payable on demand	124	124
Capital lease obligations payable within one year	14	15
	$1,625	$723

Unused short-term bank credit lines amounted to approximately $2.4 billion at December 31, 1986. These lines provide for borrowings both domestically and outside the United States and generally do not involve commitment fees.

JWT GROUP, INC. (DEC)

	1986	1985
	(in thousands)	
Trade accounts payable	$311,992	$290,051
Other payables and accrued liabilities	140,378	121,268
Short-term borrowings and current portion of long-term debt	29,866	12,830
Income taxes payable	1,904	10,408
Total current liabilities	484,140	434,557

TABLE 2-20: SHORT-TERM DEBT

	1986	1985	1984	1983
Description				
Notes or Loans				
Payee indicated	112	110	133	128
Payee not indicated	165	171	162	170
Short-term debt or borrowings	118	108	103	96
Commercial paper	46	46	52	52
Other	28	27	24	28
Total Presentations	**469**	**462**	**474**	**474**
Number of Companies				
Showing short-term debt	405	411	413	413
Not showing short-term debt	195	189	187	187
Total Companies	**600**	**600**	**600**	**600**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Short-Term Borrowings

The Company's short-term borrowings are principally under bank lines of credit and a Eurocommercial paper program established in 1986. Under this program the Company is authorized to issue up to $50,000,000 in Eurocommercial paper. Amounts outstanding aggregating $36,000,000 at December 31, 1986, of which $35,000,000 has been classified as long-term debt, are supported by revolving credit agreements. The information concerning short-term borrowings is:

	1986	1985	1984
	(dollar amounts in thousands)		
Aggregate short-term borrowings at year end	$28,835	$12,620	$12,900
Weighted average interest rate at year end	6.6%	8.9%	10.4%
Average amount outstanding during the year	$35,600	$21,200	$19,100
Weighted average interest rate during the year	9.3%	10.6%	11.5%
Maximum amount outstanding during the year	$70,500	$41,900	$43,000

As a hedge against inflation, the Company incurred short-term borrowings in Brazil for both 1986 and 1985. In the table above, the weighted average interest rates at the end of the year and during the year excluded the effect of Brazilian borrowings. If these borrowings had been included, the rates would have been 11.4% and 11.2% in 1986 and 15.4% and 14.4% in 1985, respectively.

The Company's credit facilities at December 31, 1986 are:

	Used	Unused	Total
	(amounts in thousands)		
Uncommitted lines of credit.	$28,835	$139,000	$167,835
Revolving credit agreements		50,000	50,000
Credit facilities	$28,835	$189,000	$217,835

PALL CORPORATION (JUL)

	1986	1985
Current Liabilities:		
Notes payable to banks	$ 93,488,000	$ 80,566,000
Accounts payable—trade	24,225,000	20,469,000
Accrued liabilities:		
Salaries and commissions	7,120,000	6,224,000
Payroll taxes	2,452,000	2,031,000
Income taxes	13,196,000	13,436,000
Interest	494,000	456,000
Pension and profit sharing plans	3,438,000	3,443,000
Other	7,154,000	5,022,000
	33,854,000	30,612,000
Dividends payable	—	2,177,000
Current portion of long-term debt	3,815,000	2,580,000
Total Current Liabilities	155,382,000	136,404,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3: Short-term Debt

The Company had short-term investments in Puerto Rico of $52.6 million at August 2, 1986 ($37.6 million at August 3, 1985), at the same time that it had bank borrowings of $93.5 million (80.6 million at August 3, 1985) outside of Puerto Rico. The Company's management considers it desirable to maintain such investments in Puerto Rico, rather than repatriating such funds and reducing short-term debt in the United States, because of the tax-exempt status of Puerto Rican interest income, and the existence of a tollgate tax on repatriated funds. Had the Company chosen to repatriate these funds and reduce short-term debt in the same amounts, such debt would have been $40.9 million at August 2, 1986 ($43.0 million at August 3, 1985).

Short-term debt at August 2, 1986 and August 3, 1985 consisted of bank loans. A summary of these borrowings follows:

	1986	1985
Average month-end borrowings	$ 95,483,000	$81,190,000
Weighted average interest rate during the year	8.18%	9.30%
Highest level of borrowing at any month-end during the year	$104,742,000	$97,569,000
Weighted average interest rate at year-end	7.02%	9.26%

At August 2, 1986, the Company and its subsidiaries had lines of credits totalling $172 million, of which $91 million had been drawn. Such lines of credit do not represent legal commitments on the parts of the banks, and no formal compensating balance requirements relate to them.

SPENCER COMPANIES, INC. (MAY)

	1986	1985
Current liabilities:		
Notes payable—bank (Note 7)	$ 4,800,000	$4,250,000
Mortgage payable (Note 8)	1,200,000	—
Bankers' acceptances (Note 7)	1,761,668	1,041,960
Current maturities of long-term debt	—	600,000
Current portion of deferred income	254,750	—
Current portion of capital lease obligation	63,198	—
Accounts payable	5,162,786	8,291,048
Due to factor	—	4,798,089
Accrued taxes	209,379	487,976
Accrued payroll, interest and other	647,165	986,882
Total current liabilities	14,098,946	20,455,955

7. Notes Payable–Banks and Bankers' Acceptances

Notes payable banks are payable on demand. The following table summarizes the information with respect to borrowings from banks for each of the last three fiscal years:

	1986	1985	1984
Amounts borrowed at year-end	$4,800,000	$4,250,000	$1,000,000
Average amount of short-term borrowings during year	4,813,000	2,650,000	588,000
Maximum amount of short-term borrowings at any month end	4,950,000	4,250,000	1,100,000
Weighted average stated interest rate:			
During the year (computed on a monthly basis)	9.34%	11.34%	11.20%
At year-end	8.50%	10.00%	12.50%

The Company has unsecured lines of credit with its banks in the amount of $5,050,000 with interest payable at prime. As of May 31, 1986 the Company has fully utilized its lines of credit other than a $250,000 standby letter of credit required under a contractual agreement.

In addition to the lines of credit, the Company has outstanding bankers' acceptances at May 31, 1986 which mature in various amounts through August 31, 1986. Bankers' acceptances at June 1, 1985, matured in various amounts through August 29, 1985. Interest rates averaged 10.0% and 8.8% in 1986 and 1985, respectively.

8. Mortgage Payable

During 1986 the Company obtained a $1,200,000 mortgage from a bank collateralized by a building. Interest is payable monthly and the principal is payable on November 1, 1986. Interest is priced at the bank's prime rate plus 2%. Under the agreement's most restrictive covenant the lender agrees to provide the bank with audited financial statements annually.

THE TIMKEN COMPANY (DEC)

	1986	1985
	(Thousands)	
Current Liabilities		
Accounts payable and other liabilities	$110,079	$105,725
Accrued pension contributions	28,619	32,229
Salaries, wages and payroll taxes	40,165	46,052
Commercial paper	94,691	50,714
Short-term debt	6,581	6,534
Taxes, other than income taxes	16,763	13,018
Income taxes	6,141	7,601
Current portion of long-term debt	2,451	1,723
Total Current Liabilities	305,490	$263,596

TRADE ACCOUNTS PAYABLE

All the survey companies disclosed the existence of amounts owed to trade creditors. As shown in Table 2-21, such amounts were usually described as *Accounts Payable* or *Trade Accounts Payable*.

AMERICAN MOTORS CORPORATION (DEC)

	1986	1985
	(in Thousands)	
Current Liabilities		
Short-term debt	$ 9,349	$ 2,000
Current maturities of long-term debt		
Affiliated company	16,951	16,481
Others	82,693	139,078
Accounts payable		
Trade	293,793	275,676
Affiliated company	9,669	15,999
Other	54,019	43,356
Other accrued liabilities	289,599	323,920
Total Current Liabilities	$756,073	$816,510

GENERAL ELECTRIC COMPANY (DEC)

	1986	1985
	(In millions)	
Short-term borrowings	$ 1,813	$1,297
Accounts payable (note 18)	2,594	2,204
Progress collections and price adjustments accrued	2,273	2,257
Dividends payable	287	264
Taxes accrued	1,153	751
Other costs and expenses accrued	3,341	2,146
Current liabilities	11,461	8,919

Note 18: Accounts Payable

December 31 (In millions)	1986	1985
Trade accounts	$1,972	$1,757
Collected for the account of others	342	180
Due to nonconsolidated affiliates	280	267
	$2,594	$2,204

TABLE 2-21: CURRENT LIABILITIES—TRADE CREDITORS

	1986	1985	1984	1983
Description				
Accounts payable	405	404	403	402
Trade Accounts Payable	125	99	98	109
Accounts payable combined with accrued liabilities or accrued expenses	53	76	79	68
Other captions	17	21	20	21
Total Companies	600	600	600	600

CROWN CENTRAL PETROLEUM CORPORATION (DEC)

	1986	1985
	(In Thousands)	
Current Liabilities		
Accounts payable:		
Crude oil and refined products	$37,491	$ 52,368
Other	29,173	35,082
Accrued liabilities	22,801	31,388
Current portion of long-term obligations	5,672	5,804
Total Current Liabilities	95,137	124,642

THE LUBRIZOL CORPORATION (DEC)

	1986	1985
	(In Thousands)	
Current liabilities:		
Short-term debt	$ 4,303	$ 31,448
Accounts payable	85,713	90,988
Income taxes and other current liabilities	72,781	60,107
Total current liabilities	162,797	182,543

NOTES TO FINANCIAL STATEMENTS

(In Thousands of Dollars)

Note 5 (In Part): Other Balance Sheet Information

Accounts Payable:	1986	1985
Trade	$76,919	$85,429
Affiliates	8,794	5,559
	$85,713	$90,988

NORTHROP CORPORATION (DEC)

	1986	1985
	(In millions)	
Current liabilities		
Notes payable to banks	$ 499.9	$ 164.0
Trade accounts payable	341.5	310.9
Accrued employees' compensation	142.9	165.8
Advances on contracts	20.0	44.1
Income taxes payable	34.4	46.0
Deferred income taxes	431.9	449.5
Other current liabilities	238.6	163.8
Total current liabilities	1,709.2	1,344.1

TABLE 2-22: EMPLOYEE RELATED LIABILITIES

	Number of Companies			
	1986	1985	1984	1983
Description				
Salaries, wages, payrolls, commission	318	333	330	324
Compensation and/or *Benefits*	166	161	155	123
Withholdings, payroll taxes.	3	7	9	14
Pension or profit-sharing contributions	100	119	116	123
Other	57	47	44	69
Number of Companies				
Disclosing employee related liabilities	489	492	481	484
Not disclosing	111	108	119	116
Total Companies	600	600	600	600

EMPLOYEE RELATED LIABILITIES

Table 2-22 shows the nature of employee related liabilities disclosed by the survey companies as current liabilities. Examples of captions describing employee related liabilities follow.

ADDSCO INDUSTRIES, INC. (JUN)

	1986	1985
Current Liabilities		
Notes payable	$ 2,800,000	$ —
Accounts payable—trade	11,897,305	3,023,626
Accrued liabilities:		
Wages	811,758	508,318
Federal and state payroll taxes	283,530	308,353
Vacation allowance	1,069,385	652,476
Interest and general taxes	184,306	161,877
Workmen's compensation claims	200,000	74,692
Deferred compensation	30,905	31,456
Other	17,046	22,429
Income taxes payable	945	1,031
Total Current Liabilities	17,295,180	4,784,258

BMC INDUSTRIES, INC. (DEC)

	1986	1985
	(in thousands)	
Current Liabilities		
Short-term borrowings	$ 353	$ 240
Long-term debt classified as current	100,512	100,253
Accounts payable	6,661	7,660
Accrued salaries and commissions	1,727	1,285
Accrued profit sharing contributions	1,397	1,084
Accrued interest	4,142	4,094
Income taxes payable	1,798	1,959
Other accrued expenses	4,800	4,121
Total Current Liabilities	121,390	120,696

CARPENTER TECHNOLOGY CORPORATION (JUN)

	1986	1985
	(in thousands)	
Current liabilities:		
Short-term debt	$ 54,141	$ 27,500
Accounts payable	29,739	24,975
Accrued compensation	20,810	29,428
Other accrued liabilities	14,756	20,541
Deferred income taxes	3,002	3,982
Current portion of long-term debt	686	666
Total current liabilities	123,134	107,092

FAIRCHILD INDUSTRIES, INC. (DEC)

	1986	1985
Current Liabilities:		
Bank notes payable and current maturities of long-term debt	$ 38,930	$ 9,285
Notes payable to affiliates	—	3,233
Accounts payable	49,908	51,711
Accrued liabilities:		
Wages, salaries and commissions	20,863	20,175
Employee benefit plans	12,412	8,827
Insurance	8,440	10,030
Interest	11,387	10,319
Other	22,943	19,387
	76,045	68,738
Customer advances on contracts	2,385	7,157
Income taxes	2,478	—
Total Current Liabilities	169,746	140,124

KAMAN CORPORATION (DEC)

	1986	1985
	(In thousands)	
Current liabilities:		
Notes payable	$ 5,148	$ —
Current portion of long-term debt	4,085	3,540
Accounts payable-trade	51,066	37,486
Customers' advances in excess of related costs	8,663	—
Accrued salaries and wages	6,119	6,034
Accrued vacations	4,966	3,855
Other accruals and payables	13,937	13,791
Income taxes payable	4,870	13,347
Total current liabilities	98,854	78,053

KNAPE & VOGT MANUFACTURING COMPANY (JUN)

	1986	1985
Current Liabilities:		
Accounts payable	$4,024,113	$2,849,893
Accruals:		
Income taxes	302,431	202,253
Other taxes	599,737	599,791
Compensation	799,001	650,387
Retirement plan contributions	58,212	418,378
Miscellaneous	207,037	317,031
Total Current Liabilities	5,990,531	5,037,733

SPECTRUM CONTROL, INC. (NOV)

	1986	1985
Current Liabilities		
Accounts payable	$ 2,491,286	$1,273,277
Short-term debt	13,116,394	3,000,000
Current maturities of long-term debt	2,065,427	471,533
Accrued items:		
Salaries, wages, commissions, and related payroll taxes	744,423	337,797
Vacation pay	492,450	412,041
Profit sharing (Note H)	200,000	170,000
Interest	171,163	38,853
Federal and state income taxes	617,004	149,396
Total current liabilities	19,898,147	5,852,897

Note H: Profit Sharing and Compensation Agreements

The Company has a qualified profit sharing plan. Annual contributions to the plan are made at the discretion of the Board of Directors. Provisions in the amount of $200,000 in 1986, $170,000 in 1985 and $150,000 in 1984 were accrued and charged against income.

The Company has adopted a director's performance incentive plan. Under the plan, income accrues to each director based upon the appreciation of the market value of the Company's common stock. In 1986 and 1985, $105,629 and $64,000, respectively, was paid and charged against income. For 1984, no amounts were accrued and no payments were made under this plan.

STANHOME INC. (DEC)

	1986	1985
Current Liabilities:		
Notes and loans payable	$ 3,632,349	$ 2,600,767
Accounts payable	37,835,901	26,171,565
Dealers' security deposits	1,652,230	1,865,154
Federal, state and foreign taxes on income	10,152,207	6,990,043
Unredeemed coupons and certificates	1,267,491	1,412,906
Accrued expenses—		
Payroll and commissions	7,773,594	6,943,624
Vacation, sick leave and retirement insurance	6,653,459	5,839,900
Pensions and profit sharing	5,172,371	3,981,592
Payroll taxes	2,083,245	1,350,375
Other	12,227,241	9,416,921
Dividends payable	1,992,039	1,591,905
Total current liabilities	90,442,127	68,164,752

INCOME TAX LIABILITY

Table 2-23 summarizes the descriptive balance sheet captions used to describe the current liability for income taxes.

BAIRD CORPORATION (SEP)

	1986	1985
Current liabilities:		
Foreign bank loans	$ 3,483,075	$ 3,311,804
Current loans payable	635,916	5,239,780
Accounts payable	3,279,418	2,958,935
Accrued expenses	3,740,601	3,536,951
Advance payments from customers	884,029	1,451,166
Federal, state and foreign income taxes	1,121,043	439,535
Total current liabilities	13,144,082	16,938,171

BRISTOL-MYERS COMPANY (DEC)

	1986	1985
	(in millions)	
Current Liabilities:		
Short-term borrowings	$ 230.5	$ 232.6
Accounts payable	252.0	224.2
Accrued expenses	374.1	363.0
U.S. and foreign income taxes payable	158.6	188.6
Total Current Liabilities	1,015.2	1,008.4

CURTISS-WRIGHT CORPORATION (DEC)

	1986	1985
	(In thousands)	
Current liabilities:		
Accounts payable	$ 8,076	$ 9,433
Accrued compensation	4,349	3,951
Other accrued expenses	12,700	11,037
Federal and foreign income taxes payable	2,871	2,669
Deferred federal and foreign income taxes	4,958	8,558
Other current liabilities	9,288	8,796
Total current liabilities	42,242	44,444

THE GILLETTE COMPANY (DEC)

	1986	1985
	($ millions)	
Current Liabilities		
Loans payable	$191.9	$347.8
Current portion of long-term debt	7.6	67.1
Accounts payable and accrued liabilities	671.6	433.3
Federal and foreign income taxes	29.6	52.8
Total Current Liabilities	900.7	901.0

TABLE 2-23: CURRENT INCOME TAX LIABILITY

	1986	1985	1984	1983
Income taxes	358	346	361	353
Taxes—type not specified	43	38	34	37
Federal and state income taxes	25	31	32	28
Federal income taxes	17	20	21	30
U. S. and foreign income taxes	14	18	18	21
Federal, state, and foreign income taxes	13	15	16	17
Federal and foreign income taxes	10	12	15	19
Other captions	29	23	20	26
	509	503	517	531
No caption for taxes payable	91	97	83	69
Total Companies	**600**	**600**	**600**	**600**

IC INDUSTRIES, INC. (DEC)

	1986	1985
	(in millions)	
Current liabilities:		
Notes payable	$ 15.2	$ 1.7
Current maturities of long-term debt	112.1	67.8
Accounts and dividends payable	326.9	340.8
Income taxes payable	25.6	50.7
Accrued expenses:		
Salaries and wages	100.9	105.7
Interest	65.2	64.2
Other expenses	291.6	187.5
Total current liabilities	937.5	818.4

THE MURRAY OHIO MANUFACTURING COMPANY (DEC)

	1986	1985
Current liabilities		
Notes payable to banks	$30,693,492	$20,552,394
Accounts payable	10,757,131	16,119,744
Accrued payroll, commissions and other compensation	3,315,805	5,018,248
Federal and state income taxes	788,480	1,937,807
Current portion of long-term debt	3,610,770	3,565,047
Other current liabilities	7,510,429	7,299,870
Total current liabilities	56,676,107	54,493,110

NATIONAL SEMICONDUCTOR CORPORATION (MAY)

	1986	1985
	(in millions)	
Current liabilities:		
Short-term borrowings and current portion of long-term debt	$ 5.0	$ 28.4
Accounts payable	161.8	117.4
Accrued expenses	132.7	109.8
Income taxes	19.7	12.9
Deferred income on shipments to distributors	—	91.6
Other current liabilities	34.2	15.7
Total current liabilities	353.4	375.8

PHILIP MORRIS COMPANIES INC. (DEC)

	1986	1985
	(In Millions)	
Notes payable	$ 864	$ 595
Current portion of long-term debt	103	83
Accounts payable	813	946
Accrued liabilities:		
Taxes, except income taxes	531	484
Employment costs	405	426
Other	1,031	952
Income taxes payable	557	362
Dividends payable	178	119
Total current liabilities	4,482	3,967

WEST POINT-PEPPERELL, INC. (SEP)

	1986	1985
	(000 omitted)	
Current Liabilities:		
Notes payable	$123,121	$ 41,000
Current maturity of long-term debt	9,661	6,925
Accounts payable	116,519	76,351
Federal income tax	20,901	5,254
Other accrued taxes	11,408	7,750
Accrued compensation and related expenses	34,336	12,436
Other accrued liabilities	42,653	19,215
Total current liabilities	358,599	168,931

CURRENT AMOUNT OF LONG TERM DEBT

Table 2-24 summarizes the descriptive balance sheet captions used to describe the amount of long term debt payable during the next year.

AMERICAN STORES COMPANY (JAN)

	1987	1986
	(In thousands)	
Current Liabilities		
Short-term notes payable		
Current maturities of long-term debt	$ 13,875	$ 17,835
Current obligations under capital leases	11,174	10,498
Trade accounts payable	679,692	647,148
Accrued wages payable	148,701	152,598
Other accrued liabilities	398,559	377,614
Federal and state income taxes	60,523	35,989
Total current liabilities	1,312,524	1,241,682

THE COASTAL CORPORATION (DEC)

	1986	1985
	(Millions)	
Current Liabilities:		
Notes payable and preferred stock redeemable within one year	$ 348.5	$ 339.6
Accounts payable	1,285.1	1,537.6
Accrued expenses	399.9	418.4
Current maturities on long-term debt (Note 6)	230.3	278.1
Total Current Liabilities	2,263.8	2,573.7

Note 6 (In Part): Debt

Maturities

The aggregate amounts of long-term debt (including subordinated) maturities for the five years following 1986 are (millions of dollars):

1987	$230.3
1988	331.9
1989	382.7
1990	323.4
1991	980.2

FEDERAL PAPER BOARD COMPANY, INC. (DEC)

	1986	1985
	(In thousands)	
Current Liabilities:		
Accounts payable—trade	$ 43,513	$ 33,383
Debt payable within one year	10,657	20,940
Dividends payable	2,741	2,343
Accrued salaries, wages and benefits	25,625	21,019
Other taxes	2,118	2,594
Accrued interest	10,948	11,153
Accrued pensions	6,825	5,246
Other current liabilities	13,254	15,758
Total Current Liabilities	115,681	112,436

TABLE 2-24: CURRENT AMOUNT OF LONG-TERM DEBT

	Number of Companies			
	1986	1985	1984	1983
Description				
Current *portion* of long-term debt	213	207	215	212
Current *maturities* of long-term debt	193	187	183	193
Long-term debt *due* or *payable* within one year	65	67	73	79
Current *installment* of long-term debt	36	38	42	40
Current amount of long-term leases	42	44	59	66
Other captions	12	11	6	6

H. B. FULLER COMPANY (NOV)

	1986	1985
	(in thousands)	
Current liabilities:		
Notes payable to banks	$10,919	11,050
Notes payable to others	1,281	997
Current installments of long-term debt	2,047	1,746
Accounts payable—suppliers	35,409	27,381
Accounts payable—others	928	4,270
Accrued payroll	11,517	7,421
Other accrued expenses	14,665	9,480
Income taxes payable	7,118	5,644
Total current liabilities	83,884	67,989

UNION CARBIDE CORPORATION (DEC)

	1986	1985
	($ Millions)	
Accounts payable	$ 414	$ 327
Short-term debt	388	821
Payments due within one year on long-term debt	71	201
Accrued income and other taxes	280	147
Other accrued liabilities	728	886
Total current liabilities	1,881	2,382

UNIVERSAL LEAF TOBACCO COMPANY, INCORPORATED (JUN)

	1986	1985
	(in thousands)	
Current Liabilities		
Notes payable	$ 38,576	$ 41,828
Bank drafts and overdrafts	2,598	1,886
Accounts payable:		
Trade and accruals	70,942	38,639
Unconsolidated affiliates	12,106	4,624
Customer advances and deposits	7,468	21,452
Income taxes payable		755
Current portion—policy and contract claims	17,886	17,835
Current portion—long-term obligations	843	21,765
Total current liabilities	150,419	148,784

WILLAMETTE INDUSTRIES, INC. (DEC)

	1986	1985
	(in thousands)	
Current liabilities:		
Notes payable to banks	$ 14,000	—
Current installments on long-term debt	3,322	13,656
Accounts payable	43,757	35,656
Accrued payrolls and related expenses	29,874	28,818
Accrued interest	10,859	6,061
Other accrued expenses	18,735	18,280
Federal and state taxes on income	22,116	22,595
Total current liabilities	142,663	125,066

ZENITH ELECTRONICS CORPORATION (DEC)

	1986	1985
	(in millions)	
Current Liabilities		
Short-term debt	$ 95.0	$ 19.0
Current portion of long-term debt (Note 6)	6.9	6.9
Accounts payable	199.0	84.0
Compensation and retirement benefits	44.8	43.7
Product warranties	43.0	37.2
Co-op advertising and merchandising programs	35.8	39.7
Income taxes payable	7.4	7.4
Other accrued expenses	59.1	53.3
Total current liabilities	491.0	291.2

Note 6 (In Part): Long-Term Debt

The components of long-term debt were:

	December 31	
In millions	1986	1985
9.95% promissory note due 1999	$ 89.4	$ 96.3
12⅛% notes due 1995	74.7	74.7
6¼% convertible subordinated debentures due 2011	115.0	—
Subsidiary debt	—	.4
Capitalized lease obligations	.2	.6
	279.3	172.0
Less—current portion	6.9	6.9
Total long-term debt	$272.4	$165.1

The terms of the 9.95% note include annual sinking fund requirements of $6.9 million. The notes are redeemable at the option of the company, in whole or in part, at a premium subject to certain restrictions contained in the note agreement. The principal restrictive covenants in the note agreement require a minimum level of working capital and place restrictions concerning additional borrowing and retained earnings available for stock repurchases and payment of dividends. At December 31, 1986, $88.4 million of retained earnings were free of limitations set forth in the agreement.

OTHER CURRENT LIABILITIES

Table 2-25 summarizes other identified current liabilities. The most common types of other current liabilities are taxes not combined with federal income taxes, accrued interest payable, and dividends payable. Unidentified other current liabilities, generally described as *accrued expenses*, *accrued liabilities*, or *other current liabilities* are not included in Table 2-25.

TABLE 2-25: OTHER CURRENT LIABILITIES

	Number of Companies			
	1986	1985	1984	1983
Taxes other than Federal income taxes	186	186	194	204
Interest	128	122	109	112
Dividends payable	86	87	96	93
Estimated costs related to discontinued operations	85	78	65	60
Customer advances, deposits	60	61	69	67
Deferred taxes	50	57	58	67
Insurance	49	47	41	35
Warranties	40	40	37	37
Deferred revenue	37	32	26	22
Billings on uncompleted contracts	31	27	28	24
Due to affiliated companies	15	26	19	22
Advertising	28	24	25	22
Other—Described	84	85	80	75

Taxes Other Than Federal Income Taxes

ADAMS-MILLIS CORPORATION (DEC)

	1986	1985
Current Liabilities:		
Current maturities of long-term debt	$ 8,335,000	$ 4,335,000
Accounts payable	5,921,000	2,509,000
Accrued salaries and wages	2,387,000	1,576,000
Accrued property taxes	653,000	472,000
Accrued pension	121,000	483,000
Accrued interest and other	3,524,000	1,385,000
Income taxes	6,644,000	120,000
Total Current Liabilities	27,585,000	10,880,000

AMERICAN GREETINGS CORPORATION (FEB)

	1986	1985
	($000)	
Current Liabilities		
Notes payable to banks	$ 15,921	$ 4,574
Accounts payable	66,685	56,840
Payrolls and payroll taxes	28,675	26,761
Retirement plans	11,697	12,612
State and local taxes	2,763	2,796
Dividends payable	5,317	4,622
Income taxes	18,988	27,465
Sales returns	23,889	21,822
Current maturities of long-term debt	4,786	4,359
Total current liabilities	178,721	161,851

CPC INTERNATIONAL INC. (DEC)

	1986	1985
	($ Millions)	
Current liabilities		
Loans payable—banks	$ 193.8	$161.1
Other notes and drafts payable	542.6	92.9
Accounts payable	248.3	202.8
Accrued expenses:		
Accrued compensation	49.7	35.8
Accrued advertising and other	272.5	190.2
Taxes payable other than taxes on income	28.2	24.1
Income taxes	108.8	85.1
Dividends payable	25.6	26.8
Total current liabilities	1,469.5	818.8

CHAMPION SPARK PLUG COMPANY (DEC)

	1986	1985
	(In millions)	
Current liabilities:		
Short-term borrowings and current portion of long-term debt	$ 77.4	$ 80.9
Accounts payable	62.6	63.4
Accrued expenses:		
Salaries and wages	21.1	20.9
Taxes, other than federal and foreign income taxes	9.2	8.7
Other	51.7	28.4
Federal and foreign income taxes, including deferred income taxes of $3.8 in 1985	14.1	9.3
Total current liabilities	236.1	211.6

CLARK EQUIPMENT COMPANY (DEC)

	1986	1985
	(in thousands)	
Current Liabilities:		
Note payable	$ 23,798	$ 17,954
Accounts payable and accruals	115,651	94,377
Accrued payrolls	15,704	15,226
Accrued social security and general taxes	7,807	7,316
Accrued liabilities—restructuring program	23,595	33,657
Taxes on income	7,069	8,383
Accounts payable and installment obligations owed to finance subsidiaries	3,989	15,491
Accounts payable to associated companies	11,135	—
Current installments on long-term debt	2,581	1,182
Total current liabilities	211,329	193,586

GENERAL INSTRUMENT CORPORATION (FEB)

	1986	1985
Current liabilities:		
Accounts payable	$ 61,796,873	$ 67,973,577
Salaries and wages	25,314,827	16,790,203
Payroll, state and local taxes	6,600,333	11,995,822
Other accrued liabilities	69,329,681	58,464,994
Income taxes	—	516,842
Short-term borrowings	2,024,441	7,402,000
Long-term debt due within one year	2,244,467	2,627,924
Total current liabilities	167,310,622	165,771,362

K MART CORPORATION (JAN)

	1987	1986
	(Millions)	
Current Liabilities:		
Long-term debt due within one year	$ 4	$ 15
Notes payable	296	127
Accounts payable—trade	2,207	1,908
Accrued payrolls and other liabilities	639	624
Taxes other than income taxes	223	218
Income taxes	162	198
Total current liabilities	3,531	3,090

NATIONAL DISTILLERS AND CHEMICAL CORPORATION (DEC)

	1986	1985
	(in millions)	
Current liabilities		
Accounts payable	$ 132.2	$107.5
Accrued liabilities (Note 13)	160.6	132.8
Notes payable to banks and others	796.2	252.0
Long-term debt payable within one year	35.4	33.7
Total current liabilities	1,124.4	526.0

Note 13: Accrued Liabilities

	December 31 1986	1985
Federal excise taxes	$ 2.7	$ 21.9
Taxes on income	41.2	20.1
Payrolls and related costs	41.8	29.2
Employee benefits	9.7	11.8
Interest	14.4	10.1
Property taxes	10.0	5.0
Other	40.8	34.7
	$160.6	$132.8

Costs/Liabilities Related to Discontinued Operations

BOISE CASCADE CORPORATION (DEC)

	1986	1985	1984
		(in thousands)	
Current Liabilities			
Notes payable	$ —	$ 20,000	$ 53,000
Current portion of long-term debt	51,146	33,437	26,193
Income taxes payable	3,493	14,637	18,615
Accounts payable	265,928	267,856	304,744
Accrued liabilities			
Compensation and benefits	91,422	80,090	88,862
Interest payable	32,865	31,083	20,261
Restructuring of operations (Note 8)	4,887	9,871	47,851
Other	98,161	87,942	97,740
	547,902	544,916	693,266

NOTES TO FINANCIAL STATEMENTS

8. Provision for Restructuring Operations

During 1984, the Company recorded pretax charges for restructuring operations of $88,000,000, or $2.07 per common share after tax. The charges included $58,000,000 associated with the closure of a hardboard (Insulite) plant and consolidation of the Company's building materials distribution operations, $20,000,000 related to wood products business consolidations, and $10,000,000 for the buy-out of certain high-cost federal timber contracts under the provisions of federal legislation.

RTE CORPORATION (DEC)

	1986	1985
	($000)	
Current Liabilities:		
Accounts payable	$14,472	$13,437
Compensation and related benefits	13,759	11,803
Miscellaneous accrued expenses (Note C)	4,961	3,200
Dividends payable	1,098	1,148
Income taxes	2,405	
Current maturities on long-term debt	1,429	2,996
Total Current Liabilities	38,124	32,584

Note C: Electronics Restructuring and Divestitures

In July 1986, the Company commenced the restructuring of its electronics operations and the sale of its motor business. As part of the restructuring of the electronics operations, Power/Mate sold its land and building and RTE Deltec purchased certain assets and certain product lines of Power/Mate to form a power supplies division. Power/Mate was then liquidated in December 1986. The restructuring of the electronics operations and sale of the motor business resulted in after-tax charges totalling $5,000,000 or $.66 per share. These estimated charges principally included severance for terminated employees, relocation costs and the disposition of assets not required by the restructured operation. Of the initial $10,100,000 restructuring accrual, approximately $2,000,000 remains as a miscellaneous accrued liability at January 3, 1987.

On March 31, 1985, the Company sold its 90 percent ownership interest in CARTE Electric Ltd., a manufacturer of transformers for the Canadian and U.S. markets for $4,375,000 resulting in a net loss of $200,000 or $.03 per share. On September 21, 1985, the Company sold RTE Delta Corporation, a manufacturer of generator control systems and pump panels for $4,360,000 resulting in a net gain of $120,000 or $.02 per share.

STEWART-WARNER CORPORATION (DEC)

	1986	1985
Current Liabilities:		
Current portion of long-term debt	$ —	$ 10,000
Accounts payable	9,399,000	12,277,000
Salaries, wages and commissions	7,233,000	8,628,000
Accrued insurance	3,594,000	2,014,000
Accrued restructuring costs	5,216,000	—
Taxes, other than on income	3,250,000	3,652,000
Accrued income taxes	922,000	1,289,000
Other accrued liabilities	5,744,000	1,992,000
Total Current Liabilities	35,358,000	29,862,000

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. Restructuring of Operations:

In the fourth quarter of 1986 the Corporation recorded a provision of $23,675,000—$3.66 per share—for restructuring programs in several of the industry segments that we serve, including Electronic and Electromechanical Systems and Products, Fabricated Metal Products and Hardware, and Vehicular Service Equipment and Materials. These restructuring programs relate to downsizing and reconfiguring of manufacturing operations, and changes in product sourcing, all for the purposes of lowering costs and improving the Corporation's competitive positions in existing markets. The restructuring provision includes applicable inventory and property and equipment writedowns and the accrual of costs to be incurred in future years to reconfigure the affected businesses.

Restructuring costs are generally deductible for income tax purposes only when incurred and will therefore be deductible in future periods as these programs are implemented. Credits for these future tax benefits will be recognized for financial reporting purposes when realized. Such tax benefits will be credited to income in future periods when realized.

Stewart-Warner management is considering and studying options with respect to additional excess capacity and alternative strategic plans. As specific future plans have not been identified with respect to these options, the ultimate financial effect, if any, of such future plans cannot presently be determined.

The 1984 accounts included a $3,462,000 provision to cover the writedown of inventory, plant and equipment associated with a product line which had experienced a decline in demand and the costs incurred in the restructuring of certain manufacturing operations.

BAKER INTERNATIONAL CORPORATION (SEP)

	1986	1985
	(In thousands)	
Current Liabilities:		
Accounts payable—trade	$155,582	$210,451
Short-term borrowings	22,284	26,419
Current portion of long-term debt	22,834	19,992
Accrued employee compensation and benefits	70,393	84,362
Income taxes	40,200	44,916
Accruals relating to 1986 unusual charges (Note 3)	33,135	
Taxes other than income	24,281	18,164
Accrued interest and other liabilities	48,146	45,147
Total current liabilities	416,855	449,451

Note 3. Unusual Charges:

In response to falling oil prices and the resultant decline in the level of activity in worldwide oil and gas markets, the Company, during the quarter ended March 31, 1986, reviewed in detail its asset and workforce levels. The likelihood of continued depressed market conditions led the Company to take a series of actions designed to enhance its ability to operate in the rapidly changed market environment. Such actions included the scaling down of capacity of certain of its manufacturing plants and the planned disposal of certain property, plant and equipment, which were written down to estimated net realizable value. Several of the Company's product lines were streamlined, sold or discontinued, and assets related to these lines were written down to estimated net realizable value. Inventories were written down to better reflect current and anticipated market conditions. Compensation accruals were established for severance and early retirement based on a significant workforce reduction in 1986. Additionally, the Company wrote off all of the excess costs arising from prior acquisitions (including that related to mining operations) and established additional allowances for accounts receivable to reflect current industry conditions. The financial impact of the actions described above, substantially all of which were of a non-cash nature, amounted to an unusual charge (net of minority interests) of $410,000,000 ($342,525,000, or $4.88 per share, after taxes), as follows:

Property, plant and equipment (including property held for disposal)	$179,060,000
Excess costs arising from acquisitions	80,940,000
Inventories	68,911,000
Leased facilities and equipment	19,940,000
Accounts receivable	17,717,000
Accrued compensation	14,601,000
Other	28,831,000
	$410,000,000

In 1984, the Company determined that a decline in several market sectors required product line consolidations and excess asset dispositions. Such assets were written down to their estimated net realizable values. The net result of these unusual transactions was a charge to income of $24,000,000 ($12,960,000, or $.18 per share, after taxes) in 1984.

Insurance

DOVER CORPORATION (DEC)

	1986	1985
Current liabilities:		
Notes payable	$100,036,713	$ 55,270,400
Current maturities of long-term debt	30,090,888	6,629,238
Accounts payable	59,563,559	57,276,475
Accrued compensation and employee benefits	34,973,055	37,013,051
Accrued insurance expense	18,467,159	17,033,064
Other accrued expenses	41,413,254	45,360,278
Federal and other taxes on income	53,010,159	69,564,267
Total current liabilities	337,554,787	288,146,773

PREMARK INTERNATIONAL, INC. (DEC)

	1986	1985
	(In millions)	
Accounts payable	$ 92.1	$ 63.3
Short-term borrowings and current portion of long-term debt	50.9	10.0
Accrued liabilities:		
Compensation and employee benefits	57.7	49.1
Warranties and maintenance service agreements	35.1	30.1
Insurance	24.5	17.2
Income taxes	28.1	17.0
Taxes other than income taxes	25.4	16.9
Advertising and promotion	27.8	17.7
Other	99.3	71.0
Total current liabilities	440.9	292.3

Product Warranties

DRESSER INDUSTRIES, INC. (OCT)

	1986	1985
	(In Millions)	
Current Liabilities		
Short-term debt	$171.0	$ 140.7
Accounts payable	231.2	273.8
Accrued compensation and benefits	151.6	181.4
Accrued warranty costs	56.1	70.0
Accrued taxes other than income taxes	41.9	37.9
Advances from customers on contracts	28.3	45.0
Other accrued liabilities	206.2	233.6
Income taxes	31.2	19.6
Current portion of long-term debt	23.6	26.2
Total Current Liabilities	941.1	1,028.2

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Warranty Costs

Estimated product performance costs are provided at the time of sale of the warranted product.

FEDDERS CORPORATION (DEC)

	1986	1985
	($000)	
Current liabilities:		
Accounts payable	$ 3,694	$ 4,926
Accrued expenses	9,219	7,425
Current portion of accrued warranty	2,172	2,476
State and foreign income taxes	90	61
Current liabilities of spun off operations	8,444	7,911
Total current liabilities	23,619	22,799

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Warranty and return policy

The Company's warranty policy provides five-year coverage for compressors and a full one-year warranty on all parts and labor related to room air conditioners.

The policy with respect to sales returns provides that a customer may not return inventory except at the Company's option.

WINNEBAGO INDUSTRIES, INC. (AUG)

	1986	1985
	(in thousands)	
Current Liabilities		
Current maturities of long-term debt	$ 1,050	$ 1,171
Bank acceptances	—	3,363
Notes payable	15,000	—
Accounts payable, trade	23,639	19,905
Accrued expenses:		
Insurance	3,058	2,575
Profit sharing and bonus	2,841	3,495
Other	6,511	5,566
Income taxes payable	5,823	4,265
Liability on product warranties	5,476	4,825
Total current liabilities	63,398	45,165

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (In Part):

Provision for Warranty Claims. Estimated warranty costs are provided at the time of sale of the warranted products.

Deferred Revenue

AM INTERNATIONAL, INC. (JUL)

	1986	1985
	(in thousands)	
Current liabilities:		
Short-term borrowings	$ 59,764	$ 10,664
Accounts payable	101,187	45,037
Service contract deferred income	52,746	50,574
Installation and warranty	38,759	1,541
Payroll related expenses	80,310	45,905
Other	98,507	35,079
Total current liabilities	431,273	188,800

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (In Part): Significant Accounting Policies

Revenue Recognition: Revenue is recognized from sales when a product is shipped except for certain major contracts. Revenue on such major contracts is accounted for by the percentage of completion accounting method whereby income is recognized based upon the estimated stage of completion of individual contracts. Amounts billed for service contracts are credited to Service Contract Deferred Income and reflected in Service Revenues over the term of the contract.

CYCLOPS CORPORATION (DEC)

	1986	1985
	(in Thousands)	
Current liabilities:		
Short-term loans (includes bank overdrafts of $2,921 and $12,696)	$ 2,921	$ 19,696
Current portion of long-term debt	993	1,720
Accounts payable	96,568	85,293
Employment costs	64,789	64,128
Deferred service revenue (Note 12)	12,043	10,279
Taxes other than income taxes	12,953	12,119
Billings on uncompleted contracts	14,206	8,173
Other	25,846	21,265
Total current liabilities	230,319	222,673

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Accounting Policies (In Part):

Recognition of revenue. Sales are recognized when products are shipped except for sales of approximately $118,000,000 in 1986, $100,000,000 in 1985 and $98,000,000 in 1984 of E. G. Smith Construction Products, Inc. related to fabrication and erection contracts. Sales and cost of sales on such contracts are recorded using the percentage-of-completion method of accounting. The Company, through the Silo Division, sells Consumer Protection Plans (extended service contracts) covering periods beyond the normal manufacturers' warranty period. For financial statement purposes the Company recognizes revenue from the sale of these contracts over the life of the contracts in a manner that matches revenues to direct selling expenses and projected product service costs. Revenue from the sale of these contracts is generally recognized at the time of sale for income tax purposes.

Note 12: Deferred Service Revenue

In 1985, the Company effected an accounting estimate change for the recognition of deferred service revenue, resulting in additional net income of $6,885,000, or $1.76 per share for the year. This change was made so that revenue recognition would more closely correspond to direct selling expenses and projected product service costs based on the historical experience of the Company.

MACMILLAN, INC. (DEC)

	1986	1985
	($000)	
Current liabilities		
Notes payable	$ 902	$ 4,924
Accounts payable	60,148	50,715
Deferred revenues	47,304	36,588
Income taxes	34,608	18,906
Payrolls and commissions	16,473	13,596
Accrued royalties	34,272	28,295
Other accrued expenses	52,117	48,747
Total current liabilities	245,824	201,771

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Deferred revenues. Deferred revenues arise from the prepayment of fees for classroom instruction and conferences and from the sale of subscriptions of specialized directories and magazines.

Billings In Excess Of Costs

JOHNSON CONTROLS, INC. (SEP)

	1986	1985
	(in thousands)	
Short-term debt	$ 94,408	$279,699
Current portion of long-term debt	9,407	8,608
Accounts payable	157,913	137,056
Accrued compensation, related withholdings and benefits	79,769	84,373
Accrued income taxes		
Current	46,879	33,090
Deferred	10,795	23,588
Billings on uncompleted contracts in excess of related costs	121,086	147,710
Other current liabilities	71,799	78,533
Current liabilities	592,056	792,657

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. Progress Billings and Costs Incurred on Uncompleted Contracts

Billings on uncompleted contracts in excess of related costs, classified as current liabilities, and costs of uncompleted contracts in excess of related billings, classified as current assets, were as follows:

September 30,	1986	1985
	(in thousands)	
Progress billings in excess of related costs	$121,086	$147,710
Costs incurred in excess of related billings	19,740	36,405
	$101,346	$111,305
Total progress billings	$347,122	$518,211
Total costs incurred	245,776	406,906
	$101,346	$111,305

WESTINGHOUSE ELECTRIC CORPORATION (DEC)

	1986	1985
	(in millions)	
Short-term debt	$ 596.9	$2,039.2
Accounts payable	646.1	625.5
Billings on uncompleted contracts in excess of inventoried costs (note 5)	1,129.5	1,096.8
Other current liabilities	1,823.9	1,491.8
Total current liabilities	4,196.4	5,253.3

Note 5 (In Part): Inventories and Progress Billings

Costs and Billings on Uncompleted Contracts

(in millions)

	1986	1985
Costs included in inventories	$ 839.3	$ 785.9
Less: progress billings on contracts	609.5	633.7
Costs of uncompleted contracts in excess of related billings	$ 229.8	$ 152.2
Progress billings on contracts	$1,785.5	$2,344.8
Less: costs included in inventories	656.0	1,248.0
Billings on uncompleted contracts in excess of inventoried costs	$1,129.5	$1,096.8

Inventories other than those related to long-term contracts are generally realizable within one year. Inventoried costs do not exceed realizable values.

Advertising

KELLOGG COMPANY (DEC)

	1986	1985
	(millions)	
Current liabilities		
Current maturities of debt	$135.6	$ 34.8
Accounts payable	262.8	189.7
Accrued liabilities:		
Income taxes	72.2	29.4
Salaries and wages	51.0	41.8
Promotion	101.2	71.3
Interest	25.6	30.9
Other	38.0	46.4
Total current liabilities	686.4	444.3

KIMBERLY-CLARK CORPORATION (DEC)

	1986	1985
	(Millions)	
Current Liabilities		
Accounts payable		
To suppliers	$165.9	$153.3
To others	80.0	60.7
	245.9	214.0
Income taxes payable	64.7	79.7
Dividends payable	28.5	26.6
Short-term debt	104.3	84.0
Long-term debt payable within one year	29.7	38.3
Accrued salaries and wages	87.1	87.1
Accrued pension expense	23.1	29.9
Accrued advertising and promotion expense	96.2	107.6
Other	125.4	126.2
	804.8	793.2

ACCOUNTING POLICIES

Advertising and Promotion Expenses

Advertising expenses are charged to income during the year in which they are incurred. Promotion expenses are charged to income during the period of the promotional campaign.

Royalties

McGRAW-HILL, INC. (DEC)

	1986	1985
	($000)	
Current liabilities		
Notes payable	$ 47,932	$ 3,744
Accounts payable	73,911	51,632
Accrued royalties	23,488	22,697
Accrued compensation and contributions to retirement plans	59,655	61,625
Income taxes currently payable	49,596	59,655
Deferred income taxes	15,342	4,540
Unearned revenue	148,851	133,707
Other current liabilities	85,675	79,935
Total current liabilities	504,450	417,535

TONKA CORPORATION (DEC)

	1986	1985
	(In millions)	
Current liabilities:		
Accounts payable	$17.6	$21.4
Accrued taxes	4.5	22.2
Accrued payroll	5.8	4.3
Accrued advertising	6.8	6.6
Accrued royalties	6.4	1.6
Current portion of long-term debt	7.9	.1
Other current liabilities	4.5	6.0
Total current liabilities	53.5	62.2

Current Advances/Deposits

ANHEUSER-BUSCH COMPANIES, INC. (DEC)

	1986	1985
	(In millions)	
Current Liabilities:		
Short-term debt	$ 34.7	$ —
Accounts payable	491.7	425.3
Accrued salaries, wages and benefits	180.0	177.1
Accrued interest payable	31.0	30.1
Due to customers for returnable containers	34.0	33.1
Accrued taxes, other than income taxes	63.7	56.9
Estimated income taxes	71.8	31.3
Other current liabilities	108.7	84.0
Total current liabilities	1,015.6	837.8

THE FOXBORO COMPANY (DEC)

	1986	1985
Current liabilities:		
Bank loans	$ 22,797	$ 45,098
Accounts payable	24,299	26,794
Accrued expenses	30,336	34,455
Advances on sales contracts	45,228	55,895
Taxes on income	10,685	4,298
Long-term debt payable within one year	200	2,834
Total current liabilities	133,545	169,374

INSILCO CORPORATION (DEC)

	1986	1985
	($000)	
Current Liabilities		
Short-term borrowings	$ 31,000	$ —
Accounts payable	43,688	42,212
Accrued expenses	41,462	38,563
Customer deposits	15,124	13,180
Salaries and wages payable	9,920	8,900
Current portion of long-term debt and lease obligations	21,894	3,345
Taxes on income	15,856	27,815
Total current liabilities	178,944	134,015

ROCKWELL INTERNATIONAL CORPORATION (SEP)

	1986	1985
	(In millions)	
Current liabilities		
Short-term debt	$ 95.7	$ 122.2
Accounts payable—trade	957.1	956.6
Advance payments from customers	155.8	198.9
Accrued payroll and retirement plan costs	413.2	439.0
Accrued income taxes	43.9	127.1
Deferred income taxes	1,203.5	978.9
Other current liabilities	542.2	494.8
Total current liabilities	3,411.4	3,317.5

Current Debt Related To An Acquisition

FREEPORT-MCMORAN INC. (DEC)

	1986	1985
	(in thousands)	
Current liabilities:		
Accounts payable and accrued liabilities	$218,253	$161,046
Royalties payable	22,056	24,861
Notes payable due within one year	456	71,850
Current debt related to FPCO Inc. acquisition	392,852	—
Accrued income and other taxes	16,870	16,137
Total current liabilities	650,487	273,894

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5 (In Part): FPCO INC. (FPCO)

Debt related to the FPCO acquisition. At December 31, 1986 the Company has reflected the following debt related to the FPCO acquisition in its balance sheet:

	Current	Long-term	Total
	(amounts in the thousands)		
Banks—collateralized by oil and gas properties—			
PLC and FPCO's share of Royalty Partnership limited recourse debt	$120,708	$ —	$120,708
PLC and the Acquired Subsidiaries	19,935	4,153	24,088
PLC's share of private partnership debt	144	575	719
11% Kidder, Peabody Group Inc. (KPG) note	236,000	—	236,000
Publicly held debt securities—			
Senior secured debt	2,749	—	2,749
Senior subordinated debt	—	1,058	1,058
Subordinated debt	906	27,665	28,571
Other debt—			
Denver office space note payable	12,377	—	12,377
Other	33	—	33
	$392,852	$33,451	$426,303

Gain On Sale Of Investment

DOW JONES & COMPANY, INC. (DEC)

	1986	1985
	(in thousands)	
Current Liabilities:		
Accounts payable—trade	$ 31,290	$ 33,071
Accrued wages, salaries and commissions	27,209	26,648
Profit sharing and other retirement plan contributions payable	17,317	16,138
Other payables (Note 15)	77,701	36,553
Federal and state income taxes	38,654	18,210
Unexpired subscriptions	152,857	127,237
Total current liabilities	345,028	257,857

Note 15. Sale of South China Morning Post, Ltd. Stock

On December 22, 1986 the company sold its 18.9% interest in the South China Morning Post, Ltd. for $57.2 million. The gain on sale, after applicable income taxes, of $29,364,000, or $.30 per share, is expected to be recorded in 1987's first quarter when certain contingencies relating to the sale are completed. At December 31, 1986 the pre-tax gain of $42.2 million was included in the Balance Sheet caption "Other payables." As part of the transaction the company has agreed to purchase for $25.1 million the South China Morning Post's 51% interest in Far Eastern Economic Review, a business and economic weekly, published in Hong Hong. The company currently owns the remaining 49%. In addition, the company has offered to purchase for $2.1 million the South China Morning Post's 12.7% interest in Dow Jones Publishing Company (Asia), Inc., publisher of The Asian Wall Street Journal.

Current Maturities Of Redeemable Preferred Stock

INTERNATIONAL PAPER COMPANY (DEC)

	1986	1985
	(In millions)	
Current Liabilities		
Notes payable and current maturities of long-term debt	$ 353	$ 70
Current maturities of redeemable preferred stock (Note 13)	40	40
Accounts payable	482	362
Accrued payroll	114	79
Accrued income taxes	65	87
Other accrued liabilities	278	117
Total Current Liabilities	1,332	755

Note 13. Redeemable Preferred Stock

At December 31, 1986 and 1985, .8 million and 1.2 million shares, respectively, of Cumulative $8.75 Redeemable Preferred Stock were issued and outstanding (15 million serial preferred shares are authorized).

During the fourth quarter of 1985, the Company, through a tender offer, purchased 1.8 million shares of the Cumulative $8.75 Redeemable Preferred Stock at a price of $101 per share, plus accrued dividends. The excess of the acquisition price over the mandatory redemption value of $100 per share and a related portion of original issuance expenses were charged against retained earnings.

Since January 1, 1986, and on each January 1 through 1989, the Company is required to redeem 200,100 shares (or redeem such lesser number of shares as may constitute all outstanding shares) and has the option to redeem an additional 200,100 shares each January 1 until the issue is fully redeemed. During the first quarters of 1986 and 1987, the Company exercised its options and both times redeemed an additional 200,100 shares. All redemptions (mandatory and optional) made in this manner have a redemption price of $100 per share. The Company may also, at its option, redeem this preferred stock, in whole or in part, at a price of $105.15, which redemption price declines gradually each year to $104.12 in 1989.

Additional Contract Costs

RESEARCH-COTTRELL, INC. (OCT)

	1986	1985
	(In thousands)	
Accounts payable	$ 51,901	$ 58,519
Accrued expenses	34,444	31,635
Advance billings on contracts in progress	12,047	14,430
Estimated additional contract costs	31,159	21,145
U.S. and foreign income taxes	5,619	1,189
Deferred income taxes	19,428	28,552
Total current liabilities	154,598	155,470

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (In Part)

Long-term contracts

The Company follows the practice of accruing income from long-term contracts using the percentage-of-completion method. Under this method, the Company recognizes as profit that proportion of the total anticipated profit which the cost of work completed bears to the estimated total cost of the work covered by the contract. As contracts extend over one or more years, revisions of cost and profit estimates are made periodically and are reflected in the accounting period in which they are determined. If the estimate of total cost on a contract indicates a loss, the total anticipated loss is recognized immediately. Any such losses plus warranty and performance guarantee costs are reflected as estimated additional contract costs.

LONG TERM DEBT

Table 2-26 summarizes the types of long term debt most frequently disclosed by the survey companies.

Paragraph 10b of *Statement of Financial Accounting Standards No. 47* requires that financial statements disclose for each of the five years following the date of the latest balance sheet presented the "aggregate amount of maturities and sinking fund requirements for all long term borrowings."

Thirteen companies disclosed information about debt considered extinguished because assets were placed in trust for paying the interest and principal of the debt. *Statement of Financial Accounting Standards No. 76*, effective for transactions agreed to subsequent to December 31, 1983, "provides guidance to debtors as to when debt should be considered to be extinguished for financial reporting purposes."

Examples of long term debt presentations and disclosures follow. Examples of long term lease presentations and disclosures are presented in connection with Table 2-28.

TABLE 2-26: LONG-TERM DEBT

	Number of Companies			
	1986	1985	1984	1983
Unsecured				
Notes	418	432	442	440
Debentures	265	258	269	285
Loans	56	73	83	95
Commercial paper	61	63	56	53
Collateralized				
Capitalized leases	448	442	432	444
Mortgages	155	171	170	182
Notes or loans	90	104	104	99
Convertible				
Debentures	130	163	154	161
Notes	21	21	22	23

ANCHOR HOCKING CORPORATION (DEC)

	1986	1985
	(In thousands)	
Total current liabilities	$121,721	$111,173
Long-term debt	110,161	113,036
Deferred income taxes	15,074	8,916
Other long-term liabilities	13,884	18,442

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 5: Debt

Long-term debt at December 31 consisted of the following:

($ in thousands)	1986	1985
Commercial Paper	$ 55,000	$ 35,000
Note payable to a bank, due in a single installment on January 2, 1986, interest at 11.48%	—	20,000
8⅝% Sinking Fund Debentures, payable 2000 to 2006	15,057	15,054
5⅛% Sinking Fund Debentures, payable semiannually to 1991, less sinking fund debentures held for retirement	4,291	4,694
4% to 13.5% Industrial Development Revenue and Pollution Control Bonds, payments due periodically to 2007	30,257	30,944
Other notes payable, payments due periodically through 2000, interest at rates ranging from 6.63% to 12.0%	2,369	2,445
Capitalized lease obligations, payable through 2000, interest at rates ranging from 6.45% to 18.98%	8,129	9,190
	115,103	117,327
Less current maturities	4,942	4,291
	$110,161	$113,036

In December 1985, the Company entered into an unsecured revolving credit and term loan agreement (Credit Agreement) with five banks which enables the Company to borrow up to $65,000,000. On or before December 20, 1988, the outstanding balance can be converted to a term loan payable in sixteen equal quarterly installments. Commitment fees during the revolving loan period are ⅜ of 1 percent of the average daily unused portion of the available credit, payable on a quarterly basis. The Company may elect to borrow under the Credit Agreement in the form of Eurodollar borrowings or domestic dollar borrowings. Depending on the form of borrowing elected, interest will be payable based on (1) the prime rate, (2) the certificate of deposit rate or (3) the interbank offering rate, as specified in the Credit Agreement, and in addition, margin interest rates of up to ¾ of 1 percent will be charged. The Credit Agreement specifies that dividends declared and paid after September 30, 1985, can not exceed an established pool adjusted for subsequent consolidated net income or loss, and dividends paid, as defined in the Credit Agreement. The balance of this pool was $12,922,000 at December 31, 1986 and $21,855,000 at December 31, 1985. The Credit Agreement also includes convenants which, among other things, require the Company to maintain stated minimum working capital and net worth amounts plus specific liquidity and long-term solvency ratios. The Company was in compliance with all covenants of the Credit Agreement at December 31, 1986 and 1985.

The Company also has arrangements for short-term borrowings with various banks for which it pays quarterly fees at an annual rate of .25% of the lines of credit. The short-term credit lines, subject to annual review by the banks, totaled $55,000,000 and $35,000,000 at December 31, 1986 and 1985, respectively. There were no significant borrowings under these lines of credit during 1986 and 1985. The issuance of commercial paper was supported by the Credit Agreement and lines of credit in 1986 and 1985.

The Company had outstanding letters of credit of $19,188,000 and $10,856,000 at December 31, 1986 and 1985, respectively.

Commercial paper outstanding at December 31, 1986 totaled $77,347,000, including $20,000,000 incurred to repay the note due January 2, 1986. Of the commercial paper outstanding at December 31, 1986, $55,000,000 was classified as long-term debt. At December 31, 1985, commercial paper outstanding was $44,589,000, of which $35,000,000 was classified as long-term, along with a $20,000,000 note due

January 2, 1986. Interest rates on the commercial paper ranged from 6.15% to 8.16% and from 8.07% to 8.33% at December 31, 1986 and 1985, respectively. The Company, under the terms of the Credit Agreement, has the ability and intent to maintain these obligations, classified as long-term, for more than one year.

Although the repayment of a portion of the long-term debt is not fixed, the estimated amounts to be paid on these obligations in 1987 and in the four succeeding years are $4,942,000, $4,171,000, $4,165,000, $5,001,000 and $4,338,000, respectively, If the $55,000,000 of commercial paper classified as long-term debt is converted to a term loan on December 20, 1988, payments of $13,750,000 could be required in 1989, 1990 and 1991.

In January 1984, the Company exchanged 346,000 common shares of treasury stock for 8⅝% Sinking Fund Debentures totaling $14,880,000 at face value. This extinguishment of debt was recorded as a nontaxable extraordinary gain of $3,314,000 which represented the face value of the debentures less unamortized debt discount and original issuance expenses of $203,000, the fair value of the stock issued, and expenses of the exchange.

CABOT CORPORATION (SEP)

	1986	1985
	(in thousands)	
Total current liabilities	$287,037	$337,766
Long-term debt	426,368	382,260
Deferred income taxes	133,210	132,912
Other deferred liabilities	71,999	116,063

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

H. Debt

Long-term debt, exclusive of current maturities, consisted of the following:

September 30 Dollars in thousands	1986	1985
Production payment due 1987-1993, floating rates	$118,309	
Notes due 1995, 10.75%	75,000	$ 75,000
Notes due 1994, 12.25%	71,000	75,000
Notes due 1987-1998, 9½%	68,750	75,000
Notes due 1992, 15%		50,000
Notes due 1989-1990, 12.53%	25,000	25,000
Notes due 1987-1994, 9.75%	20,050	25,750
Notes due 1987-1992, 8⅝%	18,000	20,000
Notes due 1987-1994, 8¾%	16,500	18,000
Industrial Revenue Bonds due 1997-2014, 8¼%-14%	7,500	7,500
Notes due 1987-1993, 8¾%	1,447	1,641
Foreign term loans and other	4,812	9,369
Total	$426,368	$382,260

During 1986, the Company arranged the sale of rights to future revenues from certain of its oil and gas properties (the production payments). Under terms of the sale of production payments, the Company drew advances of $130,000,000 repayable from revenues of the producing properties and with an expected maturity in 1993. The production payments may be repurchased without penalty. Outstanding amounts bear interest at short-term floating rates plus certain additional margins which vary over the term of the loan. The Company has executed financial futures contracts to hedge the floating interest rate exposure. An effective interest rate of 7.6 percent has been secured on the estimated outstanding balance of the production payments for 1987. Gains and losses on the futures contracts are deferred and recognized as adjustments to interest expense over the period being hedged.

Under the terms of a revolving credit agreement with a group of banks, the Company may borrow up to $150,000,000. Principal amounts, when borrowed, are required to be repaid no later than May 31, 1989, or may be converted to term loans to be repaid in semi-annual installments through June 1, 1993. The Company may elect to borrow under the credit agreement in the form of Eurodollar borrowings or domestic dollar borrowings. Interest is at short-term floating rates. The Company had no amount outstanding under the revolving credit agreement at September 30, 1986 and 1985.

A subsidiary of the Company has a multicurrency credit agreement with a group of banks under which the subsidiary may borrow up to $30,000,000. Borrowings under this agreement bear interest based on the LIBOR. No borrowings were outstanding under this agreement at September 30, 1986 and 1985.

TUCO INC., a wholly owned subsidiary of the Company, has a short-term credit agreement providing for committed bankers acceptance financing up to $55,000,000 through February 1988. No borrowings were outstanding under this agreement at September 30, 1986 and 1985.

Terms of the foregoing credit agreements include a commitment fee based on the unused portion of the bank credit.

The aggregate principal amounts of long-term debt scheduled for repayment in each of the five fiscal years 1987 through 1991, excluding the production payments, are $18,107,000, $16,163,000, $22,316,000, $29,110,000 and $13,148,000, respectively. Repayments of advances extended under the sale of the production payments are contingent on revenues from producing properties. Estimated repayments in the fiscal years 1987 through 1991 are $22,306,000, $18,501,000, $18,000,000, $18,000,000 and $18,000,000, respectively. The principal repayment of $7,250,000 due in November, 1986, which relates to producing property revenues for the quarter ended September 30, 1986 has been included in the current portion of long-term debt.

The Company's long-term loan agreements contain provisions specifying certain limitations on the Company's operations including the amount of future indebtedness, investments and dividends. Under the most restrictive of these provisions $96,000,000 of retained earnings was available for the payment of dividends at September 30, 1986.

Interest expense associated with outstanding indebtedness was allocated between continuing and discontinued operations in the Consolidated Statements of Income.

CERTAINTEED CORPORATION (DEC)

	1986	1985
	($000)	
Total current liabilities	$156,671	$143,614
Long-Term Debt, less current portion	107,063	113,451
Other Noncurrent Liabilities	3,374	11,000
Deferred Income Taxes	46,349	35,846

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 6. Debt

At December 31, 1986, the Company had separate unsecured revolving credit agreements with a number of banks totaling $90 million currently expiring December 31, 1988 with the expiration date automatically extended each quarter and an unsecured $50 million revolving credit agreement cancelable upon eleven months' notice. In lieu of compensating balances, the Company pays commitment fees on the unused portion of these lending commitments.

Long-term debt, excluding amounts due within one year, consists of:

(Dollars in Thousands)	1986	1985
Notes payable to insurance companies with average interest at 10.2% payable through 1995	$ 57,500	$ 65,100
Industrial revenue bonds with average interest at 6.5% at December 31, 1986, payable through 2010	42,473	43,100
Other	7,090	5,251
	$107,063	$113,451

Maturities of long-term debt at December 31, 1986 for each of the five years through 1991 are (in thousands): 1987—$9,422, 1988—$9,644, 1989—$15,862, 1990—$9,263, 1991—$9,863.

Certain of the Company's loan agreements provide, among other matters, for prepayment options, the maintenance of a prescribed amount of consolidated working capital, and certain limitations on the declaration of cash dividends. Pursuant to the terms of these restrictions, there were $127.0 million of retained earnings available for payment of dividends on common stock at December 31, 1986.

The net book value of property, plant and equipment pledged as collateral under mortgages and industrial revenue bonds approximated $16.9 million as of December 31, 1986.

COLGATE-PALMOLIVE COMPANY (DEC)

	1986	1985
	($000)	
Total current liabilities	$1,055,635	$1,135,583
Long-term debt	522,023	529,255
Deferred income taxes	140,510	105,045
Other deferred liabilities	147,851	137,074

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in Thousands)

8. Long-Term Debt and Credit Facilities

Long-term debt consists of the following at December 31:

	1986	1985
Commercial paper	$ 47,500	$200,000
8.4% notes due 1986 through 1998	137,500	150,000
$62,400 face amount bonds due 1995 (less unamortized discount of $8,210) at an effective rate of 10.3%	54,190	52,910
$100,000 face amount Eurodollar notes due 1996 (less unamortized discount of $1,475) at an effective interest rate of 9.5%	98,525	—
European Currency Unit notes due 1991 at an effective interest rate of 8%	70,000	—
Swiss franc notes due 1993 at an effective interest rate of 8.9%	50,000	—
7.75% to 13.5% notes due through 1992 in France	13,801	16,799
13.5% to 17.25% notes due through 1991 in Thailand	9,886	16,767
5.65% to 16.0% notes due through 1994 in Italy	9,555	10,135
Obligations under capital leases	23,244	27,555
Other	33,458	85,668
	547,659	559,834
Less: Current portion of long-term debt	25,636	30,579
	$522,023	$529,255

Scheduled maturities of long-term debt outstanding at December 31, 1986 are as follows: 1987-$25,636; 1988-$37,062; 1989-$20,326; 1990-$16,804; 1991-$85,190.

At December 31, 1986, the Company had unused credit facilities amounting to $864,000. Included in this total is a $400,000 revolving credit agreement, providing for domestic borrowings, expiring in November 1989. Interest on borrowings under the agreement is based on Certificate of Deposit rates, London Interbank Offered Rates or other short-term borrowing rates. Also included in total unused credit facilities is an additional $200,000 revolving multicurrency underwritten agreement which expires in July 1990. This facility has U.S.-based and London-based borrowing options at short-term borrowing rates. No borrowings were outstanding under either of these credit agreements at December 31, 1986. Commitment fees and compensating balance requirements related to credit facilities are not material.

In January 1987, the Company issued $47,500 of notes denominated in Australian currency due in 1991, with a floating effective interest rate below the six month commercial paper rate. The proceeds from this financing will be used to retire outstanding commercial paper and, accordingly, $47,500 of commercial paper has been classified as long-term at December 31, 1986.

EXXON CORPORATION (DEC)

	1985	1986
	(millions)	
Total current liabilities	$19,089	$15,220
Long-term debt	4,820	4,294

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6. Long-term Debt

At December 31, 1986, long-term debt consisted of $2,739 million due in U.S. dollars and $1,555 million representing the U.S. dollar equivalent at year-end exchange rates of amounts payable in foreign currencies. These amounts exclude that portion of long-term debt, totaling $362 million, which matures within one year and is included in current liabilities. Long-term borrowings at year-end 1985 and 1986 are summarized below, with weighted average interest rates for 1986 in parentheses.

	Dec. 31 1985	Dec. 31 1986
	(millions of dollars)	
Exxon Corporation		
Floating rate pollution-control revenue bonds—due 2012-2024	$ 390	$ 390
Other obligations—due 1988-1999	44	20
	434	410
Exxon Pipeline Company		
8⅞% guaranteed debentures—due 2000	216	—
5.50% marine terminal revenue bonds—due 2007	163	161
8¼% guaranteed debentures—due 2001	173	173
9% guaranteed debentures—due 2004	153	—
Other obligations—due 1997-2025	130	122
	835	456
Other consolidated subsidiaries		
Capitalized lease obligations*		
United States dollars	338	262
Other currencies	205	243
United States dollars (6.7%)	1,639	1,611
British pounds (8.4%)	692	709
Canadian dollars (8.8%)	244	253
Hong Kong dollars (7.5%)	317	238
French francs (9.6%)	39	38
Italian lire (10.4%)	6	19
Norwegian kroner (11.5%)	51	16
Other currencies (9.7%)	20	39
	3,551	3,428
Total long-term debt	$4,820	$4,294

*At an average imputed interest rate of 11.9% in 1985 and 10.2% in 1986.

The amounts of long-term debt maturing, together with sinking fund payments required, in each of the four years after December 31, 1987, in millions of dollars, are: 1988-$384; 1989-$815; 1990-$322; 1991-$193.

During 1984, an affiliate issued at a discount $1,800 million of zero coupon notes due in 2004. The affiliate received $199 million as proceeds from these notes. No payment of interest is provided for by zero coupon notes. During 1986, $557 million (face amount) of these notes were purchased in the open market with $1,243 million remaining and payable to noteholders at maturity. At December 31, 1985 and 1986, these notes were included in the United States dollars category of other consolidated subsidiaries as follows:

	Dec. 31, 1985	Dec. 31, 1986
	(millions of dollars)	
Principal	$1,800	$1,243
Less unamortized discount	(1,575)	(1,069)
Total	$ 225	$ 174

During 1982, an affiliate issued at a discount $771 million of deferred interest debentures due in 2012. There will be no payment of interest on the debentures prior to maturity. At maturity, the holder of each debenture will be entitled to a payment of interest of $730 in addition to the $270 principal amount of the debentures. At December 31, 1985 and 1986, these debentures were included in the United States dollars category of other consolidated subsidiaries as follows:

	(millions of dollars)	
Principal	$771	$771
Less unamortized discount	(648)	(644)
Total	$123	$127
Deferred interest	$ 37	$ 51

In 1982, debt totaling $515 million was removed from the balance sheet through the creation of irrevocable trusts. The principal and interest of the funds deposited with the trustee will be sufficient to fund the scheduled principal and interest payments of these debt issues. The balance of this outstanding debt at year-end 1986 was $464 million.

EMERSON ELECTRIC CO. (SEP)

	1986	1985
	($ millions)	
Total current liabilities	$867.2	$777.8
Other liabilities	199.5	142.2
Long-term debt, less current maturities	328.3	114.6

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. Long-Term Debt

Long-term debt is summarized as follows:

	Dollars in Millions 1986	1985
9⅝% Eurodollar notes due 1995	$100.0	—
7⅞% Eurodollar notes for 1998	100.0	—
Notes payable in installments through 2004 at a weighted average interest rate of 7.3% at September 30, 1986	48.5	31.9
Lease obligations payable in installments through 2014 at a weighted average interest rate of 7.0% at September 30, 1986	81.2	88.1
Other	7.8	8.3
	337.5	128.3
Less current maturities	9.2	13.7
	$328.3	114.6

The 9⅝% Eurodollar notes which are callable after 1990 were issued with 100,000 warrants exercisable into $100 million noncallable 9⅝% notes due 1995. These warrants may be exercised through December 1990 by surrendering an equivalent amount of original notes or during the last five years of the note term by cash payment. The Company can limit its outstanding debt related to this issue to $100 million by offsetting any warrants exercised by cash with a corresponding call of the original notes. Unexercised warrants are redeemable for $15 each during the last five years of the note term or for $25 each at final maturity.

The Company partially hedged its foreign currency net asset exposure by converting its $100 million 7⅞% Eurodollar notes due 1998 through financial swaps into fixed rate foreign currency obligations due 1998. The swap agreements provide for the legal right of offset, permitting the related debt and assets to be offset for financial reporting purposes. The foreign obligations are denominated in Japanese yen, German marks and Swiss francs with a weighted average foreign currency interest rate of 5.86%. The effects of foreign currency exchange rate fluctuations resulting from these swap agreements are included in other liabilities and cumulative translation adjustments.

Long-term debt maturing during each of the four years following September 30, 1987 is $12.8 million, $10.6 million, $10.3 million and $17.2 million, respectively. The Company is in compliance with the covenants of its debt agreements and believes that the covenants will not restrict its future operations.

GENERAL REFRACTORIES COMPANY (DEC)

	1986	1985
	(in thousands)	
Total current liabilities	$96,378	$80,130
Long term debt	83,366	73,584

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9. Debt

	1986	1985
	(dollars in thousands)	
Short Term Debt:		
Banks	$ 3,231	$ 4,580
Other	7,217	6,683
	$10,448	$11,263
Long Term Debt:		
Domestic banks, consolidated and restated bank credit and security agreement	$20,662	$16,488
Foreign banks, notes payable: in varying amounts to 1996, average interest 5.8%	55,358	53,854
Other domestic and foreign notes payable: due through 1995, average interest 8.1%	16,717	6,865
Capitalized leases: expiring from 1987 to 1990, average interest 13.1%	261	937
Total long term debt	92,998	78,144
Less current maturities	9,632	4,560
	$83,366	$73,584

Long term debt at December 31, 1986, matures in the next five years as follows: 1987, $9,632,000; 1988, $44,051,000; 1989, $13,610,000; 1990, $7,037,000; 1991, $13,447,000.

In March 1986, the Company and three domestic banks entered into a Bank Credit and Security Agreement which includes a term loan, a time loan, a revolving credit facility and a letter of credit facility.

The term loan provides a maximum credit of $12,000,000, which is fully borrowed. The Company is required to make quarterly principal payments of $312,500 during 1987, $500,000 during 1988 and 1989, and $625,000 in 1990, with the balance due at maturity in January 1991. Additional principal payments will be required if the Company sells certain of its investments and other assets. Interest on the term loan is payable quarterly at the prime commercial rate plus 1%.

The time loan provides for maximum borrowings of $2,500,000, of which $2,462,500 is borrowed at December 31, 1986, with interest at the prime rate plus ¾% and matures in January 1988, as amended. The proceeds are restricted to the purchase of treasury stock and warrants, see note 13.

The revolving credit loan matures in January 1989 and provides for maximum borrowings of $8,000,000, of which $6,200,000 was borrowed at December 31, 1986, and bears interest at the prime rate plus ¾%. Principal payments on the revolving loans are required only if the value of the collateral falls below certain specified levels.

The agreement also provides a $5,000,000 letter of credit facility for issuance of commercial and standby letters of credit with no expirations to extend beyond January 1989. At December 31, 1986, the Company was contingently liable, in the amount of $2,515,602, under standby letters of credit.

The borrowings, under the agreement, are collateralized by the Company's investments in two wholly owned domestic subsidiaries and substantially all the domestic property, plant and equipment, accounts receivable and inventories of the Company and a domestic subsidiary. An officer of the Company has also pledged personal assets with an aggregate market value of approximately $2,500,000. In addition, certain cash accounts of the Company and a domestic subsidiary are restricted and are part of the collateral. The agreement requires, among other things, that the Company maintain certain levels of earnings and domestic tangible net worth; limits capital expenditures; restricts disposal of assets without prior approval; prohibits acquisition of treasury stock other than as provided in Note 13; and prohibits payment of dividends.

In July 1986, a wholly-owned subsidiary of the Company and three domestic banks entered into an agreement to finance the purchase of the Company's headquarters with a credit of $5,400,000 of which $5,325,000 was outstanding at December 31, 1986. The loan is collateralized by the assets of the subsidiary, and is payable in monthly installments of $15,000 plus interest with the remaining balance of $4,515,000 due in July 1991. Interest is payable at the prime rate plus ¾%.

In April 1985, a domestic subsidiary entered into a credit agreement with a foreign bank to finance the construction and development of a mineral processing facility. The agreement provides for a maximum credit of $7,500,000 which was fully borrowed at December 31, 1986. The principal is payable over seven years commencing July 1987 subject to certain acceleration provisions.

During 1986, a supplemental revolving credit agreement was entered into with the foreign bank by this subsidiary providing a maximum credit of $1,000,000 until November 1989, reducing to $500,000 until November 1990, of which $900,000 was borrowed at December 31, 1986.

Under the two agreements, interest is payable at the London Interbank Offered Rate ("LIBOR") plus 1¼% in 1986 and 1987; and plus 1½% thereafter. The loans are collateralized by the assets of the subsidiary and a pledge of the Company's investment in the subsidiary.

The foreign notes payable consist principally of liabilities of certain Austrian and West German subsidiaries and are payable in local currencies. Accounts receivable, inventories, land and buildings of these companies and an investment in an associated company have been pledged to collateralize a portion of these liabilities and to provide additional lines of credit.

MORTON THIOKOL, INC. (JUN)

	1986	1985
	(in millions)	
Total Current Liabilities	$353.0	$317.0
Non-Current Liabilities		
Long-Term Debt, less current portion	31.7	152.7
Deferred Income Taxes	161.7	139.5
Other Non-Current Liabilities	48.7	54.2

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Borrowings

The Company and its subsidiaries have various line of credit arrangements with domestic and foreign banks whereby the Company may borrow upon such terms as the Company and the banks may mutually agree. These arrangements generally do not have termination dates but are reviewed annually for renewal. At June 30, 1986, such credit lines amounted to approximately $134.0 million, and the unused portions thereof were approximately $110.0 million.

Long-term debt consisted of the following:

	June 30	
(in millions)	1986	1985
Sinking Fund Debentures		
9⅝%, due 2000 (less unamortized discount)	$20.1	$ 37.9
8⅞%, due 1995	5.8	8.0
Private Placement Notes bearing interest at an effective rate of 11½%	—	100.0
Other	7.5	8.4
	33.4	154.3
Less current portion	1.7	1.6
	$31.7	$152.7

The Sinking Fund Debentures require minimum annual Sinking Fund payments ranging from $5.1 million in the period of 1987 to 1995, to $3.8 million in the period from 1996 to 2000, and provide for maximum annual Sinking Fund payments of $10.1 million and $7.6 million in the same periods, respectively. Sinking Fund requirements for the 9⅝% debentures and 8⅞% debentures have been satisfied through 1994 and 1989, respectively.

The indentures limit additional borrowings, stock redemptions and dividend payments. At June 30, 1986, approximately $617.4 million of retained earnings was available for the payment of dividends and stock redemption.

In June 1986, United States Government securities were purchased at a cost of $108.3 million and deposited in an irrevocable trust to satisfy scheduled principal and interest payments on the private placement notes due in fiscal 1987. The debt, accrued interest thereon and related securities were removed from the balance sheet in an in-substance defeasance transaction resulting in an increase to interest expense during fiscal 1986 of $2.7 million.

The annual aggregate maturities of long-term debt through June 30, 1991 are as follows: (in millions) 1987-$1.7; 1988-$1.2; 1989-$1.1; 1990-$.6; 1991-$.9.

TEMPLE-INLAND INC. (DEC)

	1986	1985
	(in thousands)	
Total Current Liabilities	$199,904	$164,979
Long-Term Debt - Note D	365,513	247,555
Deferred Investment Tax Credits	36,607	40,975
Deferred Federal Income Taxes	150,093	132,415
Other Liabilities	19,641	19,712

Note D: Long-Term Debt

Long-term debt consists of the following:

	1986	1985
	(in thousands)	
Bank Loans—Weighted average interest rate during 1986 was 7.97%	$200,000	$ 80,000
8.375% Notes Payable due 1996	70,000	—
8.25% Promissory Notes to Time due 1986	—	50,000
Revenue Bonds due 2014—Average interest rate during 1986 was 4.93%	34,800	45,000
9% Tax Exempt Pollution Control Bonds due 2012	9,400	9,400
7.9% Promissory Notes due through 1994	11,280	12,840
6% Revenue Bonds due 2001–2007	—	10,000
Revenue Bonds due 2007—Effective interest rate during 1986 was 8.58%	9,300	9,300
Revenue Bonds due 2008—Effective interest rate during 1986 was 7.94%	8,900	8,900
9.5% Subordinated Debentures through 1995	5,600	6,300
Revenue Bonds due 2009—Average interest rate during 1986 was 5.03%	5,200	5,200
Other revenue bonds due through 2007, weighted average interest rate of 6.66% and 6.61% as of December 31, 1986 and 1985, respectively	5,024	5,714
Other indebtedness due through 2000, weighted average interest rate of 9.61% and 11.23% as of December 31, 1986 and 1985, respectively	6,009	4,901
	$365,513	$247,555

At January 3, 1987, the Company's $200 million bank loans were in the form of drafts growing out of transactions involving the domestic shipment of goods and drawn on unsecured Banker's Acceptance lines with various banks. These borrowings are additionally supported by long-term revolving credit agreements and are classified accordingly as long-term debt.

Under one agreement, the Company may borrow up to $80 million, repayable in September 1989, with interest at a rate which, at the option of the Company, may be based on various floating rates. Under a second agreement, borrowings of up to $120 million, repayable in January 1988, are available to the Company at similar floating rates of interest.

To offset a portion of the floating rate characteristic of the Company's bank borrowings, the Company negotiated four interest rate conversion agreements for an aggregate amount of $120 million. Under these agreements, the Company is required to pay interest at fixed rates averaging 8.09%. In return, the Company will receive interest payments on the same declining principal balances calculated at the 30 day commercial paper rate. These agreements expire as follows: $30 million in 1988, $70 million in 1989 and $20 million in 1990.

In December of 1986, the Company purchased government securities sufficient to legally defease the $10.0 million 6% Revenue Bonds due 2001–2007. The cost of such securities was $8.3 million and resulted in a pre-tax gain of approximately $1.5 million.

At year end 1986, consolidated net current assets were approximately $81 million in excess of the minimum requirements under the most restrictive provisions of the Company's loan agreements and approximately $305 million of consolidated retained income was unrestricted as to the payment of dividends. At year end 1986, property and equipment of approximately $27 million was subject to liens in connection with $25 million of debt.

Aggregate maturities of long-term debt during the next five years are as follows: 1987—$3,320,000; 1988—$123,310,000; 1989—$83,380,000; 1990—$3,442,000; 1991—$3,138,000. It is the Company's current intention to extend maturities by refinancing and renewing the long-term revolving credit agreements upon maturity.

For an analysis of net interest expense incurred, see page 29.

WEYERHAEUSER COMPANY (DEC)

	1986	1985
	($000)	
Total current liabilities	$ 861,735	$ 709,061
Senior long-term debt (Note 7)	1,411,754	1,156,626
Capital lease obligations	63,751	77,585
Limited recourse income debenture (Note 8)	171,781	—
Deferred income taxes	512,838	463,949
Deferred pension and other liabilities	236,278	229,312
Minority interest in subsidiaries	31,650	29,995

NOTES TO FINANCIAL STATEMENTS

(Dollar amounts in thousands)

Note 7: Senior Long-term Debt

Senior long-term debt obligations, excluding amounts payable within one year, are as follows:

	December 28, 1986	December 29, 1985
Sinking fund debentures:		
5.20% issued 1966 due $7,500 per annum 1990–1991	$ 7,925	$ 7,925
7.65% issued 1969 due $10,000 per annum 1989–1994	58,677	58,677
8⅝% issued 1970 due $6,000 per annum 1988–1999	72,000	75,220
8.90% issued 1974 due $7,600 per annum 1989–2003, $10,000 in 2004	121,030	121,030
7.95% issued 1976 due $7,750 per annum 1990–2005, $52,750 in 2006	176,415	176,415
12¼% notes due 1987	—	150,000
12½% notes due 1991	118,975	61,645
Industrial revenue bonds, rates from 4%–10%, due 1987–2010	363,582	357,467
Commercial paper/credit agreement	463,612	122,026
Other	29,538	26,221
	$1,411,754	$1,156,626

The sinking fund debenture issues provide for (1) redemption at par plus decelerating premiums, (2) option to deliver debentures in lieu of sinking fund payments, and (3) nonrefundability for periods from 5 to 10 years in anticipation of borrowings at an interest cost less than that provided in the issue.

In conjunction with the sale of the 12¼% notes, the Company also sold 150,000 warrants which entitle the holders to purchase through October 15, 1987 a total of $150,000 principal amount of 12½% notes due 1991. Through December 28, 1986, holders exercised 118,975 warrants and the Company issued $118,975 of 12½% notes and 25,000 warrants were redeemed.

The Company, Weyerhaeuser Real Estate Company and Weyerhaeuser Mortgage Company, an unconsolidated wholly owned subsidiary of Weyerhaeuser Real Estate Company, have established bank lines of credit in the maximum aggregate sum of $1,500,000 at December 28, 1986, of which the total sum can be used by the Company, $1,140,000 by Weyerhaeuser Real Estate Company and $1,200,000 by Weyerhaeuser Mortgage Company. These same entities had established comparable bank lines of credit in the maximum aggregate sum of $892,000 at December 29, 1985, of which the total sum could be used by the Company and Weyerhaeuser Real Estate Company and $742,000 by Weyerhaeuser Mortgage Company. Borrowings are at current prime rates of interest or such other interest rates as mutually agreed to between the borrower and lending bank. None of the entities is a guarantor of the borrowings of the others. No portion of these lines has been availed of by the Company or Weyerhaeuser Real Estate Company. Weyerhaeuser Mortgage Company utilized $68,500 of these lines at December 28, 1986.

The lines of credit include a five-year credit commitment entered into in 1985 by the Company and Weyerhaeuser Real Estate Company with a group of banks which provides for borrowings of up to $300,000, and two five-year credit commitments entered into in 1986; a $305,000 commitment with a group of banks entered into by the Company, Weyerhaeuser Real Estate Company and Weyerhaeuser Mortgage Company, and $360,000 commitment with a group of banks entered into by the Company and Weyerhaeuser Mortgage Company. To the extent that these credit commitments are unused, an equal amount of commercial paper is classifiable as senior long-term debt. At December 28, 1986 $463,612 and at December 29, 1985 $122,026 was so classified.

Other senior long-term debt of $29,538 at December 28, 1986 and $26,221 at December 29, 1985, was comprised principally of foreign bank loans and domestic timber purchase contracts.

Senior long-term debt maturities during the next five years are:

1987	$154,510
1988	28,954
1989	21,630
1990	333,841
1991	325,911

The Company's compensating balance arrangements were not significant.

Note 8: Limited Recourse Income Debenture

The limited recourse income debenture is the obligation of Weyerhaeuser Canada Ltd. (WCL), a wholly owned subsidiary. The limited recourse income debenture was issued as total consideration for the purchase of a pulp mill, chemical plant and sawmill in Saskatchewan, Canada (the Saskatchewan assets). From the issuance date of September 9, 1986 until December 31, 1989, accrued interest for each fiscal year is a variable percentage of adjusted earnings (as defined in the limited recourse income debenture) generated only by the Saskatchewan assets. Effective in fiscal 1990, the limited recourse income debenture has a stated interest rate of 8½%, but interest is accrued only to the extent of current year adjusted earnings of the Saskatchewan assets. Interest not accrued because of insufficient adjusted earnings may be accrued later if adjusted earnings are sufficient before maturity. Separately, the amount of accrued interest and/or principal to be paid is determined annually based on the available cash (as defined in the limited recourse income debenture) generated by the Saskatchewan assets. There is no interest accrued on any interest not paid. The definitions for both adjusted earnings and available cash include preferential allocations to WCL. The limited recourse income debenture matures December 31, 2015 and at maturity may be redeemed for cash or by the issuance of preferred shares of WCL or an affiliate of WCL. If amounts are redeemed by the issuance of shares, the issuer of the shares is required annually during the first ten years after issuance to redeem shares from the available cash generated by the Saskatchewan assets. The holder of the preferred shares can require the issuer to redeem all outstanding shares 25 years after issuance. There is no requirement to declare dividends on the preferred shares and no restrictions on the declaration of common share dividends. The limited recourse income debenture is secured by a subordinated mortgage on the pulp mill fixed assets and the holder has no claim on any other assets of the Company, WCL or any affiliate.

TABLE 2-27: CREDIT AGREEMENTS

	1986	1985	1984	1983
Disclosing credit agreements	530	552	549	538
Not disclosing credit agreement	70	48	51	62
Total Companies	**600**	**600**	**600**	**600**

CREDIT AGREEMENTS

As shown in Table 2-27, many of the survey companies disclosed the existence of loan commitments from banks or insurance companies for future loans. Examples of such loan commitment disclosures follow.

ATLANTIC RICHFIELD COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6. Bank Credit Facilities and Compensating Balances

During 1986, the Company had bank credit facilities of $5 billion, all in the form of committed credit facilities. This includes a $4.0 billion revolving credit agreement and two additional credit facilities totaling $1.0 billion, all available to ARCO and its subsidiaries when guaranteed by ARCO. At December 31, 1986, there were no borrowings under any of these bank credit facilities.

Notes payable on the balance sheet consist primarily of commercial paper to a variety of financial investors and institutions.

The Company maintains compensating balances for some of its various banking services and products. Any compensating balances are maintained on an average basis so that effectively, on any given date, none of the Company's cash is restricted. During 1986, the Company was in compliance with any compensating balance requirements, which are immaterial in relation to total liquid assets.

CHICAGO PACIFIC CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 6: Lines of Credit

On May 1, 1986, CPAC, Inc. ("CPAC"), a wholly-owned subsidiary of the Company, and Hoover, a wholly-owned subsidiary of CPAC, each entered into Credit Agreements (respectively, the "CPAC Agreement" and the "Hoover Agreement") with a consortium of banks.

The CPAC Agreement provides a revolving credit facility of $500 million until May 1, 1989 at prime or some lesser interest rate which may be used to acquire additional operating companies. In May 1989, the facility will convert to a term-loan basis and any borrowings outstanding will be repaid in eight semi-annual installments beginning on November 1, 1989. After May 1, 1989, loans under the CPAC Agreement will bear interest at prime plus ¼% or at lesser rates determined under the agreement. Commitment fees of ¼% per annum on the daily unused amount of the commitment are required. The Company has pledged shares of certain of its subsidiaries as security for the borrowings under the agreement and has agreed to pledge, subject to certain limitations, the stock of acquired companies or acquired operating assets. The Company has guaranteed the repayment of all borrowings under the CPAC Agreement. The CPAC Agreement contains several restrictions including the amount of funds which CPAC may transfer to the Company. Based upon 1986 results, CPAC could transfer $45.1 million to the Company of which $17.7 million was transferred at December 31, 1986.

The Hoover Agreement, which expires in May 1990, provides a credit facility of $100 million which may be used to fund working capital needs of Hoover and for certain other purposes. Commitment fees of ¼% per annum on the daily unused portion of the commitment are required. Loans under the Hoover Agreement bear interest at prime or some lesser rate.

In addition to the above agreements, various subsidiaries of the Company have available to them lines-of-credit arrangements with banks under which up to approximately $217 million may be borrowed on such terms as the Company and the banks mutually agree. At December 31, 1986 loans totaling $86.8 million were outstanding under these agreements.

The weighted average interest rate of all short-term borrowings outstanding at December 31, 1986 is 6.92% (1985—10.1%). No significant compensating balances were maintained.

COLECO INDUSTRIES, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4 (In Part): Long-Term Obligations and Credit Lines

Credit Lines—At December 31, 1986 the Company's consolidated lines of credit totaled $230,000,000, including a $25,000,000 credit facility of the Company's Canadian subsidiary which expires on April 30, 1987 and a $25,000,000 line of credit obtained in connection with the 1986 acquisitions which expires on June 30, 1987. Included in the lines is a $150,000,000 credit agreement which provides for the periodic sale of the Company's eligible accounts receivable. The discount rate on the receivables sold is equal to the current commercial paper rate plus 1.6%. The amount outstanding at December 31, 1986 is $65,738,000 and is included in the balance sheet as a liability. At December 31, 1986 cash collections of approximately $46,000,000 on accounts receivable related to accounts previously sold.

Borrowing rates under the other credit lines are ½% to 1¼% over the LIBOR rate on foreign loans and ¾% over the prime rate for domestic loans. The domestic revolving credit lines carry facility fees of up to ¼% per annum. The lines of credit are collateralized by the unsold accounts receivable and inventory of the Company. The lines of credit are limited by a collateral formula based on the levels of unsold accounts receivable as defined in the agreements.

The lines of credit include a $30,000,000 revolving credit agreement which contains various covenants including maintenance of working capital, net worth and pretax income, ratio of debt to net worth, restrictions on unsecured indebtedness and prohibition of the payment of cash dividends. These covenants have been amended where necessary to take into account the Company's 1986 operating results and current financial condition.

Supplemental Information—Short-term borrowings pursuant to the Company's lines of credit were as follows:

(Amounts in thousands, except rates)	1986	1985	1984
Average amount outstanding	$ 33,886	$ 35,704	$159.469
Maximum amount outstanding	$100,803	$112,150	$189,869
Average effective interest rate	8.8%	12.1%	13.1%
Effective interest rate at end of year	8.4%		12.4%

DESIGNCRAFT INDUSTRIES, INC. (FEB)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Line of Credit

The Company has agreements with a bank under which the bank sells to the Company gold bullion and silver. The Company may settle its liability to the bank at any time, either by returning the gold and silver, or by payment in cash at the then prevailing market price. As of February 28, 1986, such amount expressed at the market value of gold and silver, totalled $6,512,000 (1985—$7,619,000). The Company also has an arrangement whereby it may receive gold and silver on consignment. As of February 28, 1986, the Company had $9,772,000 of gold and silver on consignment from the bank. Under both arrangements, the bank charges a fee of 3¼% per annum on the market value of the gold and silver delivered but not settled. The Company's total obligations under these arrangements may not exceed $21,000,000. The Company also has a line of credit with the same bank for borrowings of up to $5,000,000 at 1% per annum above the bank's prime lending rate. The obligations under these agreements are collateralized by substantially all of the Company's assets, subject to the liens which have been granted in connection with certain long-term debt. The agreements stipulate certain net worth and debt to equity requirements.

THE BF GOODRICH COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in millions)

Note Q (In Part): Financing Arrangements

Goodrich had available lines of credit and foreign overdraft facilities of $421.1 at December 31, 1986, of which $405.6 was unused. The total available lines of credit include $344.0 in domestic lines as follows:

1) Revolving credit arrangements entered into with certain banks during 1986, under which Goodrich may borrow up to $335.0 at rates tied to the bank's certificates of deposit, Euro-dollar, or prime rate. These credit arrangements require payment of a commitment fee of 1/4 of 1 percent per annum. These are "evergreen" arrangements which replaced previous four year revolving credit arrangements scheduled to expire in 1989.

2) Lines of credit with certain banks totaling $9.0 which provide for borrowing at the bank's prime rate. In connection with these lines of credit arrangements, Goodrich maintains average compensating balances, based upon bank ledger balances adjusted for uncollected funds, equal to 2½ percent of its total line of credit. Compensating balances are not restricted as to withdrawal, serve as compensation to the bank for its account handling function and other services, and additionally serve as part of Goodrich's minimum operating cash balances.

Goodrich also maintains uncommitted money market facilities with various banks. These facilities were typically Goodrich's lowest cost source of debt and were the primary vehicle for short-term borrowing during 1986.

McKESSON CORPORATION (MAR)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6 (In Part): Long-Term Debt

(in millions)	1986	1985	1984
Borrowings supported by bank revolving credit agreement	$ 57.3	$ 72.1	
Notes payable to banks	71.8	17.9	$ 12.5
8⅞% Notes due 1991	74.6		
10¾% Notes due 1995	74.8		
8.65% to 10.25% Notes due 1987–1990	61.7		
6.05% to 12.75% IDRB due through 2012	42.3	25.1	25.5
Capital lease obligations	14.8	18.5	19.6
Other, 6% to 15.7%, due through 2015	38.9	25.5	76.2
Convertible debentures			
9¾% due through 2006	80.0	80.0	80.0
9% due through 2005	10.0		
6% due through 1994	2.4	2.9	3.7
Total	528.6	242.0	217.5
Less current portion	38.4	8.1	30.9
Total	$490.2	$233.9	$186.6

During fiscal 1986, the company had a revolving credit agreement with seven banks whereby the banks guarantee borrowing availability up to $180 million at the prime interest rate or money market-based rates. The agreement renews automatically each year. Any bank may terminate its participation with at lease 22½ months notice, in which event any borrowings outstanding at the expiration of the notice period must be repaid in four equal annual installments beginning July 15 of the year following the notice period expiration. The agreement contains limitations on additional indebtedness, lease obligations, and requires maintenance of minimum levels of working capital and net worth. Bank and commercial paper borrowings of 57.3 million (averaging interest rate of 8.3%) were classified as long-term debt at March 31, 1986, because the company intends to continue such borrowings under this or other long-term loan arrangements. During fiscal 1986 the company also had available committed bank lines of credit aggregating $150 million. The company does not intend to renew these committed lines of credit when they expire in early fiscal 1987. Commitment fees paid to banks in fiscal 1986 were $0.4 million. Compensating balances were not required.

LONG TERM LEASES

Effective for leasing transactions entered into on or after January 1, 1977, *Statement of Financial Accounting Standards No. 13* is the authoritative pronouncement on the reporting of leases in the financial statements of lessees and lessors.

Table 2-28, in addition to showing the number of survey companies reporting capitalized and/or noncapitalized lessee leases, shows the nature of information most frequently disclosed by the survey companies for capitalized and noncapitalized lessee leases. Forty-seven survey companies reported lessor leases.

Examples of long term lease presentations and disclosures follow.

TABLE 2-28: LONG-TERM LEASES

	Number of Companies			
	1986	1985	1984	1983
Information Disclosed as to Noncapitalized Leases				
Rental expense				
Basic	469	465	466	454
Contingent	79	93	94	103
Sublease	90	101	95	101
Minimum rental payments				
Schedule of	455	446	446	436
Classified by major categories of property	28	30	29	28
Information Disclosed as to Capitalized Leases				
Minimum lease payments	210	227	246	263
Imputed interest	198	216	232	242
Leased assets by major classifications	109	125	140	142
Executory costs	43	56	67	69
Number of Companies				
Capitalized and noncapitalized leases	373	364	369	367
Noncapitalized leases only	107	112	110	105
Capitalized leases only	75	78	63	74
No leases disclosed	45	46	58	54
Total Companies	**600**	**600**	**600**	**600**

Lessee—Capital Leases

BEMIS COMPANY, INC. (DEC)

Consolidated Balance Sheet

	1986	1985
	(in thousands)	
Owned property and equipment, at cost:		
Land and land improvements	$ 8,172	$ 7,647
Buildings and leasehold improvements	77,950	66,539
Machinery and equipment	300,129	270,066
	386,251	344,252
Less—accumulated depreciation	151,097	137,194
	235,154	207,058
Leased property and equipment:		
Buildings	2,369	2,369
Machinery and equipment	915	1,618
	3,284	3,987
Less—accumulated amortization	1,976	2,422
	1,308	1,565
Current liabilities:		
Bank borrowings	$ 4,060	$ 3,536
Current portion of long-term debt	4,847	4,709
Current portion of obligations under capital leases	214	224
Accounts payable	100,889	81,493
Accrued liabilities:		
Salaries and wages	16,967	22,807
Income taxes	4,341	1,315
Other taxes	6,707	5,569
Total current liabilities	138,025	119,653
Long-term debt, less current portion	90,870	77,384
Long-term obligations under capital leases, less current portion	1,330	1,546
Deferred taxes	50,204	41,429
Other liabilities and deferred credits	9,575	7,443
Total liabilities	290,004	247,455

Consolidated Statement of Changes in Financial Position

	1986	1985	1984
	(in thousands)		
Financial resources were provided by:			
Net income	$25,631	23,005	$18,092
Add (deduct) items not requiring the use of working capital:			
Depreciation and amortization	27,571	25,011	23,733
Amortization of capital leases	149	251	382
Minority interest in net income	2,182	1,692	1,595
Deferred income taxes	9,551	9,408	7,868
Gain on disposal of property and equipment	(18)	(566)	(1,011)
Working capital provided by operations	65,066	58,801	50,659

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 7: Long-Term Leases

All noncancelable leases have been categorized as capital or operating leases. The company has leases for manufacturing plants, warehouses, machinery and equipment and administrative offices with terms (including renewal options) ranging from one to 50 years. Under most leasing arrangements, the Company pays the property taxes, insurance, maintenance and expenses related to the leased property. Total rental expense under operating leases was $7,449,000 in 1986, $6,587,000 in 1985 and $6,191,000 in 1984.

Minimum future obligations on leases in effect at December 31, 1986 are:

	(in thousands of dollars) Capital Leases			Operating Leases
	Total	Land & Buildings	Machinery & Equip.	
1987	$ 297	$129	$ 168	$ 4,970
1988	258	125	133	3,916
1989	201	69	132	3,162
1990	177	44	133	2,134
1991	174	44	130	1,613
Thereafter	960	317	643	3,810
Total minimum obligations	2,067	728	1,339	$19,605
Less amount representing interest	523	124	399	
Present value of net minimum obligations	1,544	604	940	
Less current portion	214	104	110	
Long-term obligations	$1,330	$500	$ 830	

The present values of minimum future obligations shown above are calculated based on interest rates (ranging from 4% to 17% with a weighted average of approximately 7%) determined to be applicable at the inception of the leases. Interest expense on the outstanding obligations under capital leases was $113,000 in 1986, $174,000, in 1985, and $268,000 in 1984.

FLEMING COMPANIES, INC. (DEC)

Balance Sheets

	1986	1985
	(in thousands)	
Property and equipment:		
Land	$ 20,495	$ 23,614
Buildings	126,677	126,415
Fixtures and equipment	242,315	226,201
Leasehold improvements	41,509	38,196
Leased assets under capital leases	88,736	81,237
	519,732	495,663
Less accumulated depreciation and amortization	171,489	147,030
Net property and equipment	348,243	348,633
Current liabilities:		
Accounts payable	$400,204	$403,156
Compensation payable	12,920	14,791
Taxes, other than income taxes	8,524	7,964
Current obligations under capital leases	5,698	5,372
Current maturities of long-term debt	5,455	4,868
Other current liabilities	12,979	10,824
Total current liabilities	445,780	446,975
Long-term debt	218,823	185,895
Long-term obligations under capital leases	52,759	48,192

Statements of Changes in Financial Position

	1986	1985	1984
		(In thousands)	
Source of funds:			
Net earnings	$39,315	$60,082	$49,572
Depreciation and amortization	37,140	28,904	21,831
Amortization of assets under capital leases	4,914	5,374	4,467
Deferred income taxes	10,812	7,440	7,817
Equity in earnings of unconsolidated subsidiaries	(4,390)	(3,366)	(2,713)
Funds provided from operations	87,791	98,434	80,974

NOTES TO FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (In Part):

Property and equipment: Property and equipment are recorded at cost or, in the case of leased assets under capital leases, at the present value of future lease payments. Buildings, fixtures and equipment are depreciated primarily using the straight-line method over the estimated useful lives of the assets. Leasehold improvements and leased assets under capital leases are amortized generally over the period of the respective lease using the straight-line method. In general, the estimated useful lives used in computing depreciation and amortization are: buildings and major improvements—20 to 40 years; warehouse, transportation and other equipment—3 to 10 years; mechanized warehouse equipment—15 years; and data processing equipment—5 to 7 years.

Lease Agreements

The company leases the majority of its distribution facilities under agreements generally ranging from 20 to 30 years, while lease terms for other operating facilities range from 1 to 15 years. These agreements normally provide for minimum annual rentals plus executory costs. The agreements usually include provisions for one to five renewal options of five years each.

The company also leases company-operated retail store facilities under agreements with terms normally ranging from 5 to 20 years. Generally, these agreements provide for contingent rentals based on sales performance in excess of specified minimums. The leases typically contain provisions for one to three renewal options of two to five years each. Certain equipment is leased by the company under agreements ranging from 2 to 12 years. The agreements usually do not include renewal option provisions.

Property and equipment accounts include the following amounts for facilities and equipment leases that have been capitalized:

(In thousands)	Dec. 27, 1986	Dec. 28, 1985
Facilities	$87,092	$77,655
Equipment	1,644	3,582
	88,736	81,237
Less accumulated amortization	41,229	38,623
	$47,507	$42,614

The following table sets forth future minimum lease payment obligations under capital leases as of December 27, 1986:

Fiscal Years (In thousands)	Facilities	Equipment	Total
1987	$ 9,131	$ 550	$ 9,681
1988	9,075	275	9,350
1989	8,657	133	8,790
1990	8,571	117	8,688
1991	8,312	59	8,371
Later	56,819	—	56,819
Total minimum lease payments	$100,565	$1,134	$101,699
Less amount representing estimated executory costs			495
Net minimum lease payments			101,204
Less amount representing interest			42,747
Present value of net minimum lease payments			58,457
Less current obligations			5,698
Long-term obligations at December 27, 1986			$ 52,759

Future minimum lease payments required as of December 27, 1986, under operating leases that have initial noncancelable lease terms exceeding one year are presented in the following table:

Fiscal Years (In thousands)	Facility Rentals	Facilities Subleased	Equipment Rentals	Net Rentals
1987	$ 18,757	$(2,187)	$8,699	$ 25,269
1988	19,091	(1,560)	6,160	23,691
1989	17,262	(814)	3,068	19,516
1990	15,675	(623)	1,438	16,490
1991	14,552	(640)	1,221	15,133
Later	200,355	(2,494)	3,534	201,395
Total minimum payments required	$285,692	$(8,318)	$24,120	$301,494

The following table shows the composition of total annual rental expense under non-cancelable operating leases and subleases with initial terms of one year or greater:

(In thousands)	1986	1985	1984
Minimum rentals	$25,038	$21,155	$13,076
Contingent rentals	559	579	536
Sublease income	(1,947)	(1,566)	(1,387)
	$23,650	$20,168	$12,225

HUGHES SUPPLY, INC. (JAN)

	1987	1986
	(in thousands)	
Property, Plant and Equipment, at cost:		
Land	$ 9,462	$ 4,411
Buildings and improvements	17,074	15,856
Transportation equipment	14,602	13,483
Furniture, fixtures and equipment	12,193	10,217
Leased property under capital leases	6,902	6,383
Total	60,233	50,350
Less accumulated depreciation and amortization	23,014	20,079
Net property, plant and equipment	37,219	30,271
Current Liabilities:		
Short-term debt	$ 1,857	$ —
Current portion of long-term notes	1,371	1,147
Current portion of capital lease obligations	552	427
Accounts payable	31,925	29,893
Accrued compensation and benefits	4,458	3,709
Other current liabilities	6,702	4,410
Total current liabilities	46,865	39,586
Long-Term Debt, less current portion:		
Notes and subordinated debentures	33,458	17,306
Capital lease obligations	3,179	3,236
Total long-term debt	36,637	20,542

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 8: Lease Commitments

Fourteen of the Company's branch facilities are leased under capital leases from a corporation which is owned by three of the directors of Hughes Supply, Inc. The leases generally provide that all expenses related to the properties are to be paid by the lessee. The leases provide for rental adjustments every five years based on appraised fair market values discounted ten percent. The leases were last adjusted effective April 1, 1983. The leases all expire within ten years; however, it is expected that they will be renewed. Rents under these agreements amounted to $831,000, $801,000 and $798,000 for the fiscal years ended in 1987, 1986 and 1985, respectively. In addition, the Company made aircraft rental payments aggregating $141,000, $125,000 and $123,000 in fiscal 1987, 1986 and 1985, respectively, to the related corporation. The balances related to properties under capital leases are included in the balance sheets as follows (in thousands):

	January 30, 1987	January 31, 1986
Leased property under capital leases (consisting of land and buildings)	$6,902	$6,383
Accumulated amortization	4,155	3,713
	$2,747	$2,670

Substantially all of the facilities of USCO Incorporated and Paine Supply Companies (see Note 2) are leased from former shareholders of the companies or their affiliates, under operating leases expiring from 1988 to 1995. The leases contain renewal options and purchase options at fair value. The expense under these leases was $41,000 subsequent to the business acquisitions in December, 1986.

Future minimum payments, by year and in the aggregate, under the aforementioned leases and other noncancelable operating leases with initial or remaining terms in excess of one year as of January 30, 1987, are as follows (in thousands):

Fiscal Years Ending	Capital Leases	Operating Leases
1988	$ 920	$ 847
1989	574	649
1990	543	397
1991	543	85
1992	534	—
Later years	3,233	—
Total minimum lease payments	6,347	$1,978
Less amount representing interest	2,616	
Present value of net minimum lease payments	3,731	
Less Less current portion of obligations under capital leases	552	
Long-term obligations under capital leases	$3,179	

Lease-related expenses deducted from income are as follows (in thousands):

	Fiscal Years Ended		
	January 30, 1987	January 31, 1986	January 25, 1985
Capital lease amortization	$441	$415	$413
Capital lease interest expenses	$381	$407	$435
Operating lease rentals (excluding month-to-month rents)	$561	$399	$461

PHILLIPS-VAN HEUSEN CORPORATION (JAN)

	1987	1986
Property, Plant and Equipment	$33,483,400	$33,377,196
Leased Property Under Capital Leases—Note 8	5,822,694	6,436,870
Current Liabilities:		
Accounts payable	$26,648,973	$31,050,942
Accrued expenses and sundry liabilities	30,019,547	27,003,316
Accrued income taxes, including deferred taxes of $218,000 in 1986	5,405,303	2,925,751
Current portion of long-term debt ...	528,749	619,884
Current portion of obligations under capital leases—Note 8	637,390	691,214
Total Current Liabilities	63,239,962	62,291,107
Long-Term Debt, less current portion..	3,935,623	14,642,710
Obligations Under Capital Leases, less current portion—Note 8	4,879,283	5,595,777

Note 8: 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.

Leased property under capital leases is as follows:

	1987	1986
Land	$ 313,265	$ 313,265
Buildings	9,504,318	9,504,318
Machinery and equipment	2,238,657	2,252,108
	12,056,240	12,069,691
Less: Accumulated amortization (1)....	6,233,546	5,632,821
	$ 5,822,694	$ 6,436,870

(1) Amortization is included in depreciation expense.

At February 1, 1987, minimum annual rental commitments under non-cancellable leases are as follows:

Fiscal	Capital Leases	Operating Leases
1988	$ 984,963	$ 7,545,483
1989	890,520	5,425,825
1990	888,591	3,996,119
1991	796,318	2,630,850
1992	776,631	1,980,790
Thereafter	3,008,290	4,678,367
Total minimum lease payments	7,345,313	$26,257,434
Less amounts representing interest (rates ranging from 2% to 12⅜%)	1,828,640	
Present value of net minimum lease payments	5,516,673	
Current portion of obligations under capital leases	637,390	
Long-term obligations under capital leases	$4,879,283	

Rent expense, principally real estate, is as follows:

	1987	1986	1985
Minimum	$8,362,571	$7,715,582	$6,908,297
Percentage and other	3,059,949	2,851,916	2,915,073
	$11,422,520	$10,567,498	$9,823,370

Lessee—Operating Leases

ICOT CORPORATION (JUL)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 8. Lease Commitments

At August 2, 1986, approximate future minimum rental commitments for all noncancellable operating leases are as follows (in thousands):

Year	Machinery and Equipment	Buildings and Office Space	Total
1987	$ 68	$1,131	$1,199
1988	34	947	981
1989	27	946	973
1990	10	946	956
1991	—	315	315
	$139	$4,285	$4,424

Total rent expense for all operating leases amounted to approximately $1,514,000, $1,132,000 and $1,206,000 in 1986, 1985 and 1984, respectively.

The Company has been granted a free rent period under the lease on its primary facility. The accompanying consolidated statements of operations reflect rent expense on a straightline basis over the term of the lease. An obligation of $607,000 representing pro rata future payments is reflected in the accompanying consolidated balance sheet at August 2, 1986.

OGDEN CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

17. Leases

Operating Leases: Total rental expense amounted to $30,569,000, $29,345,000, and $27,272,000 (net of sublease income of $1,082,000, $1,843,000, and $217,000) for 1986, 1985, and 1984, respectively. Included in rental expense are amounts, based on contingent factors (principally sales) in excess of minimum rentals amounting to $12,834,000, $13,110,000, and $13,814,000 for 1986, 1985, and 1984, respectively. Principal leases are for leaseholds, trucks and automobiles, machinery and equipment. There were no significant capitalized leases.

The following is a schedule (expressed in thousands of dollars), by year, of future minimum rental payments, net of income from related subleases in the average amount of $1,023,000 yearly through 1991, required under operating leases that have initial or remaining non-cancellable lease terms in excess of one year as of December 31, 1986.

1987	$ 14,570
1988	12,312
1989	10,398
1990	7,256
1991	5,189
Later years	75,177
Total	$124,902

ROWE FURNITURE CORPORATION (NOV)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 9: Operating Leases

The Company is obligated under long-term real estate leases expiring at various dates through 1990. Certain leases contain renewal options. The leases generally provide that the Company shall pay adjustments for property taxes, insurance and utilities. Rental payments charged to expense were $349,000 in 1986, $318,000 in 1985 and $240,000 in 1984.

The Company is a lessor of its investment properties under long-term operating leases. The lease arrangements have initial terms of five to twenty years and some contain provisions to increase the monthly rentals at specific intervals. Rental receipts, net of commissions, were $1,013,000 in 1986, $952,000 in 1985 and $930,000 in 1984.

Minimum lease commitments at November 30, 1986 under long-term operating real estate leases (net of commissions) were as follows:

Year Ending November 30	Lease Expense	Lease Receipts
1987	$250,000	$1,045,000
1988	250,000	732,000
1989	241,000	419,000
1990	48,000	419,000
1991		419,000
After 1991		2,087,000
	$789,000	$5,121,000

The Company is obligated to lease a truck fleet at $140,000 per month plus operating charges based upon usage. As new equipment replaces existing equipment, each piece of new equipment will be leased for a period of six to ten years. Since the date the new equipment will be placed in service is not known as of November 30, 1986, the amount of future payments cannot be determined.

SCOPE INDUSTRIES (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3: Lease Commitments

The Company occupies certain facilities under long-term leases. Future minimum rental payments required under operating leases that have initial or remaining non-cancellable lease terms in excess of one year, as of June 30, 1986, are:

For the years ending June 30,	
1987	$ 672,100
1988	575,900
1989	563,000
1990	501,300
1991	416,300
Thereafter	1,226,400
Total minimum lease payments required	$3,955,000

The composition of total rental expense for all operating leases is:

For the years ended June 30,	1986	1985	1984
Minimum rentals	$766,214	$680,131	$494,089
Contingent rentals	10,037	21,711	38,570
Less sublease rentals	(52,277)	(54,851)	(75,691)
	$723,974	$646,991	$456,968

Certain leases obligate the Company to pay taxes, maintenance, and repair costs. Certain leases also contain renewal provisions. The Company is not obligated under any significant capital leases at June 30, 1986.

UNITED MERCHANTS AND MANUFACTURERS, INC. (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 9 (In Part): Commitments and Contingencies

(1) Rental expense for real property, machinery and equipment (net of sublease income, which is not material), aggregated approximately $19,431,000, $17,087,000 and $6,229,000, respectively, for the three years ended June 30, 1986. The leases provide for minimum annual rentals, plus, in certain instances, payment for real estate taxes, insurance, maintenance, etc.

At June 30, 1986, approximate minimum rental commitments (net of subrentals, which are not material) under noncancellable operating leases, primarily for real property, machinery and equipment are as follows:

Year Ending June 30	(000 omitted)
1987	$14,248
1988	14,320
1989	14,432
1990	13,618
1991	11,965
Subsequent to 1991	15,024
	$83,607

Lessor Leases

DSC COMMUNICATIONS CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Receivables (In Part)

To meet market competition the Company began, during 1985, financing the sales of equipment to certain of its customers. The financing is principally structured in the form of sales-type leases, typically for a five-year term.

The components of the investment in sales-type leases are as follows (in thousands):

	December 31, 1986	1985
Total minimum lease payments receivable on leases in effect	$12,965	$17,618
Less: Unearned income	(2,684)	(2,471)
Investment	$10,281	$15,147
Investment classified as:		
Current	$ 3,152	$ 6,595
Noncurrent	7,129	8,552
	$10,281	$15,147

Future minimum lease payments to be received on sales-type leases are as follows (in thousands): 1987—$6,130; 1988—$2,483; 1989—$2,393; 1990—$1,572 and 1991—$387.

The Company has also leased equipment to customers under operating leases, whereby revenue is recognized as lease payments are received from the customers. The cost of the equipment is included in property and equipment (see "Property and Equipment").

Future minimum lease payments to be received from operating leases at December 31, 1986 are as follows (in thousands):

Year Ending December 31:	
1987	$ 4,252
1988	3,410
1989	3,368
1990	2,676
1991	1,247
Thereafter	97
	$15,050

THE PILLSBURY COMPANY (MAY)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8. Investments as Lessor

Restaurant subsidiaries lease buildings and land to franchisees. The building portions of the leases are direct financing leases while the land portions are operating leases. Substantially all leases are for 15 to 20 years, provide for minimum and contingent rentals, and require the franchisee to pay executory costs.

Minimum future lease payments to be received during the fiscal year ending May 31:

	Direct financing leases	Operating leases
	(In millions)	
1987	$ 29.7	$ 29.7
1988	30.2	28.9
1989	31.0	28.5
1990	31.0	27.0
1991	30.7	26.4
Later	307.3	275.0
	$459.9	$415.5

Net investment in direct financing leases at May 31:

	1986	1985
	(In millions)	
Minimum lease payments receivable	$459.9	$420.9
Allowance for uncollectables	(4.4)	(4.0)
Estimated unguaranteed residual value	3.8	3.8
Unearned amount representing interest	(261.4)	(226.9)
Net investment	197.9	193.8
Current portion included in receivables	(4.6)	(4.5)
Net investment in direct financing leases	$193.3	$189.3

Rental income:	Year ended May 31 1986	1985	1984
	(In millions)		
Minimum rental income	$31.7	$26.6	$23.9
Contingent rental income (a)	32.3	32.8	27.9
	$64.0	$59.4	$51.8

(a) Includes contingent rentals on both owned and leased property under direct financing and operating leases.

SUPER VALU STORES, INC. (FEB)

NOTES TO FINANCIAL STATEMENTS

E. Leases: Capital and operating leases (In Part)

Property owned by the company and leased as operating leases is as follows:

	Feb. 22, 1986	Feb. 23, 1985
Buildings	$21,741,000	$11,701,000
Less accumulated depreciation	1,442,000	768,000
Total	$20,299,000	$10,933,000

Minimum future revenues on operating leases in effect at February 22, 1986 are as follows:

	Operating lease rental receivables
1987	$ 2,156,000
1988	2,156,000
1989	2,156,000
1990	2,156,000
1991	2,098,000
Later	19,914,000
Total	$30,636,000

Direct financing leases:

Direct financing capital leases represent building lease obligations of the company. These properties are subleased to the company's independent retailers.

A schedule of minimum future rentals to be received under direct financing leases and minimum future obligations under capital leases in effect at February 22, 1986 are as follows:

	Direct financing lease rentals receivable	Capital lease obligations
1987	$ 15,398,000	$ 14,281,000
1988	14,358,000	13,347,000
1989	13,437,000	12,453,000
1990	12,513,000	11,596,000
1991	11,670,000	10,795,000
Later	73,602,000	67,811,000
Total minimum obligation	140,978,000	130,283,000
Less unearned income	64,790,000	
Less amount representing interest		55,254,000
Present value	76,188,000	75,029,000
Less current portion	6,626,000	6,803,000
Long-term portion at February 22, 1986	$ 69,562,000	$ 68,226,000

Contingent rent income was $1,982,000, $2,048,000 and $1,981,000 for 1986, 1985 and 1984, respectively.

Contingent rent expense was $1,417,000, $1,531,000 and $1,421,000 for 1986, 1985 and 1984, respectively.

RAYTHEON COMPANY (DEC)

NOTES TO FINANCIAL STATEMENTS

Note A (In Part): Accounting Policies

Lease Accounting

Leases for aircraft are accounted for under the operating method wherein revenues are recorded as earned over the lease term and the related costs are amortized over the rental equipment life. Service revenues are recognized ratably over contractual periods or as services are performed.

Note E: Property, Plant and Equipment

Property, plant and equipment consist of the following at December 31:

	1986	1985
	(In thousands)	
Land	$ 42,320	$ 29,941
Buildings and leasehold improvements	537,480	487,224
Machinery and equipment	1,673,452	1,484,109
Equipment leased to others	72,541	152,298
	2,325,793	2,153,572
Less accumulated depreciation and amortization	1,222,110	1,072,601
	$1,103,683	$1,080,971

Accumulated depreciation of equipment leased to others is $19,176,000 and $29,219,000 at December 31, 1986 and 1985, respectively.

Future minimum lease payments from noncancelable Aircraft Products' operating leases which extend to 1995, amount to $74,172,000, of which $661,000 is due from the U.S. Government and $73,511,000 from other lessees, principally commuter airlines. At December 31, 1986, these payments are due as follows:

	(In thousands)
1987	$11,295
1988	10,560
1989	10,550
1990	10,231
1991	9,546
Thereafter	21,990

OTHER NONCURRENT LIABILITIES

In addition to long-term debt, many of the survey companies presented captions for deferred taxes, minority interests, employee related liabilities, estimated losses or expenses, and deferred credits. Table 2-29 summarizes the nature of such noncurrent liabilities and deferred credits.

Deferred Taxes

ANALOGIC CORPORATION (JUL)

	1986	1985
Total current liabilities	$23,042,930	$12,074,608
Long-term debt:		
Mortgage note payable	5,833,599	5,833,599
Obligations under capital leases, less current portion	147,000	
Indebtedness to related parties, less current portion	6,185,894	6,501,864
	12,166,493	12,335,463
Deferred income taxes—Note 1(f)	4,740,198	3,715,726
Minority interest in subsidiary	2,358,604	

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

(f) Income taxes:

The deferred income taxes in the accompanying financial statements reflect the timing differences in reporting results of operations for income tax and financial accounting purposes.

Investment tax credits (through December 31, 1985) are treated as reductions of income tax expense (1986, $140,000; 1985, $652,000; 1984, $1,535,000) in the year in which they are utilized.

TABLE 2-29: OTHER NONCURRENT LIABILITIES

	Number of Companies			
	1986	1985	1984	1983
Deferred income taxes	491	497	504	504
Minority interest	122	124	124	137
Production payments	11	13	20	11
Employee Liabilities				
Pension or retirement plan	89	70	63	57
Deferred compensation, bonus, etc.	50	57	58	59
Other—described	37	39	38	31
Estimated losses or expenses				
Discontinued operations	39	34	29	31
Insurance	8	10	7	12
Warranties	7	7	9	10
Other—described	58	48	49	46
Deferred credits				
Deferred profit on sales	26	15	10	6
Pension plan termination	—	11	6	—
Payments received prior to rendering service	11	7	8	7
Excess of acquired net assets over cost	2	6	4	4
Other—described	16	8	11	9

AVON PRODUCTS, INC. (DEC)

	1986	1985
	(in millions)	
Total current liabilities	$672.9	$542.7
Long-term debt	709.2	617.8
Other liabilities	66.2	50.4
Deferred income taxes	166.7	151.7

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Accounting Policies (In Part):

Taxes on earnings—Taxes on earnings are adjusted for deferred income taxes where there are differences between the years in which transactions affect taxable income and the years in which they affect net earnings. Deferred income taxes include the effects of timing differences related to noncurrent items, including unremitted earnings of foreign subsidiaries, retirement plan expense, depreciation and capitalized interest.

The net deferred income tax benefit associated with certain current items is included in prepaid expenses.

Prior to 1986, taxes on earnings are reduced by investment tax credits in the year in which the related assets are placed in service.

BRIGGS & STRATTON CORPORATION (JUN)

	1986	1985
Total Current Liabilities	$94,421,000	$88,847,000
Deferred Income Taxes	38,614,000	29,608,000
Accrued Employee Benefits	10,070,000	9,744,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Deferred Income Taxes: Deferred income taxes, classified as a noncurrent liability, provide for the tax effects of timing differences relating to noncurrent assets and noncurrent liabilities resulting in the recognition of certain income and expense amounts in different periods for tax and financial reporting purposes. These timing differences principally result from additional tax deductions available due to the use of accelerated methods of depreciation and shorter asset lives for tax purposes and are offset in part by accrued employees benefits which are not tax deductible until paid.

FUQUA INDUSTRIES, INC. (DEC)

	1986	1985
	($000)	
Total Current Liabilities	$189,164	$160,998
Deferred Income Taxes (income taxes payable after one year)	16,877	16,011

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (In Part)

Income Taxes: Income taxes are provided for all taxable items in the statement of operations regardless of when these items are reported for Federal income tax purposes. Fuqua elects to utilize certain provisions of the Federal income tax laws to reduce current taxes payable. Taxes which are postponed as a result of these elections are recorded as deferred income taxes. Investment tax credits in 1985 and prior years are used to reduce the provision for income taxes in the year in which such tax benefits are realized.

Minority Interests

BERGEN BRUNSWIG CORPORATION (AUG)

	1986	1985
	($000)	
Total current liabilities	$357,999	$304,419
Long-term Obligations:		
Convertible subordinated debentures	135,000	135,000
Exchangeable subordinated debentures	43,000	—
Revolving bank notes payable	35,000	—
Other	29,387	25,121
Total long-term obligations	242,387	160,121
Commitments and contingent liabilities		
Minority interest in equity of subsidiary	7,934	—

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Minority interest in equity of subsidiary represents the minority shareowners' proportionate share of the equity of Commtron Corporation ("Commtron").

2: Gain on Issuance of Subsidiary Stock

In July 1986, Commtron, previously a wholly-owned subsidiary of the Corporation, issued 2,000,000 shares of its Class A Common Stock (20% of the total common stock outstanding) for net proceeds of $21,790,000. The Corporation's investment in the portion of Commtron sold was $7,688,000; as a result, the Corporation recognized a pre-tax gain of $14,102,000.

In addition, in July 1986, the Corporation issued $43,000,000 of Exchangeable Subordinated Debentures which are exchangeable at any time prior to maturity into 2,889,785 shares of Commtron Class A Common Stock (approximately 29% of the total common stock outstanding) presently owned by the Corporation. At August 31, 1986 the Corporation's investment in Commtron was $31,687,000, and the net earnings of Commtron were $5,902,000 for the year ended August 31, 1986.

BOWNE & CO., INC. (OCT)

	1986	1985
Total current liabilities	$28,467,000	$18,346,000
Other liabilities and credits:		
Long-term debt—net of current portion	1,803,000	2,221,000
Deferred employee compensation and benefits	5,412,000	3,596,000
Deferred income taxes	984,000	900,000
Minority interest	4,402,000	3,506,000
Total liabilities and credits	41,068,000	28,569,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2 (In Part): Acquisitions

On July 25, 1985, the Company acquired 90% of The Judson-Brooks Company, a financial printer located in Ohio, for $6,600,000. On March 30, 1984, the Company acquired 80% of the outstanding shares of Bowne of Canada, Inc. (formerly Plow & Watters Printing Canada Limited) for $7,204,000.

Under the purchase agreements, the minority shareholders may require the Company to purchase their shares during certain periods through December 1992 and the Company has the right to acquire the minority shares during certain periods through March 1992. The purchase prices under the agreements are based upon the adjusted earnings for the two years immediately preceding the transaction. Had the Company purchased the minority shares at October 31, 1986, the cost would have exceeded the recorded minority interest by approximately $6,000,000. Minority interest is carried on the balance sheet at the purchase price at the date of acquisition increased by the pro rata share of subsequent earnings.

KNIGHT-RIDDER, INC. (DEC)

	1986	1985
	($000)	
Total Current Liabilities	$336,132	$284,844
Non-Current Liabilities		
Long-term debt	621,468	271,488
Deferred Federal and state income taxes	125,669	98,078
Employment benefits and other non-current liabilities	45,936	41,125
Total Non-Current Liabilities	793,073	410,691
Minority Interests in Consolidated Subsidiaries	2,084	2,222

PANTASOTE INC. (DEC)

	1986	1985
	(In thousands)	
Total Current Liabilities	$39,378	$26,948
Long-Term Debt	17,372	9,883
Other Liabilities and Deferred Credits:		
Deferred taxes and investment credits	1,257	900
Deferred compensation and termination indemnity pay	7,680	4,060
Due on acquisition of business	1,078	
	10,015	4,960
Minority Interest	1,113	

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 (In Part): Acquisitions

In June 1986, the Company increased its investment in a foreign affiliate to 75.5% by making an additional investment of $1,170,000. The results of operations of the affiliate have been consolidated with those of the Company from June 1986. The Company has recorded a liability of $1,078,000 payable in 1988 in connection with the exercise of an option to acquire 25% of this investment. In prior periods, the investment was accounted for by the equity method. The 24.5% interest in the affiliate not owned by the Company and earnings allocated thereto are presented as "minority interest" in the accompanying 1986 consolidated financial statements.

PHILLIPS PETROLEUM COMPANY (DEC)

	1986	1985
	(Millions)	
Total Current Liabilities	$ 2,231	$ 3,110
Long-Term Debt	5,757	6,547
Other Long-Term Liabilities	363	533
Accrued Contingent Liabilities	201	151
Deferred Income Taxes	1,685	1,673
Other Deferred Credits	144	70
Minority Interest in Consolidated Subsidiaries	24	36
Total Liabilities	10,405	12,120

Employee Related Liabilities

AMERICAN BILTRITE INC. (DEC)

	1986	1985
	($000)	
Long-Term Debt, less current portion	$19,321	$2,482
Other Liabilities		
Pensions—Note H	4,768	5,103
Deferred income taxes	557	844
Other	107	111
	5,432	6,058

Note H (In Part): Pension Plans

The long-term pension liability ($4,768,000 at December 31, 1986; $5,103,000 at December 31, 1985) represents principally the unfunded accrued liability for pension benefits for retired or terminated employees of discontinued businesses. The unfunded liability for those employees was accrued at the time the businesses were discontinued and is adjusted annually for payments and for the increase in the present value.

THE BARDEN CORPORATION (OCT)

	1986	1985
Total Current Liabilities	$ 9,243,569	$ 8,021,306
6.5% Bonds, payable in installments through 1989	1,111,108	1,666,664
Accrued Supplemental Retirement Benefits and Deferred Compensation	993,572	879,368
Deferred Income Taxes	2,667,295	1,919,756
Total Liabilities	14,015,544	12,487,094

CSP INC. (AUG)

	1986	1985
	($000's)	
Total current liabilities	$996	2,034
Deferred compensation and retirement plans (Note 8)	212	—
Deferred income taxes	114	272

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8. Deferred Compensation and Retirement Plans

In January 1985, the Company initiated a 401K Retirement Plan. The Company contributes annually to the plan and also matches a portion of the employee's salary reduction contributions.

All employees with at least three years of continuous service are eligible for the plan. All Company contributions are fully vested. Contributions by the Company were $156,000 and $109,000 for fiscal year 1986 and 1985, respectively.

In 1986 the Company adopted a Supplemental Retirement Income Plan for certain present employees that provides for payments (generally over 15 years) upon retirement, death or disability. The annual benefit is based upon a percentage of salary at the inception of the plan, plus an annual percentage increase, plus interest. Life insurance contracts have been purchased which may be used to fund the retirement benefits. The charge to expense is based on the present value method and amounted to $31,900 in 1986.

In 1986 the Company adopted a deferred compensation plan for a key executive for payments upon retirement, death or disability based upon a percentage of salary at that time. The plan provides for payments over ten years. The charge to expense, based on the present value method, amounted to $180,000.

CYCLOPS CORPORATION (DEC)

	1986	1985
	($000)	
Total current liabilities	$230,319	$222,673
Long-term debt	55,637	46,878
Deferred income taxes	18,495	19,683
Excess of vested pension benefits over pension fund assets (Note 7)	6,763	7,042
Net noncurrent liability resulting from discontinued operations	27,476	29,427
Deferred service revenue and other	6,358	5,592
Total liabilities	345,048	331,295

Note 7: Pensions

The Company and its subsidiaries have several pension plans covering substantially all of their employees. The total pension expense for all plans was $24,500,000, $25,800,000, and $25,000,000 for 1986, 1985 and 1984, respectively. Pension expense includes amortization of past service liabilities over periods ranging to 40 years and actuarial gains and losses over 15 years. The Company makes annual contributions to the plans equal to the amounts accrued for pension expense.

The excess of vested pension benefits over pension fund assets which arose from a business acquisition in 1970 is being funded over periods ranging to 40 years; the excess related to the discontinuance of certain operations is included in the net noncurrent liability related to such discontinuance and is being funded over periods ranging to 20 years.

KNAPE & VOGT MANUFACTURING COMPANY (JUN)

	1986	1985
Total Current Liabilities	$5,990,531	$5,037,733
Supplemental Retirement Benefits (Note 3)	459,822	349,544
Deferred Income Taxes	3,068,200	2,489,200
Total Liabilities	9,518,553	7,876,477

Note 3 (In Part): Retirement Plans

The Company and subsidiaries have a supplementary pension program for their officers. The program also provides death and disability benefits. The annual cost is actuarily determined and is unfunded.

MOSINEE PAPER CORPORATION (DEC)

	1986	1985
	(In thousands)	
Total current liabilities	$25,602	$24,905
Long-term debt	10,910	9,476
Deferred income taxes	20,452	17,458
Vested pension	1,189	1,399
Other noncurrent liabilities	1,386	1,313
Total liabilities	59,539	54,551

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4 (In Part): Retirement Plans

Substantially all employees of the Company and its subsidiaries are covered under retirement programs. The cost of such programs totaled $1,603,000 in 1986, $1,790,000 in 1985 and $1,782,000 in 1984.

The Companies' contributions to pension plans included within the retirement programs provide for the current year's cost, interest on the unfunded portion of past service liability and amortization of the unfunded past service liability over periods varying from thirty to forty years.

During 1984, the assets of one plan were adjusted to market value, reducing 1984 pension costs by approximately $230,000.

A comparison of accumulated plan benefits, as estimated by consulting actuaries, to plan net assets for Mosinee Paper Corporation and subsidiaries is as follows:

	(In thousands)	
	Jan. 1, 1986	Jan. 1, 1985
Actuarial present value of accumulated plan benefits:		
Vested	$14,560	$13,766
Nonvested	567	455
Total	$15,127	$14,221
Net assets available for benefits	$14,595	$13,475
Assumed rate of investment return	8%	8%

Included in the above valuations is the excess of vested benefits over pension fund assets of The Sorg Paper Company at the date of acquisition in the amount of $4,213,000 which was recorded on the consolidated balance sheet net of applicable income taxes as a vested pension liability in the amount of $2,106,000 to be amortized over ten years. The unamortized balance at December 31, 1986 is $1,399,000 of which $1,189,000 is non-current.

NL INDUSTRIES, INC. (DEC)

	1986	1985
	(In thousands)	
Total current liabilities	$415,135	$305,350
Long-term debt	176,437	216,899
Deferred income taxes	1,531	43,567
Other liabilities	24,136	716
Pension liabilities and deferrals	85,126	28,087
Minority interest	2,684	7,701

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands)

17 (In Part): Pensions

The following table sets forth the plans' combined funded status and amounts recognized in the Company's statement of financial position at December 31, 1986. All plans were underfunded as of December 31, 1986.

Accumulated benefit obligations:	
Vested employees	$(33,069)
Non-vested employees	(250)
	$(33,319)
Projected benefit obligation	$(86,193)
Plan assets at fair value	18,405
Projected benefit obligation in excess of plan assets	$(67,788)
Comprising:	
Unamortized net asset at date of adoption of SFAS 87	$19,372
Unrecognized net loss from past experience being different from actuarial assumptions	(6,533)
Accrued pension cost at December 31, 1986	(80,627)
	$(67,788)

Included in "Pension liabilities and deferrals" is an amount of $4,499 which represents the long-term liability of a plan which covers certain employees of foreign operations.

PRAB ROBOTS, INC. (OCT)

	1986	1985
Total current liabilities	$3,767,000	$3,268,100
Long-term debt, less current portion	7,384,000	7,637,586
Deferred compensation (Note 5)	84,319	93,290

NOTES TO FINANCIAL STATEMENTS

5. Deferred Compensation Plan

The Company has entered into deferred compensation and salary continuation agreements with several key employees calling for periodic payments totaling $204,000 at the retirement or death of the employees.

The normal retirement dates occur during various years through 2012. The liability has been accrued each year using the present value method. The Company has purchased life insurance policies which it intends to use to finance this liability.

Estimated Losses or Expenses

BETHLEHEM STEEL CORPORATION (DEC)

	1986	1985
	(In millions)	
Total Current Liabilities	$ 940.3	$ 932.5
Accrued Costs for Discontinued Facilities (Note C)	763.2	777.8
Long-term Debt	1,125.0	1,232.4
Capital Lease Obligations	434.5	423.4
Other Long-term Liabilities	548.9	365.2

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

C. Estimated Gain (Loss) on Discontinuing Businesses and Assets

During 1986, 1985 and 1984 we discontinued certain facilities and sold certain businesses resulting in a net pre-tax gain of $20.0 million in 1986, a loss of $75.0 million in 1985 and a gain of $30.0 million in 1984. In 1986 we sold three subsidiaries, Kusan Inc., Tull Industries and Bethlehem International Engineering Corporation; our 40% interest in Met-Mex Penoles, a zinc and lead refinery in Mexico; a portion of our Homer Research Laboratories, and certain other assets for a net gain of $101.6 million. We realized cash proceeds of $300.6 million from these transactions. We also recorded a charge of $81.6 million which primarily represents estimated losses relating to certain oil field equipment and operations, coal operations and steel plant equipment. In 1985 we recorded a loss of $100.0 million principally for anticipated losses on disposing of certain nonstrategic businesses and assets. We also realized a net gain of $25.0 million from the sale of certain other assets in 1985. In 1984, we sold certain assets, principally steel plant equipment, for a net gain of $30.0 million. In 1982 and 1977, we recorded pre-tax charges of $1,050 million and $750 million for discontinuing certain facilities.

During 1986 and 1985, we charged $84.4 million and $67.9 million of net payments, principally for employee benefits, to the accrued liability recorded for disposing of these facilities. We also credited the liability for proceeds of $85.8 million and $30.7 million from the sale of certain related assets in 1986 and 1985. The current portion of this accrued liability, included in Other Current Liabilities, was $49.7 million and $56.8 million at December 31, 1986 and 1985. Substantially all of the total current and long-term balance of $812.9 million remaining at December 31, 1986 is for employment-related costs such as pensions, health care and life insurance benefits.

DUNKIN' DONUTS INCORPORATED (OCT)

	1986	1985
Total current liabilities	$20,638,000	$20,803,000
Notes and mortgages payable	9,791,000	12,460,000
Capital lease obligations	13,532,000	14,044,000
Deferred liabilities and credits:		
Security deposits by lessees	2,072,000	1,813,000
Estimated future losses associated with permanently closed locations	1,022,000	1,635,000
Income on notes receivable	875,000	585,000
Deferred income taxes	284,000	—
	4,253,000	4,033,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (In Part): Summary of Accounting Policies

Closed Locations: The costs associated with the termination of franchise activities at a location, including any amounts due the Company, are charged to equipment inventory to the extent that the total does not exceed fair market value. The excess, if any, is charged to operations.

For temporarily closed locations which management has determined will be refranchised as Dunkin' Donuts shops, the Company charges all related costs to operations as incurred.

The present value of all estimated future losses associated with shops that management determines will not reopen as Dunkin' Donuts shops is charged to operations when such determination is made. The provision for estimated future losses includes rent expenses, real estate taxes, lease buyout provisions, buildings, leaseholds, and leasehold improvements, less residuals and estimated sublease rental revenues.

GULF RESOURCES & CHEMICAL CORPORATION (DEC)

Total current liabilities	$ 81,461,154	$ 62,049,121
Long-term debt, net	101,810,000	109,315,000
Net liabilities of discontinued operations (Note 2)	7,945,135	7,930,119

NOTES TO FINANCIAL STATEMENTS

2. Discontinued Operations:

Sale of Operations

During the last several years, GRE sold its lithium, industrial explosives and engineering services operations. The statements of income for all applicable years segregate the operating results of discontinued operations from the results of continuing operations.

Closure and Sale of Pintlar Corporation (formerly The Bunker Hill Company)

GRE discontinued the operations of its lead, zinc, and silver mining, smelting, and refining business in 1981 and sold substantially all of the assets and liabilities of Pintlar Corporation in 1982.

Additional losses were provided to reflect a write-down of Pintlar's investment in certain mining and other assets to net realizable value, as well as to record accruals for additional liabilities of the Company since the closure. These charges to income from discontinued operations amounted to $6.0 million or $.64 per share fully diluted, net of income tax benefits of $2.3 million in 1986 and $7.6 million, or $0.74 per share fully diluted, net of income tax benefits of $6.4 million in 1985 (see Note 7).

Condensed Balance Sheet Information for Combined Discontinued Operations

The assets and liabilities of discontinued operations are summarized as follows:

	December 31,	
(In thousands)	1986	1985
Current assets	$ 1,438	$ 4,705
Property, plant and equipment, net	539	602
	$ 1,977	$ 5,307
Current liabilities	$ 687	$ 7,415
Other liabilities	9,235	5,822
	$ 9,922	$13,237
Net liabilities of discontinued operations	$ (7,945)	$ (7,930)

OAK INDUSTRIES INC. (DEC)

	1986	1985
	(in thousands)	
Total current liabilities	$51,881	$ 48,808
Other Liabilities:		
Deferred income taxes	746	822
Deferred compensation and pensions	11,479	9,654
Other	1,212	1,753
Total other liabilities	13,437	12,229
Long-Term Debt, Less Current Maturities	36,213	229,847
Net Liabilities of Discontinued Operations:		
STV and related companies (Note 2)	2,755	9,676

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 (In Part): Discontinued Operations:

Effective December 31, 1984, the Company adopted a plan to dispose of its STV and related operations. The major entities included in the Company's disposition plan were its remaining STV operations in Los Angeles (NST-Los Angeles) and Chicago (NST-Chicago), and the TV stations over which the STV signal was broadcast (KBSC in Los Angeles and WSNS in Chicago), Oak Media (which procured programming for the ON TV service broadcast by the STV operations), and ON Satellite Television (which provided ON TV service to satellite affiliates). In February 1985, the Company concluded a sale of its ON TV service in Los Angeles for $3,000,000 and the assumption of certain liabilities and commitments by the buyer. In October 1985, the Company concluded a sale of its Los Angeles television station (KBSC) for $30,000,000. These two transactions were considered in determining the net realizable value of the discontinued operations at December 31, 1984 and therefore resulted in no gain or loss in 1985.

As anticipated in its December 31, 1984 plan, the Company terminated its remaining STV operations in Chicago (in June 1985), Oak Media (in June 1985) and ON Satellite Television (in May 1985). The Company anticipates selling its 49% interest in WSNS. The timing of such a sale or the amount of proceeds cannot be predicted due to the uncertainty concerning renewal of the station's license by the Federal Communications Commission. No value has been attributed to the value of the license at December 31, 1986 and 1985 in the Company's calculation of the net realizable value of the TV station.

The Company terminated its STV operation in Ft. Lauderdale (NST-Ft. Lauderdale) in November 1984 and completed the sale of the TV Station, WKID, over which the NST-Ft. Lauderdale service was broadcast, in December 1984, for approximately $17,800,000. The gain on the sale of the TV station, reduced by the loss from the discontinuance of the STV operation, was approximately $9,900,000 and is included in the Consolidated Statement of Operations as "Loss from discontinued STV operations" in 1984.

The operating results of the discontinued operations have been segregated from the results of continuing operations in the Consolidated Statements of Operations. The estimated net liabilities at December 31, 1986 and 1985 of the STV and related operations were approximately $2,755,000 and $9,676,000, respectively, and are shown in the Consolidated Balance Sheets in "Net liabilities of discontinued operations".

The estimated loss on disposal of the discontinued STV and related operations of $44,339,000, reflected in the 1984 Consolidated Statement of Operations, included asset write-downs and phase-down operating losses. The aggregate net remaining liability at December 31, 1985 indicated that the provision recorded in the fourth quarter of 1984 remained adequate and, accordingly, these operations had no impact on the net loss in 1985. The amounts discussed above represented management's best estimate of the remaining net liability at December 31, 1985 or the net realizable value of the aggregate net assets at December 31, 1984 of the Company's STV and related operations. Of necessity, the estimates were based on projections of future events and subjective judgments of the manner in which various commitments and other matters would be resolved. During 1986, certain of these commitments were resolved for less than the estimated amounts resulting in income of $3,014,000, shown in the Consolidated Statement of Operations as "Disposal of discontinued STV operations". The net sales of the discontinued STV operations were $7,632,000 and $65,474,000 in the years ended December 31, 1985 and 1984, respectively. There were no sales in 1986.

GENERAL DYNAMICS CORPORATION (DEC)

	1986	1985
	(in millions)	
Noncurrent Liabilities:		
Long-term debt	$ 432.9	$ 28.2
Product liability	168.4	134.4
Deferred income taxes	222.3	011.6
Other	225.5	161.9
Total Noncurrent Liabilities	1,049.1	1,236.1

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in millions)

A (In Part): Summary of Significant Accounting Policies

Product Liability. The present value of estimated future claims and settlements for general aviation aircraft is recorded when sales are recognized and amounted to $168.4 at 31 December 1986. Liabilities related to aircraft in service as of the acquisition date of Cessna Aircraft (see Note B) were accrued at that date.

HARCOURT BRACE JOVANOVICH, INC. (DEC)

	1986	1985
Noncurrent Liabilities and Other:		
6⅜% convertible subordinated debentures	$199,995,000	$ —
Other long-term debt	590,282,858	222,302,939
ESOP debt guarantee	6,950,000	36,000,000
Unearned subscription income and other	80,487,238	49,975,552
Deferred income taxes	47,563,390	24,698,581
Noncurrent Federal income taxes payable	872,634	1,308,950
Royalties payable after one year (Note 4)	2,224,675	2,695,686
Deferred Pension Plan gain	3,000,000	31,000,000
	931,375,795	367,981,708

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4: Noncurrent royalties payable, which are noninterest bearing, become payable in accordance with the terms of numerous royalty agreements in the following periods: 1988, $496,942; 1989, $430,000; 1990, $430,000; 1991, $281,272; 1992, $158,823; and from 1993 to 2000, $427,638.

SYNALLOY CORPORATION (DEC)

	1986	1985
Long-Term Debt, less current portion	$2,622,116	$4,447,555
Environmental Compliance Costs—Note M	2,380,000	
Obligation Under Capital Lease Agreements, less current portion	302,054	383,789
Deferred Compensation	721,832	549,195

Note M–Environmental Compliance Costs

In the past, the Company treated hazardous waste at its chemical facilities. Testing of the ground waters in the areas of the treatment impoundments at these facilities disclosed the presence of certain contaminants. In compliance with environmental regulations, the Company developed a plan that will prevent further contamination, provide for remedial action to remove the present contaminants and establish a monitoring program to monitor ground water conditions in the future. A similar plan has been developed for a site previously used as a metal pickling facility. Estimated future costs of $2,860,000 have been accrued in the accompanying financial statements for 1986 to complete the procedures required under these plans.

TRANSTECH INDUSTRIES, INC. (DEC)

	1986	1985
Total current liabilities	$15,677,546	$20,478,999
Long-Term Debt	20,032,283	20,935,342
Accrued Landfill Closing Costs (Note 9)	8,238,864	9,277,746
Accrued Reclamation Costs	578,000	578,000
Deferred Income Taxes	1,800,620	399,780
Minority Interest	603,823	622,800

Note 9: Landfill Closing Costs

Kinsley's Landfill, Inc., ("Kinsley") a wholly-owned subsidiary of the Company, ceased accepting solid waste on February 6, 1987. At December 31, 1986 and 1985, Kinsley has provided $14,045,203 and $16,473,116 for remediation and closure of this facility, of which $8,275,767 and $8,728,778, respectively, is being held in an escrow fund. As of December 31, 1986, Kinsley has agreed to deposit an additional $3,000,000 into this escrow fund, in six equal semi-annual installments bearing interest at 12.17% per annum.

Kin-Buc, Inc., ("Kin Buc") a wholly-owned subsidiary of the Company, operated a landfill which ceased operations in 1977. As of December 31, 1986 and 1985, Kin-Buc has provided $4,909,298 and $5,290,000 for its share of the remediation and closure of this facility. In connection with the sale of Wastequid, Inc. (See Note 3), the Company, certain subsidiaries and an affiliate (the "Transtech Group") entered into a settlement agreement regarding the sharing of certain remediation and closing costs at the Kin-Buc landfill, whereby 75% of such costs would be borne by the Transtech Group and 25% by others. The settlement agreement established a response trust fund from which all remediation and closure costs would be paid. Contributions to the fund will be made: 75% by the Transtech Group and 25% by the others. The entire proceeds of the sale of Wastequid, Inc. and additional amounts representing repayment of a promissory note from Earthline Company plus accrued interest which totalled $1,440,000 were deposited to this fund on the Transtech Group's behalf and have been included in the accompanying consolidated balance sheet as a reduction of non-current accrued landfill closing costs. Under the provisions of the settlement, other parties to this agreement made a cash contribution to the fund of approximately $480,000.

Management of the Company, on the basis of information currently available, is of the opinion that they have made adequate provision in the financial statements for the costs of remediation and closure of these landfill facilities.

Share Repurchase Obligation

SMITH KLINE BECKMAN CORPORATION (DEC)

	1986	1985
	(In millions)	
Total current liabilities	$1,355.3	$1,087.2
Share repurchase obligation	1,203.4	—
Long-term debt	71.4	102.4
Deferred income taxes	65.8	72.1
Other liabilities	119.9	100.3
Minority interests	110.2	102.4
Total liabilities	2,926.0	1,464.4

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in millions)

5 (In Part): Share Repurchase Obligation and Long-Term Debt

At December 31, 1986, the Company had an obligation of $1,203.4 to former shareholders in connection with the December 1986 share repurchase transaction. This obligation was settled in January 1987 with $425.0 cash (presented as a noncurrent asset) and $778.4 of borrowed funds under a revolving credit agreement and from the issuance of short-term commercial paper.

Because the share repurchase obligation and related financing is supported by a long-term loan agreement, and management intends to renew its borrowings through 1987, the entire share repurchase obligation is classified as long term.

Distributions Received In Excess Of Investment

BELDING HEMINWAY COMPANY, INC. (DEC)

	1986	1985
	(In thousands)	
Total Current Liabilities	$18,328	$23,567
Distributions received in excess of investment (Note L)	1,486	
Deferred Federal Income Taxes	2,863	2,925
Long-term Debt	20,231	6,504
	42,908	32,996

Note L (In Part)

The Company has several limited partnership interests in entities former or existing for the purpose of investing in residential and commercial real estate. During 1986 and 1985, certain entities were operational and the Company's proportionate share of the equity of the operations recognized in the accompanying financial statements aggregated $745,000 and $1,910,000 respectively. The remaining entities were primarily still in the development phase of operation and accordingly, are being carried at cost. The aggregate investment in real estate entities at December 31, 1986 was $7,310,000. The Company has a 50% interest in a real estate limited partnership, Belhara Associates. The following is summarized financial information relating to Belhara Associates—

Balance Sheets	(in thousands)	
	Year ended December 31,	
Assets	1986	1985
Investment in cooperative shares	$ 542	$33,639
Purchase money mortgages receivable, net	12,221	9,918
Other assets	2,852	2,359
	$15,615	$45,916
Liabilities and Capital		
Accrued and sundry liabilities	$ 2,862	$ 7,507
Current maturities of long term debt	1,686	
Long-term debt	12,881	33,554
	17,429	41,061
Partners' capital/(deficiency)	(1,814)	4,855
	$15,615	$45,916

Operating Statements		
	Year ended December 31,	
	1986	1985
Operating income	$ 2,709	$ 6,198
Operating expenses	3,164	9,024
Operating loss	(455)	(2,826)
Gain on sale of cooperative shares	1,739	6,637
Net income	$ 1,284	$ 3,811

During 1986, the Company received as a capital distribution its proportionate share of proceeds from a $7,463,000 loan (payable in 1987 through 1989) drawn by Belhara. The Company has guaranteed 83.33% of this loan and has reflected the distributions received in excess of the investment carrying amount as "Distributions received in excess of investment."

Purchased Tax Benefits

NIKE, INC. (MAY)

	1986	1985
	(in thousands)	
Total current liabilities	$132,726	$219,474
Long-term debt	15,300	7,573
Non-current portion of purchased tax benefits (Note 1)	11,666	7,350

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

Income taxes

Deferred income taxes are recognized for timing differences between income for financial reporting purposes and taxable income. Investment tax credits are recognized in the year the related assets are placed in service. During 1982, the Company purchased future tax benefits for $15,277,000. Tax benefits of $7,296,000 in excess of the purchase price have been recognized as of May 31, 1986. The current portion of purchased tax benefits of $4,369,000 is included in deferred income taxes and the non-current portion of $11,666,000 has been classified as a long-term liability.

Production Payments

PHELPS DODGE CORPORATION (DEC)

	1986	1985
	($000)	
Current liabilities	$ 280,363	$201,296
Long-term debt	609,757	448,079
Proceeds from sale of future production	92,500	—
Deferred income taxes	34,633	26,607
Other liabilities and deferred credits	40,318	47,532
	1,057,571	723,514
Minority Interest in Subsidiary	6,000	6,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

14. Proceeds from Sale of Future Production

In December 1986, a subsidiary of the Corporation sold a production payment for $110.0 million (Note 2). The $110 million is to be discharged from future production at the Morenci, Arizona copper mine, together with interest at a fluctuating rate (7.75 percent at December 31, 1986) based on the agent bank's prime rate or a fixed rate, based on the U.S. certificate of deposit rate or the London interbank offered rate, for maturities of one to six months. The production payment is expected to be discharged quarterly beginning March 1987, and continuing through December 1993.

Estimated amounts due for the first five years are as follows (in millions): 1987—$17.5; 1988—$13.8; 1989—$15.3; 1990—$16.9; 1991—$18.6. The estimated payments are subject to adjustment depending on production volume at the property.

Deferred Credits

CBI INDUSTRIES, INC. (DEC)

	1986	1985
	($000)	
Total current liabilities	$256,449	$240,484
Long-term debt	168,004	218,039
Long-term lease obligations	11,014	13,768
Deferred income (Note 7)	15,099	17,253
Deferred income taxes and investment tax credits	73,531	81,013
Commitments and contingent liabilities		
Minority interest in subsidiaries	58,778	46,693

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7 (In Part): Property and Equipment

In December 1985, CBI entered into a sale and lease-back of compressed gas cylinders used in its Industrial Gases business. The gain on this transaction was deferred and is being amortized to income on a straight-line basis over the 8 year lease term. In 1984, CBI entered into a sale and lease-back of its corporate offices in Oak Brook, Illinois. Substantially all of the gain on this transaction was deferred and is being amortized to income on a straight-line basis over the 17 year lease term. The unamortized gains on these transactions are reported in the balance sheets as deferred income.

THE FIRESTONE TIRE & RUBBER COMPANY (OCT)

	1986	1985
	(In millions)	
Total current liabilities	$844	$833
Long-term debt and capital leases	285	234
Pension and other liabilities and deferred credits	155	250
Deferred income from sale and leaseback transactions	66	1
Deferred income taxes	49	—
Minority interest in subsidiary companies	27	44

NOTES TO FINANCIAL STATEMENTS

(Dollars in millions)

Deferred Income From Sale And Leaseback Transactions

Gains on sale and leaseback transactions completed late in 1985 and during 1986 involving approximately 370 retail properties aggregated $83, of which $6 was recognized in 1986 income. These gains, with the exception of $33 which is contingent on certain future events, are being amortized to income over the remaining four years of the lease term in annual increments of $11.

HARNISCHFEGER INDUSTRIES, INC. (OCT)

	1986	1985
	($000)	
Long-Term Obligations		
Long-term debt	$159,860	$128,702
Capitalized lease obligations	8,093	7,491
	167,953	136,193
Other Liabilities		
Accrued pension costs	46,544	53,057
Other liabilities	55,770	3,840
Deferred credits	16,225	—
Deferred income taxes	27,847	1,854
	146,386	58,751
Minority Interest	40,203	2,137

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollar amounts in thousands)

Note 12 (In Part): Leases

During 1986, the Corporation sold machinery and equipment amounting to $48,732 to a financial institution at a gain of $16,478 and leased back the assets under operating leases. The gain is being amortized over 12 years, the term of the leases.

GENERAL CINEMA CORPORATION (OCT)

	1986	1985
	($000)	
Total current liabilities	$161,744	$194,511
Long-term liabilities		
Senior debt	81,211	54,606
Subordinated debt	227,417	233,922
Other	4,620	5,660
Total long-term liabilities	313,248	294,188
Unearned exchange income	36,526	40,270
Deferred income taxes	36,476	29,991

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (In Part)

Unearned exchange income

Unearned exchange income represents the value of the exchange rights associated with the 10% exchangeable subordinated debentures due 2008 and 2009. The value was determined using the difference between the interest rates at which the debentures were issued and the estimated rates at which the debentures would have been issued absent the exchange feature. This amount is being amortized over the terms of the debentures.

LONE STAR INDUSTRIES, INC. (DEC)

	1986	1985
	($000)	
Total current liabilities	$271,662	$149,167
Long-term debt	246,003	257,709
Deferred income taxes	118,114	80,063
Production payments	79,500	96,750
Deferred pension credit	25,010	32,118
Other liabilities and deferred credits	29,276	39,552

NOTES TO FINANCIAL STATEMENTS

23 (In Part): Pension Plans

In 1984, the company terminated its existing pension plan for salaried employees and established a new plan with the same benefits. All benefits earned under the terms of the terminated plan became fully vested and guaranteed annuity contracts were purchased to cover such benefits. Plan assets in excess of the cost of the annuity contracts reverted to the company. The company received $29,400,000 in cash and $4,200,000 in real estate in 1984 and received an additional $10,500,000 in cash in 1985. In 1987, the company will adopt Financial Accounting Standards No. 87 "Employers' Accounting for Pensions" and No. 88 "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits". As a result, the company will recognize a pre-tax gain from the cumulative effect of a change in accounting principle of approximately $13,900,000 in the first quarter of 1987 primarily attributable to the asset revision which was being amortized against pension expense over a ten-year period.

Pension expense in 1986 and 1985 was approximately $3,500,000 and $3,600,000, respectively. The termination of the pension plan as well as changes in certain actuarial assumptions, fewer employees and other changes in operations resulted in a net pension credit of approximately $400,000 in 1984.

TULTEX CORPORATION (NOV)

	1986	1985
Total current liabilities	$41,631	$34,217
Long-term debt, less current maturities	37,149	41,768
Deferrals:		
Deferred income taxes	6,552	5,407
Other	1,082	441
	7,634	5,848
Excess of fair value of assets acquired over cost (Note 5)	4,677	5,542

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (In Part): Accounting Policies

Negative goodwill:

The excess of fair value of assets acquired over cost, arising from the acquisition of Washington Mills is being amortized on a straight-line basis over seven years.

Note 5. Excess of Fair Value of Assets Acquired Over Cost

On July 12, 1982, the Company acquired the outstanding capital stock of Washington Mills Company (Washington). On the date of acquisition, Washington had available net operating loss carryforwards of approximately $18,468,000 and $8,267,000 for federal and state income tax purposes, respectively, and investment and other tax credit carryforwards of approximately $498,000. The cost basis of Washington's fixed assets has been reduced by the income tax benefits from these carryforwards realized since acquisition. Income tax benefits in excess of cost of fixed assets acquired is presented as Excess of Fair Value of Assets Acquired Over Cost and is being amortized to operations over a seven year period.

SPENCER COMPANIES, INC. (MAY)

	1986	1985
Total current liabilities	$14,098,946	$20,455,955
Non-current portion of capital lease obligation	183,874	—
Deferred compensation	706,391	513,607
Deferred income (Note 12)	1,073,181	—

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

12. Deferred Income

During 1986, the Company renegotiated the lease on its Corporate headquarters and warehouse for a shorter term at an increased monthly rental. Deferred income represents cash received from the lessor in return for these changes and will be amortized over the remaining lease term of five years.

RESERVES—USE OF THE TERM "RESERVE"

Accounting Terminology Bulletin No. 1 recommends that the term reserve be used only to indicate, as an appropriation of retained earnings, that "an undivided portion of the assets is being held or retained for general or specific purposes . . ." Table 2-30 shows that the term *Reserve* appeared occasionally in the 1986 annual reports of the survey companies.

TABLE 2-30: USE OF TERM "RESERVE"

	Number of Companies			
	1986	1985	1984	1983
To describe deductions from assets for				
Reducing inventories to LIFO cost	38	45	41	47
Doubtful accounts	27	29	28	29
Accumulated depreciation	5	6	6	7
Other—described	8	3	7	8
To describe accruals for				
Estimated expenses relating to property abandonments or discontinued operations	16	17	17	15
Employee benefits or compensation	10	9	8	11
Insurance	7	6	5	6
Other—described	15	14	15	15
Other—not described	6	11	11	13

TITLE OF STOCKHOLDERS' EQUITY SECTION

Table 2-31 summarizes the titles used by the survey companies to identify the stockholders equity section of the balance sheet.

TABLE 2-31: TITLE OF STOCKHOLDERS' EQUITY SECTION

	1986	1985	1984	1983
Shareholders' Equity	247	235	231	226
Stockholders' Equity	217	223	226	228
Common Shareholders' Equity	20	24	26	24
Shareowners' Equity	20	22	16	17
Common Stockholders' Equity	18	21	21	24
Shareholders' Investment	19	18	23	21
Stockholders' Investment	13	12	10	8
Other or no title	46	45	47	52
Total Companies	**600**	**600**	**600**	**600**

CAPITAL STRUCTURES

Table 2-32 summarizes the various classes and combinations of capital stock outstanding disclosed in the balance sheets of the survey companies. The need for disclosure in connection with complex capital structures is stated in Paragraph 19 of *APB Opinion No. 15*. Paragraph 19 states:

> The use of complex securities complicates earnings per share computations and makes additional disclosures necessary. The Board has concluded that financial statements should include a description, in summary form, sufficient to explain the pertinent rights and privileges of the various securities outstanding. Examples of information which should be disclosed are dividend and liquidation preferences, participation rights, call prices and dates, conversion or exercise prices or rates and pertinent dates, sinking fund requirements, unusual voting rights, etc.

TABLE 2-32: CAPITAL STRUCTURES

	1986	1985	1984	1983
Common stock with:				
No preferred stock	427	406	389	381
One class of preferred stock	117	129	139	157
Two classes of preferred stock	48	47	53	47
Three or more classes of preferred stock	8	18	19	15
Total Companies	**600**	**600**	**600**	**600**
Companies included above with two or more classes of common stock	43	32	23	22

TABLE 2-33: COMMON STOCK

Bases	**1986**	**1985**	**1984**	**1983**
Par value stock shown at:				
Par value	537	520	506	508
Amount in excess of par.	27	25	29	24
Assigned per share amount	18	19	19	20
No par value stock shown at:				
Assigned per share amount	13	13	17	17
No assigned per share amount	48	55	52	53
Issues Outstanding	**643**	**632**	**623**	**622**

COMMON STOCK

Table 2-33 summarizes the valuation bases of common stock. As in prior years, the majority of the survey companies show common stock at par value.

Examples of common stock presentations are shown in connection with Table 2-34.

PREFERRED STOCK

Table 2-34 summarizes the valuation bases of preferred stock. As with common stock, many of the survey companies show preferred stock at par value.

APB Opinion No. 10 recommends that a liquidation preference (excess of involuntary liquidation value over par or stated value) be disclosed in the equity section of the balance sheet in the aggregate.

SEC *Accounting Series Release No. 268* (Section 211 of *Financial Reporting Release No. 1*) requires that preferred stock with mandatory redemption requirements not be shown as part of equity. *ASR No. 268* does not discuss the valuation basis for such securities. A *Staff Accounting Bulletin* issued by the SEC staff states that preferred stock with mandatory redemption requirements should be stated on the balance sheet at either fair value at date of issue or, if fair value is less than redemption value, at fair value increased by periodic accretions of the difference between fair value and redemption value.

Paragraph 10C of *Statement of Financial Accounting Standards No. 47* requires that financial statements disclose for each of the five years following the date of the latest balance sheet presented the redemption requirements of redeemable capital stock.

Examples of preferred stock presentations follow.

Preferred Stock Extended at Par Value

AM INTERNATIONAL, INC. (JUL)

	1986	1985
	($000)	
Shareholders' equity:		
Preferred stock, $.01 par value; 10 million shares authorized; 3,450,000 shares of $2.00 Convertible Exchangeable Preferred Stock ($86,250 aggregate liquidation preference) issued and outstanding	$ 35	$ —
Common stock, $.01 par value; 90 million shares authorized; 50,493,931 shares in 1986 and 40,293,391 shares in 1985 issued and outstanding	505	403
Capital in excess of par value	334,819	192,489
	335,359	192,892
Accumulated deficit	(72,718)	(75,262)
Cumulative translation adjustment	(12,971)	(17,346)
Total shareholders' equity	249,670	100,284

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4 (In Part): Preferred and Common Stock

In February 1986, the Company sold 3,450,000 shares of $2.00 Convertible Exchangeable Preferred Stock. Dividends are $2.00 per share and are cumulative. The Preferred Stock is convertible into the Company's common stock at a conversion price of $8.375 per share. The Preferred Stock is not redeemable prior to February 1989 unless the closing price of the common stock has equaled or exceeded 150% of the conversion price for a specified period prior to the notice of redemption. Subject to the foregoing, the Preferred Stock is redeemable at the Company's option at declining premiums until February 1996 and thereafter at $25 per share, plus unpaid dividends. The Preferred Stock is exchangeable in total at the Company's option beginning February 1989 into the Company's 8% Convertible Subordinated Debentures due 2011 at the rate of $25 principal amount of debentures for each share of Preferred Stock.

* * * * * *

In connection with the Company's Plan of Reorganization, the Company will issue warrants to purchase approximately 2.5 million common shares to certain former and current shareholders of the Company who filed claims against the Company for damages based on the Federal Securities Laws. The warrants will expire nine years from date of issuance and will bear an exercise price of 120% of the common stock trading price for a specified period preceding their issuance. To date, no warrants have been issued.

ALUMINUM COMPANY OF AMERICA (DEC)

	1986	1985
	($ millions)	
Shareholders' Equity		
Serial preferred stock, $100 par value, 660,000 shares authorized; $3.75 cumulative preferred series, 659,909 shares outstanding	$ 66.0	$ 66.0
Class B serial preferred stock, $1 par value, 10,000,000 shares authorized (I)	—	—
Common stock, $1 par value, 300,000,000 shares authorized; Outstanding 87,050,063 shares (81,372,239 in 1985) (I)	87.1	81.4
Additional capital	624.4	404.5
Translation adjustment	30.6	(8.6)
Retained earnings	2,913.5	2,764.6
Total shareholders' equity	3,721.6	3,307.9

NOTES TO FINANCIAL STATEMENTS

I. Common Stock

As of December 31, 1986, shares of common stock reserved for issuance were:

	Number of shares
Employees' stock option plan	5,020,172
Salaried employees' savings plan	2,048,766
Incentive compensation plan	100,719
	7,169,657

Stock options have been and may be granted at not less than market prices on the dates of grant. At December 31, 1986, options for 2,311,426 shares were exercisable.

Stock appreciation rights (SARs), granted under the stock option plan, entitle the optionee, subject to certain conditions, to surrender all or part of an option and receive cash and/or shares of stock having a value equal to the appreciation of the option. The change in value of SARs is reflected in income based upon the market value of the stock. At December 31, 1986, rights related to options for 901,525 shares at prices ranging from $23.56 to $46.88 per share were outstanding.

The transactions for shares under option were:

	1986	1985	1984
Outstanding, beginning of year:			
Shares	3,040,452	2,893,495	2,670,670
Price	$21.50–46.88	$21.50–46.88	$14.19–46.88
Granted:			
Shares	620,475	611,850	629,850
Price	$36.88	$33.81	$33.56
Exercised:			
Shares	(413,219)	(223,913)	(195,977)
Price	$21.50–37.31	$21.50–37.31	$14.19–37.31
Expired or canceled	(316,307)	(240,980)	(211,048)
Outstanding, end of year:			
Shares	2,931,401	3,040,452	2,893,495
Price	$21.50–46.88	$21.50–46.88	$21.50–46.88

TABLE 2-34: PREFERRED STOCK

	Number of Companies 1986	1985	1984	1983
Bases				
Par value stock shown at:				
Par value	82	87	94	100
Liquidation or redemption value	19	20	23	20
Fair value at issuance date	9	11	8	9
Assigned per share amount	11	11	11	11
Other	6	10	12	8
No par value stock shown at:				
Assigned per share amount	28	42	45	41
Liquidation or redemption value	24	19	26	31
Fair value at issuance date	7	8	7	9
No assigned per share amount	26	29	29	29
Other	—	—	1	2
Number of Companies				
Preferred stock outstanding	173	194	211	219
No preferred stock outstanding	427	406	389	381
Total Companies	**600**	**600**	**600**	**600**

At December 31, 1986, 2,088,771 shares were reserved for future options, compared with 2,392,939 and 2,763,809 at December 31, 1985 and 1984, respectively.

In March 1986 Alcoa adopted a shareholder rights plan under which each share of common stock has a right which trades with the stock until the right becomes exercisable. Each right entitles the shareholder to buy 1/100 of a share of Class B serial preferred stock at a 125 dollar exercise price. The rights are exercisable only if a party acquires beneficial ownership of 20 percent or more (or offers to acquire 30 percent or more) of Alcoa common stock.

After the rights become exercisable, if anyone acquires 50 percent or more of Alcoa's stock or assets, merges into Alcoa, or engages in certain other transactions, each right may be used to purchase shares of Alcoa common stock (or, under certain conditions, the acquirer's common stock) worth twice the exercise price. Alcoa may redeem the rights, which expire in March 1996, for five cents per right under certain circumstances.

BIRD INCORPORATED (DEC)

	1986	1985
Stockholders' equity—Note 5		
5% cumulative preferred stock, par value $100. Authorized and issued—15,000 shares (liquidating preference $110 per share, aggregating $1,650,000)	$ 1,500,000	$ 1,500,000
Preference stock, par value $1. Authorized 1,500,000 shares; issued 814,300 shares of $1.85 cumulative convertible preference stock (liquidating preference $20 per share, aggregating $16,386,000)	814,000	814,000
Common stock, par value $4. Authorized 9,000,000 shares; issued 4,587,755 shares	18,351,000	18,351,000
Other capital	15,898,000	15,854,000
Retained earnings	20,165,000	21,338,000
	56,728,000	57,857,000
Less—		
Treasury stock, at cost:		
5% preferred—4,603 shares	(270,000)	(270,000)
Common—452,756 shares in 1986 and 485,731 shares in 1985	(3,426,000)	(3,676,000)
Cumulative foreign currency translation adjustment	(185,000)	(325,000)
Restricted stock bonus	—	(2,000)
	52,847,000	53,584,000

5. Stockholders' Equity

The $1.85 cumulative convertible preference stock is redeemable, in whole or in part, at the option of the Company, at redemption prices declining to $20.00 on and after May 15, 1993. The convertible preference stock has a liquidation value of $20 per share and is convertible at the option of the holder into common stock of the Company at a conversion price of $22.25 per share, subject to adjustment in certain events. Dividends are cumulative from the date of issue and are payable quarterly. The Company's 5% cumulative preferred stock ranks senior to the convertible preference stock as to dividends and upon liquidation.

Under the 1982 stock option plan described in Note 6, 616,050 shares of common stock are reserved for issuance upon exercise of options and stock appreciation rights. It is the Company's intention to issue these shares from treasury stock, if available.

Under the terms of the revolving credit agreement described in Note 2, no cash dividends may be paid on the Company's common stock without the bank's consent and annual cash dividends on the Company's preference stock, par value $1, are limited to $1,550,000. Redemptions of common and preference stock are prohibited without the bank's consent. Cash dividends and redemptions with respect to the Company's 5% cumulative preferred stock are limited to $110,000 annually in the aggregate.

SUN CHEMICAL CORPORATION (DEC)

	1986	1985
	($000)	
Shareholders' equity (Note 10)		
Preferred stock—$1 par value, 1,825,000 shares authorized in 1986; 805,333 shares of $5 cumulative convertible shares issued and outstanding in 1986 (involuntary liquidation value—$33,518 at December 31, 1986)	$ 805	$ —
Common stock—par value $1 per share, 12,000,000 shares authorized in 1985; 7,821,870 shares issued and outstanding in 1985	—	7,822
Class A common stock—no par value, 25,000,000 shares authorized in 1986; 6,897,000 shares issued and outstanding in 1986, stated at	6,897	—
Class B common stock—no par value, 5,000,000 shares authorized in 1986; 3,930,000 shares issued and outstanding in 1986, stated at	3,930	—
Capital in excess of par value	300,388	40,337
Cumulative translation adjustment	(2,048)	(21,884)
Retained earnings	322,583	166,192
	632,555	192,467
Less: Cost of common stock in treasury	603	344
Total shareholders' equity	631,952	192,123

Note 10. Capital Stock

In December 1986, stockholders approved a proposal to authorize 25,000,000 shares of Class A common and 5,000,000 shares of Class B common (previously, 20,000,000 shares of common stock were authorized) and each outstanding common share would be converted into one-half share of Class A and one-half share of Class B common. Class A common and Class B common have identical rights, terms and conditions and vote together as a single class, except that Class A common has one vote per share and Class B common has ten votes per share; and for a period of five years commencing January 1, 1987, annual dividends, if any, on Class A common will be at least $.10 more per share than dividends on Class B common. Holders of Class B common are entitled to convert their shares into Class A common at any time on a share-for-share basis.

As of December 31, 1985, the Company had 500,000 shares of $100 par value cumulative preferred stock authorized, of which none were issued or outstanding. In December 1986, stockholders approved a proposal to change the par value and terms of the then currently authorized preferred stock and authorize an additional 1,325,000 of such shares (for a total of 1,825,000 shares) with such powers, rights, qualifications, limitations and restrictions as may be fixed by the Board of Directors from time to time. In order to effectuate the merger of Sun and Chromalloy, 805,333 shares of $5.00 cumulative convertible preferred stock, par value $1 per share, were issued. Each share of the $5.00 cumulative convertible preferred stock is convertible into 1.322 shares of Sun Class A common stock.

At December 31, 1986, 5,081,688 shares of Sun Class A and 113,179 Class B common shares were reserved for conversion of preferred and Class B common stock and stock options. The preferred stock is redeemable, at the option of the Company, at $101 per share currently and $100 per share after June 30, 1988. The consolidated financial statements reflect the conversion in 1986 of old Sun common stock and Chromalloy common stock into Sun's Class A and Class B common stock. Management has assumed (1) that holders of Sun's common stock will exercise to convert their shares into 50% Class A common and 50% Class B common and (2) that all holders of Chromalloy's preferred stock and common stock will convert into Sun's preferred stock and Class A common stock, respectively. Adjustments will be made as necessary, based on the actual conversions.

Preferred Stock Extended at Stated Value

McDONALD'S CORPORATION (DEC)

	1986	1985
	(In thousands)	
Shareholder's equity		
Preferred stock, no par value; authorized—66 million shares in 1986 and 40 million in 1985; issued—1,166,162 shares	$ 58,308	$ 58,308
Common stock, no par value; authorized—500 million shares in 1986 and 300 million in 1985; issued—138,336,551 shares in 1986 and 138,268,580 in 1985	15,383	15,375
Additional paid-in capital	149,059	129,396
Retained earnings	2,893,156	2,499,448
Equity adjustment from foreign currency translation	(93,577)	(116,147)
	3,022,329	2,586,380
Less common stock in treasury; 11,784,055 shares in 1986 and 9,823,485 in 1985; at cost	515,872	341,562
Total shareholders' equity	2,506,457	2,244,818

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Preferred Stock

Each share of non-voting preferred stock has a stated value and a liquidation preference of $50 and is convertible, at the holder's option, into shares of common stock having an aggregate market value of $50 at the time of conversion, limited to a maximum of four and one-half shares. The preferred shares also have a right to cumulative dividends at an adjustable rate varying from 6 to 12% per annum. The dividend rate is adjustable quarterly in accordance with a formula based on certain U.S. Treasury security rates less an adjustment factor. The Company may increase the maximum number of common shares issuable upon conversion, decrease the adjustment factor and increase the maximum dividend rate. The Company may pay cash in lieu of conversion into common stock and has the option, after June 15, 1987, to redeem all or part of the preferred stock at its stated value plus unpaid dividends. At December 31, 1986, 5.2 million shares of common stock were reserved for potential future conversion.

REYNOLDS METALS COMPANY (DEC)

	1986	1985
	(In millions)	
Stockholders' equity		
Preferred stocks	$ 151.8	$ 152.9
Common stock	297.7	288.0
Retained earnings	911.3	753.7
Cumulative currency translation adjustments	(18.8)	(42.9)
Total stockholders' equity	1,342.0	1,151.7

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In millions, except share amounts)

Note F (In Part): Stockholders' Equity

	Shares	Amount
Preferred Stock		
Authorized, no par value, issuable in series	20,000,000	
$2.30 cumulative convertible exchangeable series, $25 stated value		
Issued and outstanding at end of 1986 and 1985	5,000,000	$125.0
Conversion price per common share (based on rate of .592 shares)		$42.23
Second Preferred Stock		
Authorized, par value $100 per share, issuable in series	1,000,000	$100.0
4½% convertible series (cumulative)		
Issued and outstanding:		
At beginning of 1984	299,427	29.9
Converted in:		
1984	15,258	1.5
1985	4,824	0.5
1986	11,311	1.1
At end of 1986	268,034	$26.8
Optional redemption price per share		$100.00
Conversion price per common share		46.33
Common Stock		
Authorized, without par value	100,000,000	
Outstanding:		
At beginning of 1984	21,177,424	$267.1
Shares issued to employee benefit plans and for conversion of convertible securities:		
1984	380,315	12.3
1985	230,611	8.6
1986	212,861	9.7
At end of 1986	22,001,211	$297.7
Shares of common stock are reserved at December 31, 1986 for issuance as follows:		
Conversion of preferred stocks	3,538,953	
Conversion of convertible debentures	1,272,213	
Stock option plan	556,848	
Employee benefit plan	537,689	
	5,905,703	

AMERICAN BRANDS, INC. (DEC)

	1986	1985
	($000)	
Redeemable preferred stock		
$2.75 Preferred stock, without par value, stated value and mandatory redemption price $30.50 per share	$ 137,480	$ 137,480
Convertible preferred stock—redeemable at Company's option		
$2.67 Convertible Preferred stock, without par value, stated value $30.50 per share	37,587	47,346
Common stockholders' equity		
Common stock, par value $3.125 per share, shares issued 1986, 114,785; 1985, 57,393 (unadjusted for two-for-one stock split)	358,703	179,352
Paid-in capital	59,602	63,413
Unrealized appreciation on investments in marketable equity securities of The Franklin Life Insurance Company	2,148	4,051
Foreign currency adjustments	(211,612)	(264,173)
Retained earnings	2,455,314	2,509,537
Treasury stock, at cost	(123,276)	(114,117)
Total Common stockholders' equity	2,540,879	2,378,063

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Redeemable preferred stock

Shares of the $2.75 Preferred stock issued and outstanding at December 31, 1986, 1985 and 1984 were 4,507,528 shares. The holders of the $2.75 Preferred stock are entitled to cumulative dividends, to one-quarter of a vote per share (in certain events, to the exclusion of the Common shares and other preferred stock issues) and to preference in liquidation over holders of Common stock of $30.50 per share plus accrued dividends. Whenever six quarterly dividend payments on such Preferred stock are in default and until all such dividends have been paid, such holders (in addition to the right to vote with the Common stock and other preferred stock for the election of directors) may vote separately as a class to elect two of the directors then being elected. The Company is required on each March 10 to redeem 3%, and has the noncumulative option to redeem an additional 3%, of the number of shares of original issue at a price of $30.50 per share, plus accrued dividends. The 3% annual mandatory redemption amounts to 165,226 shares, or $5,040,000. Previously reacquired shares are sufficient to cover such mandatory redemptions through March 10, 1990. The Company may also redeem such Preferred stock on or after March 10, 1989, at prices beginning at $31.88 per share and declining to $30.50 per share on March 10, 1999, plus accrued dividends. There are also certain restrictions against the declaration or payment of dividends on Common stock or the acquisition of Common stock by the Company if it is in default on any dividends on the $2.75 Preferred, and the Company may not pay any dividends on Common Stock or purchase or redeem any shares of Common stock or shares of any present series of preferred stock if the Company is in default on redemption payments on the $2.75 Preferred.

Convertible Preferred Stock—Redeemable at Company's Option

Shares of the $2.67 Convertible Preferred stock issued and outstanding at December 31, 1986, 1985 and 1984 were 1,232,349 shares, 1,552,328 shares and 1,709,987 shares, respectively. The holders of $2.67 Convertible Preferred stock are entitled to cumulative dividends, to three-tenths of a vote per share (in certain events, to the exclusion of the Common shares), to preference in liquidation over holders of Common stock of $30.50 per share plus accrued dividends and to convert each share of such stock into 2.04 shares of Common stock. Authorized but unissued Common shares are reserved for issuance upon such conversions, but treasury shares may be and are delivered. During 1986, 1985 and 1984, 319,979 shares, 157,659 shares and 160,426 shares, respectively, were converted. The Company may redeem such Preferred stock at a price of $31.70 per share and declining to $30.50 per share on March 10, 1989, plus accrued dividends.

Preferred Stock Extended at Redemption or Liquidating Value

AMERICAN STORES COMPANY (JAN)

	1987	1986
	(In thousands of dollars)	
Series A $4.375 Preferred Stock of $1.00 par value, authorized 4,200,000 shares; issued 3,976,680 in 1986 and 3,965,046 in 1985	$198,834	$198,252
Series B $6.80 Preferred Stock of $1.00 par value, authorized 1,215,000 shares; issued 1,151,879 in 1986 and 1,148,507 in 1985	57,594	57,426
Common Shareholders' Equity		
Common stock of $1.00 par value, authorized 100,000,000 shares; issued 31,927,369 in 1986 and 31,921,778 in 1985	31,927	31,922
Additional paid-in capital	150,598	149,982
Retained earnings	704,247	611,360
Less cost of common treasury stock, 843,749 shares in 1986 and 508,103 shares in 1985	(48,679)	(25,453)
Total common shareholders' equity	838,093	767,811

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Preferred Stock

$5.51 Cumulative Redeemable Preferred Stock

The Company redeemed all of its $5.51 Cumulative Redeemable Preferred Stock in November 1984.

Series A $4.375 Cumulative Convertible Exchangeable Preferred Stock

Series A preferred shares are entitled to receive preferential and cumulative quarterly dividends at an annual rate of $4.375 per share and are entitled to a preference, in liquidation, in the amount of $50 per share plus accrued and unpaid dividends, but are not entitled to vote except in the occurrence of certain specific events.

Beginning on November 15, 1986 each Series A preferred share became convertible at the holder's option into 1.0782 American common shares.

The Company is required to retire annually 5% of the number of Series A preferred shares outstanding, by means of a sinking fund, commencing November 15, 1995, at a price of $50 plus any accrued and unpaid dividends. In addition, Series A preferred shares may be redeemed in whole or in part, at the Company's option, at any time or from time to time after November 15, 1987, at $53.063 per share and at prices which decline annually thereafter to $50 per Series A preferred share after November 15, 1994, plus accrued and unpaid dividends to the redemption date.

Series A preferred shares will be exchangeable, in whole but not in part, at the Company's option at any time after November 15, 1987 for American 8.75% Convertible Subordinated Debentures due 2009 at a rate of $50 principal amount of 8.75% Debentures for each Series A preferred share plus accrued and unpaid dividends. The terms of the 8.75% Debentures with respect to interest payments, conversion rights, redemption and sinking fund requirements will be the same as such terms as set forth in the Series A preferred shares. There are no dividends in arrears.

Series B $6.80 Cumulative Exchangeable Preferred Stock

Series B preferred shares are entitled to receive preferential and cumulative quarterly dividends at an annual rate of $6.80 per share and are entitled to a preference, after payment has been made on all stock which ranks senior to Series B preferred shares, in involuntary or voluntary liquidation, in the amount of $50 per share plus accrued and unpaid dividends but are not entitled to vote except in the occurrence of certain specified events.

The Company is required to retire annually, beginning November 16, 1994, by means of a sinking fund, at a price of $50 plus any accrued and unpaid dividends, an amount equal to 9.09% of the aggregate number of Series B preferred shares issued. The Company is required to redeem all remaining outstanding Series B preferred shares on November 15, 2004.

Series B preferred shares are redeemable, at the Company's option, beginning after November 15, 1987 at $55.60 per Series B preferred share, and at prices which decline annually to $50 per Series B preferred share after November 15, 2001.

Series B preferred shares are exchangeable, in whole but not in part, at the Company's option after November 15, 1987 for American 13.60% Subordinated Debentures due 2004 at a rate of $50 principal amount of 13.60% Debentures for each Series B preferred share plus accrued and unpaid dividends. The terms of the 13.60% Debentures with respect to interest payment dates, redemption and sinking fund requirements will be the same as such terms as set forth in the Series B preferred shares. There are no dividends in arrears.

ASHLAND OIL INC. (SEP)

	1986	1985
	(in thousands)	
Redeemable preferred stock—Note H	$ 6,250	$249,014
Common stockholders' equity—Note I		
Common stock, par value $1.00 per share		
Authorized—60,000,000 shares		
Issued—32,941,000 shares in 1986 and 28,672,000 shares of 1985	32,941	28,672
Paid-in capital	371,347	229,135
Retained earnings	831,271	690,621
Deferred translation adjustments	(5,884)	(12,682)
Loan to leveraged employee stock ownership plan	(246,500)	—
Common shares in treasury—at cost (400,000 shares in 1986 and 285,000 shares in 1985)	(12,131)	(6,335)
	971,044	929,411

Note H: Redeemable Preferred Stock

Ashland has 15,000,000 authorized shares of cumulative redeemable preferred stock, without par value, issuable in series. At September 30, 1986, 6,250 shares of the 8.50% Series were outstanding with annual redemption requirements of $3,125,000 in December, 1986 and 1987. However, Ashland intends to redeem the full $6,250,000 in December, 1986. The remaining issues were purchased or called for redemption during 1986. As a result of and prior to the redemption of the $3.96 Series, holders of 2,736,000 shares converted their shares into an equal number of shares of Ashland's common stock. The remaining shares of the $3.96 Series and other issues were purchased at a cost of $149,625,000 plus accrued dividends.

	Convertible	Nonconvertible			
(in thousands)	$3.96 Series	8.375% Series	8.50% Series	$4.50 Series	Total
Balance at October 1, 1983	$125,233	$35,000	$43,750	$139,781	$343,764
Redeemed 3,125 shares			(3,125)		(3,125)
Purchased 35,000 shares of 8.375% Series and 80,000 shares of $4.50 Series		(35,000)		(3,600)	(38,600)
Amortization of discount	1,332				1,332
Balance at September 30, 1984	126,565	—	40,625	136,181	303,371
Redeemed 3,125 shares			(3,125)		(3,125)
Purchased 1,168,000 shares				(52,562)	(52,562)
Other changes (principally amortization of discount)	1,330				1,330
Balance at September 30, 1985	127,895	—	37,500	83,619	249,014
Redeemed 3,125 shares			(3,125)		(3,125)
Converted 2,736,000 shares	(100,952)				(100,952)
Purchased 743,000 shares of $3.96 Series, 1,858,000 shares of $4.50 Series and 28,125 shares of 8.50% Series	(27,497)		(28,125)	(83,619)	(139,241)
Amortization of discount	554				554
Balance at September 30, 1986	$ —	$ —	$ 6,250	$ —	$ 6,250

Preferred stocks are carried at their redemption value except for the $3.96 Series. The $3.96 Series was recorded at its $35 per share fair value at the date of issuance. The difference between the recorded value and the redemption value of $40 per share was being amortized over the life of the issue by charges to retained earnings.

Ashland also has 15,000,000 authorized shares of cumulative preference stock, without par value, issuable in series, of which 10,000,000 shares have been designated for issuance under the Cumulative Preference Stock Series of 1986 (see Note I). None of these shares have been issued at September 30, 1986.

Note I: Common Stockholders' Equity

On April 1, 1986, Ashland's Board of Directors approved the purchase of 2,630,000 shares of its common stock from unrelated entities at a cost of $134,125,000. In addition, the Board authorized Ashland to purchase from time to time in open market transactions up to an additional 7,500,000 shares of common stock, of which 1,678,000 shares were purchased through September 30, 1986 at a cost of $87,968,000.

During 1986, Ashland distributed a Right to purchase one-tenth share of a new issue of preference stock (at an initial exercise price of $120 per share) for each share of common stock. Each share of preference stock will be entitled to participate in dividends and to vote on an equivalent basis with ten shares of Ashland's common stock. The Rights are not exercisable or detachable from the common shares until ten days after any person or group acquires 20 percent or more (or announces a tender offer for 30 percent or more) of Ashland's common stock. The Rights expire on May 15, 1996 and can be redeemed at any time prior to their becoming exercisable.

At September 30, 1986, 1,042,000 shares of common stock are reserved for issuance under outstanding stock options and for conversion of the 4¾% Convertible Subordinated Debentures.

Consolidated retained earnings include undistributed earnings of $109,334,000 from 50% or less owned affiliates accounted for on the equity method.

FAIRCHILD INDUSTRIES, INC. (DEC)

	1986	1985
	($000)	
Redeemable Preferred Stock:		
$3.60 Cumulative Series A Convertible Preferred without par value, 3,590,983 shares authorized, 3,582,832 shares issued, and 3,436,037 shares outstanding at redemption value of $45.00 per share	$154,622	$154,622
Non-redeemable Preferred Stock, Common Stock and Other Stockholders' Equity:		
Non-redeemable preferred stock, no par value, authorized 1,409,017 shares, none issued		
Common stock, par value $1.00 per share, authorized 75,000,000 shares, issued 14,300,697 and 13,717,988 shares	18,218	17,636
Additional paid-in capital	51,494	46,439
Retained earnings (deficit)	(37,342)	(12,160)
Cumulative translation adjustment	(3,493)	(6,500)
	28,877	45,415
Less Treasury stock at cost (359 and 1,248 shares)	(4)	(19)
	28,873	45,396

NOTES TO FINANCIAL STATEMENTS

Note 7. Redeemable Preferred Stock

The Series A Convertible Preferred Stock (Series A Preferred) is subject to annual mandatory redemptions of 10 percent of outstanding shares per annum at $45.00 per share, equal to its stated value, plus any dividend arrearages. The mandatory redemptions commence with payments of $15,462,000 in 1989. In addition, the Company has the option of redeeming any or all shares and reducing the mandatory redemption obligation, after January 1, 1989, at prices ranging from $46.80 (1989) to $45.00 (1994 and thereafter). The Company may also purchase the shares on the open market at any time, although such repurchases, prior to December 31, 1988, will not reduce the mandatory redemption obligation.

Holders of the Series A Preferred have general voting rights. Additionally, in the event of a cumulative arrearage equal to six quarterly dividends, all preferred stockholders have the right to elect separately, as a class, two members of the Board of Directors. No cash dividends can be declared or paid on any stock junior to the Series A Preferred in the event of dividend arrearages on or default in the obligation to redeem such Series A Preferred. At the option of the holder, the Series A Preferred may at any time be converted to common stock at a ratio of 1.51 shares of common stock for each share of Series A Preferred.

JAMES RIVER CORPORATION OF VIRGINIA (APR)

	1986	1985
	(in thousands)	
Preferred stock, $10 par value; 5,000,000 shares authorized:		
Redeemable preferred shares:		
Series C, D and E, stated at liquidation values of $100 per share; shares outstanding, 1986–88,790 and 1985–94,240	$ 8,879	$ 9,424
Series H, stated at redemption and liquidation values of $100 per share; shares outstanding, 1986—none and 1985–760,000		76,000
Series I, stated at redemption and liquidation values of $45 per share; shares outstanding, 1986–none and 1985–253,649		11,414
Common stock, $.10 par value; 150,000,000 shares authorized; shares outstanding, 1986–51,671,535 and 1985–29,050,068	5,167	2,905
Additional paid-in capital	399,695	309,788
Retained earnings	339,342	269,133

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8. Redeemable Preferred Stock

Redeemable preferred stock outstanding at the end of fiscal 1986, 1985 and 1984 consists of the following:

(in thousands)	1986	1985	1984
Series C	$1,419	$ 1,724	$ 1,724
Series D	3,160	3,400	3,640
Series E	4,300	4,300	4,300
Series H		76,000	71,518
Series I		11,414	22,900
	$8,879	$96,838	$104,082

Minimum redemption payments on the preferred stock for the five fiscal years subsequent to April 27, 1986 are as follows (in millions): 1987-$2.0; 1988-$2.0; 1989-$2.0; 1990-$.5; and 1991-$.4.

The Company and its principal noteholders consider this stock to be equity; however, because of certain rules of the Securities and Exchange Commission, the following ratios of debt to total capitalization are presented as though such stock were debt: April 27, 1986-40.6% and April 28, 1985-46.8%.

A. Series C Cumulative Participating Preferred Stock:

Mandatory dividends of $4.00 per share per annum are payable semiannually on the Series C Cumulative Participating Preferred Stock ("Series C"). Ina ddition, participating dividends up to a maximum of $6.00 per share are payable annually based on the pretax, pre-interest earnings (as defined in the Articles of Serial Designation) of Riegel Products Corporation ("Riegel"), a wholly owned subsidiary of James River, in excess of $3.6 million per year. In fiscal 1986, 1985 and 1984, only mandatory dividend payments were required. The Series C may be redeemed at $100 per share plus dividends earned but unpaid to the date of redemption. Participating sinking fund payments related to the defined earnings of Riegel, up to a maximum of $245,740 annually, may be required. Mandatory annual sinking fund payments of $307,200 are required until the Series C is fully redeemed.

B. Series D Cumulative Preferred Stock:

The annual dividend rate on the Series D Cumulative Preferred Stock ("Series D") is $8.75 per share, payable quarterly. The Series D may be redeemed, in whole or in part, at a per share price declining from $105.07 at April 27, 1986 to $100 in December 1996 and thereafter, plus dividends earned but unpaid to the date of redemption. No redemption, however, may be effected prior to December 1987 from proceeds having an effective interest or dividend rate of less than 8¾% per annum. Quarterly sinking fund payments of $60,000 are required until December 1997 when a final payment of $400,000 is due.

C. Series E Cumulative Preferred Stock:

The Series E Cumulative Preferred Stock ("Series E") has an annual dividend rate of $8.75 per share, payable quarterly. The Series E is redeemable, in whole or in part, at a per share price declining from $101.94 at April 27, 1986 to $100 in December 1987 and thereafter, plus dividends earned but unpaid to the date of redemption. Annual sinking fund payments of $1,433,300 will be required from December 1986 through December 1988.

Fair Value

ALLEGHENY INTERNATIONAL INC. (DEC)

	1986	1985
	(In thousands)	
Redeemable preferred stocks:		
$2.19 Cumulative Preference Stock (Involuntary liquidation and redemption values $73,434,000 at December 28, 1986)	$ 65,734	$ 65,307
$11.25 Convertible Preferred Stock (involuntary liquidation and redemption values $202,372,000 at December 28, 1986)	165,288	163,213
Common Stock	8,869	8,827
Other shareholders' equity:		
Additional paid-in capital	214,264	213,308
Retained earnings (accumulated deficit)	(78,620)	101,741
Accumulated foreign currency translation adjustments	(78,371)	(147,767)
Common Stock in treasury, at cost	(89,968)	(90,261)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8. Redeemable Preferred Stocks

The $2.19 Cumulative Preference Stock ("$2.19 Preference Stock"), of which 9,271,629 shares without par value are authorized, may be redeemed by Allegheny in whole or in part at a price of $26.29 per share to June 30, 1987, and thereafter the per share amount is reduced by $.10 each subsequent July 1 to a minimum of $25.00 per share on July 1, 1999, plus, in all cases, dividends which shall have accrued but have not been paid. On each July 1 through the year 2002, Allegheny is required to redeem as a sinking fund 276,010 shares of $2.19 Preference Stock at a per share price of $25.00, plus dividends which shall have accrued but have not been paid. As of December 28, 1986, Allegheny held a sufficient number of shares to satisfy the redemption requirements through the year 1991.

In the event of voluntary liquidation of Allegheny, the holders of the $2.19 Preference Stock are entitled to receive an amount equal to the per share redemption price.

The $11.25 Convertible Preferred Stock ("$11.25 Preferred Stock"), of which 2,821,318 shares without par value are authorized, was issued as a series of Allegheny's Cumulative Preferred Stock having 10,000,000 authorized shares.

The $11.25 Preferred Stock is convertible into Common Stock at the rate of 1.724 shares of Common Stock for each share of $11.25 Preferred Stock (which conversion rate is subject to adjustment). The $11.25 Preferred Stock is redeemable at Allegheny's option at any time after January 2, 1987 at $100.00 per share, plus dividends which shall have accrued but have not been paid. On December 1 of each of the years 1991 through 2007, Allegheny is required to redeem as a sinking fund 109,425 shares of $11.25 Preferred Stock, and on December 1, 2008 is required to redeem as a sinking fund 55,725 shares of $11.25 Preferred Stock, in all cases at a per share price of $100.00, plus dividends which shall have accrued but have not been paid.

In the event of voluntary liquidation of Allegheny, the holders of $11.25 Preferred Stock are entitled to receive a liquidation preference of $100.00 per share, plus dividends which shall have accrued but have not been paid, subject to the prior payment by Allegheny of the liquidation preference of the $2.19 Preference Stock.

Allegheny did not declare or pay the 1986 third and fourth quarter dividends on either the $2.19 Preference Stock or the $11.25 Preferred Stock. At December 28, 1986 the total dividend arrearages (including the dividends which would have been paid on January 1, 1987) were $3,081,000 ($1.095 per share) on the $2.19 Preference Stock, and $10,777,000 ($5.625 per share) on the $11.25 Preferred Stock.

As a result of the liquidation preferences of the $2.19 Preference Stock and $11.25 Preferred Stock, no dividends may be paid on Allegheny's Common Stock at December 28, 1986. However, the Credit Agreements impose even greater restrictions on Allegheny's ability to pay dividends on its Common Stock (see Note 7).

The initial assigned values of the $2.19 Preference Stock and $11.25 Preferred Stock ($22.03 and $81.00 per share, respectively) are being increased to the redemption prices of $25.00 and $100.00 per share, respectively, during the period in which such stocks are outstanding. Periodic accretions, based on the "interest method," are charged to retained earnings.

Holders of the $2.19 Preference Stock and $11.25 Preferred Stock are entitled to one-quarter vote and one vote per share, respectively. However, when four quarterly dividends on the $2.19 Preference Stock are in arrears, the holders of such stock are entitled to elect two additional directors to Allegheny's Board of Directors until such time that dividends in arrears are paid.

No additional shares of $2.19 Preference Stock or $11.25 Preferred Stock may be issued.

Changes in the number of outstanding shares of redeemable preferred stocks were as follows:

	$2.19 Cumulative Preference Stock	$11.25 Convertible Preferred Stock
Balances at January 1, 1984	4,561,756	2,735,353
Purchased for sinking fund	(124,187)	—
Acquired in exchange offer	(1,546,562)	—
Balances at December 30, 1984	2,891,007	2,735,353
Purchased for sinking fund	(76,900)	—
Converted into Common Stock	—	(819,403)
Balances at December 29, 1985 and December 28, 1986	2,814,107	1,915,950

In 1985, a wholly-owned foreign subsidiary of Allegheny purchased 819,400 shares of the $11.25 Preferred Stock which it converted into shares of Allegheny Common Stock. The Common Stock was subsequently distributed to Allegheny in the form of a dividend and is being held as treasury stock.

ATHLONE INDUSTRIES, INC. (DEC)

	1986	1985
Series A first preferred stock—subject to mandatory redemption ($4,062,500 liquidation value in 1986 and 1985); $1.00 par value; authorized 100,000 shares; issued 40,625 shares in 1986 and 1985 (note 6)	$ 3,348,818	$ 3,318,374
Common stockholders' equity		
Common stock, $.10 par value; authorized 20,000,000 shares; issued 2,324,587 shares in 1986 and 2,319,837 in 1985	232,459	231,984
Additional paid-in capital	85,884	—
Valuation allowance for marketable equity securities	(1,373,186)	—
Currency translation adjustment	—	(830,287)
Retained earnings	10,130,670	12,835,502
Common stockholders' equity	9,075,827	12,237,199

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6. Redeemable Preferred Stock

The Company's preferred stock consists of 150,000 authorized and unissued shares of $1 par value First Preferred Stock and 100,000 authorized shares of $1 par value Series A First Preferred Stock of which the Company, in April 1983, issued 43,750 shares and in December 1982, issued 37,500 shares to certain of its pension plans in partial payment of pension contributions due for 1983 and 1982. In July 1984, the Company reacquired 40,625 of the shares which previously had been sold by the pension plans to third parties. The Series A First Preferred Stock, which is not convertible, has a carrying value of $80 per share representing fair value at date of issuance based upon an independent appraisal and sales to third parties plus accumulated accretion. The shares are entitled to cumulative dividends of $12.70 annually (3.175 per quarter) per share and must be redeemed at 10% per year commencing on December 31, 1992 at $100 per share plus accrued and unpaid dividends. The Company, at its option, may redeem at that price in each year in which mandatory redemption is required an additional number of shares not exceeding the mandatory redemption and may redeem all or any part of the shares at that price plus a premium amounting to $5.15 in 1986 and declining proportionately thereafter through 1998 after which there will be no premium.

The carrying value of the preferred stock has been increased by periodic accretions, based on the interest method, of the difference between the fair value at dates of issuance and redemption value until the redemption dates at which time both amounts shall be equivalent. The Company has been advised by independent counsel that the excess of the involuntary liquidation value of the preferred stock over its stated or par value does not create any restrictions on retained earnings. No dividends on or purchases of the Company's common stock may be made if any arrearages in the preferred stock dividends exist or in the event of the failure to make mandatory redemptions. The holders of the preferred stock have the right to elect two directors if a default in six quarterly dividends occurs.

ADDITIONAL PAID-IN CAPITAL

Table 2-35 summarizes captions used to describe additional paid-in capital and indicates a continuing gradual decline in the use of the term *surplus* to describe additional paid-in capital. This trend is in accord with a recommendation expressed by the AICPA's Committee on Terminology, a predecessor of the Accounting Principles Board, that use of the term *surplus*, either alone or combined, be discontinued in the balance sheet presentation of stockholders' equity.

Examples of descriptive captions used for additional paid-in capital are shown in this section in connection with discussions of the other components of stockholders' equity.

TABLE 2-35: ADDITIONAL PAID-IN CAPITAL—CAPTION TITLE

	1986	1985	1984	1983
Additional paid-in capital	214	210	216	214
Capital in excess of par or stated value	157	161	159	158
Capital surplus	47	45	47	47
Additional capital, or *other capital*	41	42	45	46
Paid-in capital or *other paid-in capital*	41	38	35	36
Paid-in surplus	8	9	9	10
Other captions	18	18	17	17
	526	523	528	528
No additional paid-in capital account	74	77	72	72
Total Companies	**600**	**600**	**600**	**600**

RETAINED EARNINGS

Accounting Terminology Bulletin No. 1 recommends:

> The term *earned surplus* be replaced by terms which will indicate source, such as *retained income*, *retained earnings*, *accumulated earnings*, or *earnings retained for use in the business*. In the case of a deficit, the amount should be shown as a deduction from contributed capital with appropriate description.

Table 2-36 indicates that most of the survey companies use the term *retained earnings*.

Examples of descriptive captions used for retained earnings are shown below and in connection with discussions of the other components of stockholders' equity in this section.

TABLE 2-36: RETAINED EARNINGS—CAPTION TITLE

	1986	1985	1984	1983
Retained Earnings	470	476	476	481
Retained earnings with additional words	20	19	17	17
Earnings with additional words	50	44	48	52
Income with additional words	12	19	19	20
Earned Surplus	2	3	3	3
Retained Earnings (Deficit)	24	19	22	12
Accumulated Deficit	22	20	15	15
Total Companies	**600**	**600**	**600**	**600**

OUTBOARD MARINE CORPORATION (SEP)

	1986	1985
	(in thousands)	
Stockholders' Investment:		
Preferred stock-authorized 3,000,000 shares of $10.00 par value, none issued	$ —	$ —
Common stock-authorized 30,000,000 shares at $.15 par value each, issued 17,018,139 in 1986 and 16,954,256 in 1985	2,553	2,543
Capital in excess of par value of common stock	28,400	27,626
Accumulated earnings employed in the business	377,995	374,514
Cumulative translation adjustments	(16,470)	(18,647)
Treasury stock, at cost—38,921 shares at September 30, 1985	—	(861)
Total Stockholders' Investment	392,478	385,175

A. H. ROBINS COMPANY, INCORPORATED (DEC)

	1986	1985
	(in thousands)	
Stockholders' Equity (Deficit)		
Preferred stock, $1 par—authorized 10,000,000 shares, none issued		
Common stock, $1 par—authorized 40,000,000 shares	$26,318	$26,318
Additional paid-in capital	12,308	12,308
Retained earnings (deficit)	53,133	(28,663)
Foreign currency translation adjustments	(9,514)	(23,916)
	82,245	(13,953)
Less common stock repurchased, at cost—2,156,570 shares (1985—2,156,570 shares)	33,196	33,196
	49,049	(47,149)

SUN COMPANY, INC. (DEC)

	1986	1985
	($ millions)	
Stockholders' Equity		
Preferred stock, $2.25 cumulative convertible, par value $1 per share Authorized—651,267 shares; Issued, 1986—651,267 shares (aggregate involuntary liquidation value $34); Issued, 1985—945,487 shares	$ 1	$ 1
Common stock, par value $1 par share Authorized—200,000,000 shares; Issued, 1986—127,031,565 shares; Issued, 1985—126,245,717 shares	127	126
Capital in excess of par value	1,475	1,469
Cumulative foreign currency translation adjustment	(108)	(115)
Earnings employed in the business	4,643	4,584
	6,138	6,065
Less common stock held in treasury, at cost 1986—19,223,361 shares; 1985—17,675,085 shares	851	776
Total Stockholders' Equity	5,287	5,289

FEDDERS CORPORATION (DEC)

	1986	1985
	($000)	
Stockholders' equity (deficiency)		
Preferred Stock, $1 par value, 5,000,000 shares authorized	$ —	$ —
Common Stock, $1 par value, 30,000,000 shares authorized, 9,889,895 and 9,380,324 issued and outstanding at December 31, 1986 and 1985, respectively	9,890	9,380
Class B Stock, $1 par value, 30,000,000 shares authorized, 3,257,087 and 3,334,558 issued and outstanding at December 31, 1986 and 1985, respectively	3,257	3,335
Paid-in capital	1,609	73,844
Accumulated deficit	(6,446)	(92,351)
Total stockholders' equity (deficiency)	8,310	(5,792)

INLAND STEEL INDUSTRIES, INC. (DEC)

	1986	1985
	(in thousands)	
Stockholders' Equity		
Series A preferred stock (liquidation value $12,984 at December 31, 1986)	$ 295	$ 589
Series B preferred stock (liquidation value $74,875 at December 31, 1986)	1,497	75,000
Common stock	29,830	358,516
Capital stock in excess of par value	500,352	—
Earnings reinvested in the business	535,763	524,323
Total stockholders' equity	1,067,737	958,428

LACLEDE STEEL COMPANY (DEC)

	1986	1985
	($000)	
Stockholders' Equity:		
Preferred stock, without par value, authorized 2,000,000 shares with none issued	$ —	$ —
Common stock, $20 par value, authorized 5,000,000 shares; issued and outstanding 2,704,120	54,082	54,082
Capital in excess of par value	247	247
Earnings retained for use in the business	30,889	27,544
Total Stockholders' Equity	85,218	81,873

STOCK OPTION AND STOCK PURCHASE PLANS

Chapter 13B of *ARB No. 43*, which discusses stock option and stock purchase plans, states in paragraph 15:

> In connection with financial statements, disclosure should be made as to the status of the option or plan at the end of the period of report, including the number of shares under option, the option price, and the number of shares as to which options were exercisable. As to options exercised during the period, disclosure should be made of the number of shares involved and the option price thereof.

APB Opinion No. 25, issued in October 1972 and applying "to all stock option, purchase, award, and bonus rights granted by an employer corporation to an individual employee after December 31, 1972," reaffirms the disclosure requirements of paragraph 15.

Recently, it has become common for companies to either grant stock options in tandem with stock appreciation rights or to convert stock options into incentive stock options. *FASB Interpretation No. 28* discusses stock appreciation rights while *FASB Technical Bulletin 82-2* discusses the conversion of stock options into incentive stock options.

Five hundred forty-two companies disclose the existence of stock option plans. Examples of stock option and stock purchase plans follow.

STOCK OPTION PLANS

AVNET, INC. (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

11. Stock Option and Incentive Programs

The Avnet 1981 Stock Option Plan provides for the granting of incentive stock options at an exercise price of at least 100% of the fair market value on the date of grant. Options may be exercisable in whole or in installments on a cumulative or noncumulative basis and expire not later than ten years after the date of grant.

The Avnet 1984 Stock Option Plan provides for the granting of nonqualified options at an exercise price which is at least 40% of the fair market value on the date of grant. Options are exercisable starting one year from the date of grant to the extent of 25% a year on a cumulative basis and expire five years after the date of grant.

The 1981 and 1984 Stock Option plans terminate on October 31, 1991 and December 31, 1994, respectively, except as to options then outstanding, but the Plans may be terminated by the Board of Directors at any time.

Under the 1984 and the similar 1979 Plan (now terminated), the excess of the fair market value at the date of grant over the exercise price of the option is considered deferred compensation which is amortized and charged against income as it is earned. Charges against operations for 1986, 1985 and 1984 were $1,058,000, $1,150,000 and $1,036,000, respectively.

Under the 1981 and 1984 Plans, a total of 396,600 and

422,800 shares, respectively, are still available for grant. Pertinent information covering options under the 1979, 1981 and 1984 Plans is as follows:

Option and Market Prices are Per Share	1986	1985	1984
Outstanding at June 30:			
Shares	532,450	481,700	347,101
Prices	$10.38-46.25	$10.38-46.25	$6.82-46.25
Market prices at date granted	$20.69-46.25	$20.69-46.25	$11.16-46.25
Shares issuable under exercisable options	167,065	78,875	152,131
Granted:			
Shares	89,700	303,500	34,000
Prices	$15.50-32.25	$15.50-34.00	$23.25-46.25
Exercised:			
Shares	33,500	159,614	218,859
Prices	$10.38-30.75	$6.82-23.25	$6.82-12.50
Cancelled and expired:			
Shares	5,450	9,287	15,448
Prices	$42.13	$8.64-42.13	$8.64-42.13

Under the stock incentive program, a total of 506,293 shares are still available for award based on operating achievements. Delivery of incentive shares is spread equally over a four-year period and is subject to the employee's continuance in Avnet's employ. The program will terminate on October 31, 1990 but may be terminated by the Board of Directors at any time. Charges against operations for 1986, 1985 and 1984 were $540,000, $1,220,000 and $2,160,000, respectively.

CROWN CORK & SEAL COMPANY, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

J. Stock Options

In accordance with the Incentive Stock Option Plan adopted in December 1983, options to purchase 800,000 Common Shares can be granted to officers and key employees. Options were granted at market value on the date of grant and are exercisable beginning two years from date of grant and terminate five years from date of grant.

Transactions for 1986, 1985 and 1984 are as follows:

	1986	1985	1984
Options outstanding January 1	616,225	584,400	372,500
Granted	15,750	109,200	234,400
Exercised	(87,760)	(57,875)	0
Cancelled	(14,375)	(19,500)	(22,500)
Options outstanding at December 31	529,840	616,225	584,400
Option price range at December 31	$36.00 to $81.38	$36.00 to $57.50	$36.00 to $44.87
Options exercisable at December 31	140,290	82,125	0
Options available for grant at December 31	124,525	125,900	215,600

In accordance with the Non-Qualified Stock Option Plan for senior executives, adopted in July 1984, options to purchase 220,000 Common Shares can be granted. Options were granted at market value on the date of grant and are exercisable beginning two years from date of grant and terminate five years from date of grant.

Transactions for 1986, 1985 and 1984 are as follows:

	1986	1985	1984
Options outstanding January 1	185,000	155,000	0
Granted	5,000	30,000	155,000
Exercised	(12,500)	0	0
Cancelled	(3,750)	0	0
Options outstanding at December 31	173,750	185,000	155,000
Option price range at December 31	$36.50 to $97.25	$36.50 to $44.25	$36.50
Options exercisable at December 31	26,250	0	0
Options available for grant at December 31	33,750	35,000	65,000

Options, for 9,975 Common Shares which were previously granted under the 1974 Stock Option Plan, were exercised and 1,000 options were cancelled in 1984. There were no options outstanding or available under this Plan after December 31, 1984.

THE PITTSTON COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7. Stock Options

The Company grants options under its 1985 Stock Option Plan to key executives and employees to purchase common stock at a price not less than 100% of quoted market value at date of grant. The plan provides for the granting of ten-year "nonqualified options" and ten-year "incentive stock options" (ISO's). An ISO granted prior to January 1, 1987 may not be exercised while any previously granted ISO's are outstanding.

The Company's 1969 Stock Option Plan and 1979 Stock Option Plan terminated during 1979 and 1985, respectively, except as to options theretofore granted.

The Committee of the Board of Directors which administers the plans may, at its discretion, grant stock appreciation rights (SAR's) with respect to one or more options. Upon exercise of such rights the optionee surrenders the exercisable portion of the option in exchange for payment (in cash and/or common stock valued at its fair market value on the date of surrender) of the spread between the aggregate option price and the aggregate fair market value on the date of surrender of the exercisable portion of the option. Shares as to which options are so surrendered are not available for the granting of future options. The Committee may also grant tax-offset payments in connection with any nonqualified options which do not contain an SAR. Such payments may not be more than the excess of the fair market value of the shares being purchased over their exercise price. There were no SAR's or tax-offset payments granted or exercised during the three year period ended December 31, 1986.

The table below summarizes the activity in all plans.

	No. of Shares	Aggregate Option Price	Aggregate Market Value(a)
		(In thousands)	
Outstanding:			
12/31/86	1,270,490	$18,935	$18,935
12/31/85	1,305,585	20,124	20,124
Granted:			
In 1986	79,500	966	966
In 1985	408,700	4,914	4,914
In 1984	609,600	8,444	8,444
Became Exercisable:			
In 1986	327,918	4,240	4,348
In 1985	236,040	3,414	2,621
In 1984	74,520	1,534	1,020
Exercised:			
In 1986	—	—	—
In 1985	—	—	—
In 1984	—	—	—

(a) At dates granted for options outstanding and granted; at dates exercisable for options becoming exercisable; and at dates exercised for options exercised.

At December 31, 1986, there were 1,943,590 shares reserved for issuance under the plans, including 673,100 shares reserved for future grants.

PORTEC, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 11 (In Part): Incentive Program

The Company's 1976 Stock Option Plan permits the granting to key employees of non-qualified stock options to purchase shares of the Company's common stock at prices not less than the fair market value of such shares on the date the option is granted. The options may be exercised in various cumulative amounts determined at the time of grant for up to 10 years following the date of grant. This plan was adopted by shareholders in 1976 and amended in 1980 to include authorization to grant stock appreciation rights ("SARs") in relationship to the options. SARs entitle the optionee to receive the appreciation in value of the shares (i.e. the difference between market price of a share at time of exercise of the SARs and option price) in cash, shares or a combination thereof. SARs utilize the same shares reserved for issuance of options, and the exercise of an SAR or option automatically cancels the related option of SAR. New options and SARs may not be granted under this plan. At December 31, 1986, there were 122,208 shares reserved for issuance under this plan.

The 1982 Portec, Inc. Employees' Stock Benefit Plan was adopted by stockholders in 1982 and amended in 1984, and provides for the granting of awards thereunder to key employees. The granting of awards under this plan may be made until December 8, 1991. This plan provides for the granting of incentive and non-qualified stock options; SARs in relation to such options, so that the exercise of either a SAR or an option will automatically cancel the related option or SAR; restricted stock awards and performance units. Options and related SARs will be granted at prices which will not be less than the fair market value of such shares on the date the option is granted, and may be exercisable for periods of up to 10 years from the date of grant. This plan permits the Company's Board of Directors to make restricted stock awards to key employees whereby designated employees will have shares issued in their name which will be restricted as to the right of sale and other disposition until certain predetermined performance and/or time requirements are met. Also, the Board may contract with key employees to issue shares to them upon their accomplishment of predetermined performance targets. There were 257,650 shares reserved for issuance under this plan at December 31, 1986.

The following is a summary of stock option and SAR information:

	1986 Option Shares	1986 Average Option Price	1985 Option Shares	1985 Average Option Price
Stock Options:				
Outstanding beginning of year	319,614	$16.30	208,263	$14.72
Granted	78,250	14.83	143,150	18.39
Exercised	(20,750)	15.53	(16,173)	14.10
Cancelled or expired	(4,356)	17.95	(15,626)	16.69
Outstanding end of year	372,758	$16.01	319,614	$16.30
Exercisable end of year	312,758	$16.26	237,644	$15.53
Available for grant	7,100	—	86,254	—
Stock Appreciation Rights:				
Outstanding beginning of year	100,351	$16.11	77,696	$15.37
Granted	77,150	14.75	34,420	17.88
Exercised	(381)	14.79	—	—
Cancelled or expired	(3,711)	16.05	(11,765)	16.35
Outstanding end of year	173,409	$15.51	100,351	$16.11
Exercisable end of year	113,409	$15,91	65,931	$15.19

INTERNATIONAL BUSINESS MACHINES CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Stock Option Plans

In April 1986, stockholders approved a new five-year stock option plan which authorizes up to 12 million shares of capital stock for the plan. The 1986 Stock Option Plan and its predecessor plans provide for granting officers and other key employees options to purchase IBM's capital stock at 100% of the market price on the date of grant. Options have a maximum duration of 10 years and become exercisable in up to four annual installments, commencing one year from date of grant.

The plans are administered by the Executive Compensation Committee of the Board of Directors. The Committee may, at its discretion, grant Stock Appreciation Rights (SARs) to holders of options. Such rights offer optionees the alternative of electing not to exercise the related stock option, but to receive instead an amount in cash, stock, or a combination of cash and stock, equivalent to the difference between the option price and the average market price of IBM stock on the date of exercising the right.

The plans also provide, subject to Committee approval, that payment by the optionee upon exercise of an option may be made using IBM stock as well as cash.

The following table summarizes stock option transactions during 1986:

	Number of Shares Under Option	Number of Shares Available for Option
Balance at January 1, 1986........	13,915,648	584,252
Options granted......................	2,337,362	(2,337,362)
Options terminated	(160,430)	82,502
Options cancelled—SARs exercised	(261,746)	—
Options exercised....................	(1,978,075)	—
Expired under the 1982 plan.......	—	(631,448)
Reserved under the 1986 plan.....	—	12,000,000
Balance at December 31, 1986....	13,852,759	9,697,944
Exercisable at December 31, 1986	9,066,149	

The options exercised during 1986 were at an average option price of $69.21 per share. The 13,852,759 shares under option at December 31, 1986, are at option prices ranging from $40.28 to $144.69 per share.

GERBER PRODUCTS COMPANY (MAR)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1: Stock Option Plans

Under a stock option plan for key employees adopted by shareholders of the Company in fiscal 1986, the Company may grant either nonqualified or incentive stock options to purchase up to 1,000,000 shares of common stock. The Company also adopted, subject to shareholders' approval, a plan which allows the Company to grant nonqualified options to purchase up to 200,000 shares of common stock to nonemployee directors. Both nonqualified and incentive stock options were previously granted under a plan for key employees which expired in fiscal 1986. All nonqualified options allow for the purchase of common stock at prices not less than 85% of market price at the date of grant and expire ten years after grant. The incentive stock options allow the employee to purchase shares of common stock at prices equal to market value at the date of grant and expire five years later. Options generally become exercisable twelve months after grant at a rate of one-half annually on a cumulative basis, subject to certain limitations.

A summary of shares subject to options follows:

	Shares	Price Range
Outstanding at April 1, 1984.......	490,470	$7.63-$22.46
Granted..............................	81,500	20.35-23.94
Exercised............................	(101,472)	7.63-22.46
Canceled.............................	(34,610)	19.09-23.94
Outstanding at March 31, 1985...	435,888	9.00-23.94
Granted..............................	114,800	28.53-34.81
Exercised............................	(129,938)	9.00-23.94
Canceled.............................	(45,763)	23.94-34.81
Outstanding at March 31, 1986...	374,987	9.00-34.81
Exercisable at March 31, 1986....	174,516	9.00-23.94
Reserved for future grant:		
At April 1, 1985	146,122	
At March 31, 1986..............	1,085,800	

JEFFERSON SMURFIT CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Stock Option Plan

In 1983, the company established a Stock Option Plan which provides for the grant of incentive and nonqualified stock options and stock appreciation rights to certain directors, officers and key employees. As of December 31, 1986, there are 1,988,000 shares of Common Stock reserved for grant under the plan. The stock options are exercisable at a price equal to the market value on the date of grant. Stock appreciation rights provide for the issuance of cash equal to the amount by which the fair market value per share of Common Stock on the exercise date exceeds the option price of the related option. These stock options and rights become 50 percent exercisable one year after date of grant and are exercisable in full on the third anniversary date. All options and rights must be exercised within 10 years from date of grant.

Stock options transactions under the plan are:

	Option Shares Without Stock Appreciation Rights	Option Shares With Stock Appreciation Rights	Option Price Range
1985			
Outstanding at beginning of year........	317,064	148,936	$ 9.19-$12.88
Granted................	120,750	148,936	$ 8.75-$ 9.50
Cancelled..............	(34,750)	(148,936)	$ 9.19-$12.88
Outstanding at end of year................	403,064	148,936	$ 8.75-$12.88
1986......................			
Granted................	234,000	78,000	$18.88-$27.25
Exercised	(12,000)	—	$ 8.75-$12.88
Outstanding at end of year................	625,064	226,936	$ 8.75-$27.25
Options exercisable at December 31, 1986..	275,479	74,468	$ 8.75-$12.88

TRIANGLE INDUSTRIES, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note J: Incentive Programs

The Company maintains a stock option plan adopted in 1985 under which incentive and nonincentive stock options are granted to key employees and consultants. Under the current plan and a prior plan, at December 31, 1986, there were 1,282,839 common and 782,839 participating preferred shares reserved for future issuance.

The option price under both plans shall not be less than the fair market value of the shares at the date of grant and options are exercisable at varying dates not to exceed ten years.

Other information relating to the stock option plans is summarized below. All options for common shares outstanding on January 3, 1986 were adjusted to receive an equivalent number of participating preferred shares at no additional cost. In the following tables, the exercise price of all such adjusted options was allocated equally to the common and participating preferred shares.

		1986		1985
Common	Shares	Price Range Per Share	Shares	Price Range Per Share
Outstanding, beginning of year	430,768	$ 3.33 to $17.00	325,002	$ 3.33 to $ 4.31
Granted	563,000	20.56 to 26.38	286,500	6.47 to 17.00
Exercised	(27,929)	3.56 to 9.94	(165,686)	3.33 to 6.47
Cancelled	—	—	(15,048)	3.35
Outstanding, end of year	965,839	3.33 to 26.38	430,768	3.33 to 17.00
Exercisable, end of year	395,487	3.33 to 24.06	157,264	3.33 to 9.11

		1986		1985
Participating Preferred	Shares	Price Range Per Share	Shares	Price Range Per Share
Outstanding, beginning of year	430,768	$3.33 to $17.00	325,002	$ 3.33 to $ 4.31
Granted	160,000	20.56	286,500	6.47 to 17.00
Exercised	(27,929)	3.56 to 9.94	(165,686)	3.33 to 6.47
Cancelled	—	—	(15,048)	3.35
Outstanding, end of year	562,839	3.33 to 20.56	430,768	3.33 to 17.00
Exercisable, end of year	318,839	3.33 to 20.56	157,264	3.33 to 9.11

In addition, the Company has outstanding warrants each to purchase two shares of common stock and two shares of participating preferred stock as follows:

		1986		1985
	Warrants	Price Per Warrant	Warrants	Price Per Warrant
Outstanding	152,861	$17.75 or $18.50	554,164	$17.75 or $18.50
Exercised	401,303	18.50	—	—
Exercisable	57,861	18.50	459,164	18.50
Expiration of warrant terms:				
July 16, 1989	50,000	18.50	240,000	18.50
January 8, 1991	95,000	17.75	95,000	17.75
September 1, 1993	7,861	18.50	219,164	18.50

In November 1985, a deferred performance incentive plan authorizing the grant of 120,000 performance incentive units was approved by the shareholders. The units vest periodically over five years from the date of grant and are exercisable at any time after they vest. Units initially have no value but can gain a cash value based upon increases in fully diluted earnings per share during the period of five calendar years beginning immediately after the grant of a unit in comparison to a base period. During 1985, 100,000 units were granted having a maximum cash value of $9,000,000. With the appreciation in value earned by the units to date, the Company recognized a pretax charge to earnings of $1,800,000 for 1986 and 1985, respectively.

TONKA CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 8: Stock Options

The Company's qualified and incentive stock option plans reserve 161,530 shares of common stock at January 3, 1987 and 388,710 shares at December 28, 1985 for issuance to officers and employees at fair market value at the date of grant. The options are exercisable over a 5-year period. Options to purchase 107,100 shares and 285,300 shares were available for grant at January 3, 1987 and December 28, 1985, respectively. In May 1986, by shareholders vote, the 1982 stock option plan was reduced by 180,000 shares available for options which were transferred to the restricted stock plan. Other option activity was as follows:

	Fiscal Year	
	1986	1985
Outstanding at beginning of year	103,410	183,600
Exercised	47,180	65,040
Cancelled	1,800	15,150
Outstanding at end of year	54,430	103,410
Exercisable at end of year	44,530	10,230
Price range of options outstanding	$2.75–3.46	$2.54–3.79
Price range of options exercised	$2.54–3.79	$2.54–3.79

STOCK PURCHASE PLANS

BAXTER TRAVENOL LABORATORIES, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Common Stock (In Part)

On May 15, 1985, the stockholders voted to increase the authorized common stock, $1 par value from 175 million shares to 350 million shares. At December 31, 1986 and 1985, respectively, 216,700,412 and 211,427,502 shares were issued, with 360,713 and 169,254 shares being held in treasury. Shares issued during 1986 and 1985 increased principally as a result of acquisitions.

The company has employee stock purchase plans under which the sale of its common stock has been authorized. Employees of the company and its subsidiaries which have been designated as participating subsidiaries are eligible to participate in the 1968 Qualified Employee Stock Purchase Plan. Each eligible employee may subscribe for common stock having an aggregate subscription price not in excess of 25% of the employee's annual rate of compensation. Shares are purchased by payroll deduction at a maximum rate of 12%. The purchase price is the lower of 85% of the closing market price on the date of subscription or 85% of the closing market price on the date sufficient funds have been withheld to purchase twenty shares. Stock purchase plan transactions for the three years ended December 31, 1986, are summarized below:

Shares subscribed	1986	1985	1984
Beginning of year	2,050,740	1,949,285	1,952,080
Subscriptions	1,994,780	2,446,013	3,240,085
Purchases	(1,538,325)	(1,518,745)	(1,560,670)
Cancellations	(445,090)	(825,813)	(1,682,210)
End of year	2,062,105	2,050,740	1,949,285
Subscription price per share outstanding, end of year	$10.20–$25.80	$10.20–$25.90	$10.20–$26.06

At December 31, 1986, approximately 7,300 of 25,000 eligible employees in the U.S. and Canada and 600 of 7,000 other eligible employees were participating in the plans. Expiration dates for these subscriptions range from 1987 to 1989. The weighted average subscription price approximated $14.10 for U.S. and Canadian employees and $14.12 for other employees at December 31, 1986. Effective January 1, 1987, approximately 21,000 former American employees became eligible to participate in the plans.

KAMAN CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Stock Purchase Plan

The Kaman Corporation Employees Stock Purchase Plan allows employees to purchase Class A common stock of the Company, through payroll deductions, at 85% of the average market value of the shares at the time of purchase. The original plan was extended in 1984 and provides for the granting of rights to employees to purchase a maximum of 750,000 shares of Class A common stock of the Company through five consecutive offering periods of one year each, commencing on July 1, 1984. There are no charges or credits to income in connection with the plan. During 1986, 87,902 shares were issued to employees at prices ranging from approximately $18 to $24 per share. During 1985, 89,912 shares were issued to employees at prices ranging from approximately $12 to $22 per share. During 1984, 94,583 shares were issued to employees at prices ranging from approximately $11 to $14 per share. At December 31, 1986, there were approximately 520,300 shares available for offering under the Plan.

STEWART-WARNER CORPORATION (DEC)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5 (In Part): Capital Stock

In addition, the Corporation has a stock purchase plan which permits officers and key employees to purchase shares of the Corporation's treasury stock at the market price prevailing at the time of purchase. Current forms of contracts provide for minimum initial payments of 10% of the purchase price, and for payments of not less than 10% of the remaining balances annually, with interest at 1% per annum. All shares sold under this plan are either held in escrow or subject to repurchase agreements. During 1986, 3,000 shares of treasury stock were sold under the plan at prices averaging $28.31 per share, having an aggregate market value of $85,000; in 1985, 700 shares were sold at prices averaging $28.17 per share, market value $20,000; and in 1984, 2,500 shares were sold at prices averaging $29.20 per share, market value $73,000.

Amounts due from officers and employees aggregated $227,000 and $298,000 at December 31, 1986 and 1985, respectively.

VARIAN ASSOCIATES, INC. (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Stock Option and Purchase Plans (In Part)

On February 20, 1986, the shareholders approved a new employee stock purchase plan (1985 ESPP), effective January 6, 1986, for which 2 million shares were reserved. The participants' purchase price is the lower of 85% of the closing market price, New York Stock Exchange Composite Transaction Report, on the participants' most recent enrollment date, or 85% of the closing market price, New York Stock Exchange Composite Transaction Report, on the last trading day of the fiscal quarter. The discount is treated as equivalent to the cost of issuing stock for financial reporting purposes.

The ESPP covers substantially all the employees of the parent company and its domestic subsidiaries and Varian Canada Inc. The plan replaces the 1955 employee stock purchase plan which was in effect in the first quarter of fiscal 1986, and prior years.

During fiscal 1986, 1985 and 1984, 313,000 shares, 161,000 shares and 105,000 shares were purchased for $6.9 million, $4.8 million, and $4.1 million, respectively, with 1986 amounts including purchase from both plans. At fiscal year end 1986, the Company had a balance of 1,787,831 shares reserved for the ESPP.

F.W. WOOLWORTH CO. (JAN)

FINANCIAL REVIEW

Stock Option and Purchase Plans (In Part)

On June 19, 1986, the Company's shareholders approved the 1986 Woolworth Stock Option Plan. Under the terms of this plan, options may be granted to officers or key employees to purchase up to 4,000,000 shares, in the aggregate, of the Company's common stock at not less than 100% of the fair market value on the date of grant. Except under certain circumstances, options are not exercisable until one year from the date of grant, at which time up to one-half of the option may be exercised, with the remainder becoming exercisable two years from the date of grant. Unexercised options may not remain outstanding more than 10 years from the date of their grant. No options were granted under this plan during the fiscal year ended January 31, 1987.

Under the 1982 Woolworth Stock Option Plan, which is substantially similar to the 1986 Plan, options may be granted to eligible officers and key employees to purchase up to 2,000,000 shares, in the aggregate, of the Company's common stock. The power to grant options under the 1976 Woolworth Stock Option Plan expired in 1981. Certain options granted under the 1976 Plan, however, remain outstanding and exercisable.

Under the terms of the 1985 Woolworth Employees' Stock Purchase Plan, participating employees may acquire shares of common stock through payroll deductions of not more than 10% of their annual compensation. The price at which shares are purchased is 85% of the lower fair market value for such shares on one of two specified dates in each plan year. Under this plan, a participant is limited to the acquisition in any calendar or plan year of that number of full shares which have an aggregate fair market value at the beginning of the plan year of not more than $25,000. Of the 4,000,000 shares of common stock authorized for purchase under the 1985 Purchase Plan, 705,721 shares were purchased during the fiscal year ended January 31, 1987, by 8,419 plan participants. At January 31, 1987, approximately 52,000 employees were eligible to participate in the 1985 Purchase Plan, and approximately 4,200 of those persons were participating.

When common stock is issued under any of the above stock option or stock purchase plans, the proceeds from options exercised or shares purchased are credited to common stock to the extent of the par value of the shares issued, and the excess is credited to additional paid-in capital. When treasury common stock is issued, the difference between the average cost of treasury stock used and the proceeds from options exercised or shares purchased is charged or credited, as appropriate, to additional paid-in capital or retained earnings. The tax benefits relating to amounts deductible for federal income tax purposes in excess of the amounts charged to income for financial reporting purposes have been credited to additional paid-in capital.

TREASURY STOCK

APB Opinion No. 6 discusses the balance sheet presentation of treasury stock. As shown in Table 2-37, the prevalent balance sheet presentation of treasury stock is to show the cost of treasury stock as a reduction of stockholders' equity.

Examples of treasury stock presentations follow.

Cost of Treasury Stock Deducted From Stockholders Equity.

BURNDY CORPORATION (DEC)

	1986	1985
	(in thousands)	
Shareowners' equity:		
Preferred stock, par value $1 per share: Authorized 2,000,000 shares; none issued	$ —	$ —
Common stock, par value $1 per share: Authorized 40,000,000 shares; Issued 13,135,694 shares	13,136	13,136
Additional paid-in capital	6,451	6,113
Retained earnings	135,164	125,674
	154,751	144,923
Less:		
Cumulative translation adjustments	639	8,081
Treasury stock (1,115,803 and 1,125,005 shares, respectively)—at cost	17,355	17,434
	136,757	119,408

KEVLIN MICROWAVE CORPORATION (MAY)

	1986	1985
Stockholders' equity:		
Common stocks, $.10 par value Authorized—4,000,000 shares, Issued—2,796,381 shares in 1986 and 2,757,381 shares in 1985	$ 279,638	$ 275,738
Capital in excess of par value	1,689,384	1,602,791
Retained earnings	4,571,652	3,925,274
	6,540,674	5,803,803
Less—Treasury stock of 304,037 shares in 1986 and 314,117 shares in 1985, at cost	461,545	455,710
Total stockholders' equity	6,079,129	5,348,093

TABLE 2-37: TREASURY STOCK—BALANCE SHEET PRESENTATION

	1986	1985	1984	1983
Common Stock				
Cost of treasury stock shown as stockholders' equity deduction	348	359	346	339
Par or stated value of treasury stock deducted from issued stock of the same class	25	32	34	38
Cost of treasury stock deducted from stock of the same class	9	11	17	19
Cost of treasury stock shown as noncurrent asset	4	4	3	3
Other	6	7	7	4
Total Presentations	**392**	**413**	**407**	**403**
Preferred Stock				
Cost of treasury stock shown as stockholders' equity deduction	6	7	15	14
Par or stated value of treasury stock deducted from issued stock of the same class	5	8	4	4
Other	4	5	8	5
Total Presentations	**15**	**20**	**27**	**23**
Number of Companies				
Disclosing treasury stock	392	414	410	408
Not disclosing treasury stock	208	186	190	192
Total Companies	**600**	**600**	**600**	**600**

ARMSTRONG WORLD INDUSTRIES, INC. (DEC)

	1986	1985
Stockholders' equity:		
Preferred stock, $3.75 cumulative, no par value. Authorized 161,821 shares; issued 161,522 shares (at redemption price of $102.75 per share)	$ 16,596	$ 16,596
Class A preferred stock. Authorized 20,000,000 shares	—	—
Common stock, $1 par value per share. Authorized 90,000,000 shares; issued 51,878,910 shares	51,879	51,879
Additional paid in capital	19,693	18,031
Retained earnings	791,150	704,397
Foreign currency translation	(352)	(13,862)
	878,966	777,041
Less treasury stock, at cost:		
Preferred stock, $3.75 cumulative—43,373 shares	3,986	3,986
Common stock: 1986—4,360,256 shares; 1985—3,907,406 shares	62,016	39,683
	66,002	43,669
Total stockholders' equity	812,964	733,372

PIONEER HI-BRED INTERNATIONAL, INC. (AUG)

	1986	1985
	(In Thousands)	
Stockholders' Equity		
Capital stock:		
Non-participating preferred, cumulative rate to be determined, no par value; authorized 10,000,000 shares; issued none	$ 0	$ 0
Common, $1 par value; authorized 70,000,000 shares; issued 32,084,606 shares	32,085	32,085
Additional paid-in capital	9,886	9,884
Retained earnings	474,147	433,595
Cumulative translation adjustment	(2,993)	(11,611)
	$513,125	$463,953
Less:		
Cost of common shares acquired for the treasury, 1986—160,591 shares; 1985—159,273 shares	(391)	(344)
Unearned compensation	(2,125)	(1,796)
	$510,609	$461,813

Par Value of Treasury Stock Deducted from Issued Stock

BADGER METER, INC. (DEC)

	1986	1985
Shareholders' equity:		
Common stock, $1 par; authorized 5,000,000 shares; issued 1,471,444 shares in 1986, 1,460,444 shares in 1985	$ 1,471,444	$ 1,406,444
Less: Treasury stock, 622,885 shares in 1986	(622,885)	—
	848,559	1,460,444
Class B Common Stock, $.10 par; authorized 5,000,000 shares; 622,885 issued and outstanding	62,288	—
Capital in excess of par value	2,650,056	1,917,334
Reinvested earnings	18,094,917	17,621,780
Less:		
Employee benefit stock	(714,546)	(691,614)
Cumulative foreign currency translation adjustments	(253,614)	(253,614)
Total shareholders' equity	20,687,660	20,054,330

THE DUN & BRADSTREET CORPORATION (DEC)

	1986	1985
Shareowners' Equity		
Preferred Stock, par value $1 per share, authorized—10,000,000 shares; outstanding—none		
Common Stock, par value $1 per share, authorized—200,000,000 shares; outstanding—75,997,521 and 76,015,366 shares, excluding 636,950 and 449,854 treasury shares for 1986 and 1985, respectively	$ 75,998,000	$ 76,015,000
Capital in Excess of Par Value	124,317,000	95,166,000
Retained Earnings	1,309,237,000	1,205,848,000
Cumulative Translation Adjustment	(20,722,000)	(21,315,000)
Total Shareowners' Equity	1,488,830,000	1,355,714,000

NORTON COMPANY (DEC)

	1986	1985
	(In millions)	
Shareholders' equity:		
Preferred stock $1 par value; 2,000,000 shares authorized, none issued		
Common stock, $5 par value; 45,000,000 shares authorized, 20,667,111 shares outstanding (20,094,753 shares in 1985) after deducting 531 shares in treasury (18,620 shares in 1985)	$103.3	$100.5
Capital in excess of par value	123.1	116.2
Retained earnings	256.3	330.1
Equity adjustment from foreign currency translation	(29.6)	(47.7)
Total shareholders' equity	453.1	499.1

Cost Of Treasury Stock Classified As Asset

THE ALLEN GROUP INC. (DEC)

	1986	1985
	(in thousands)	
Other Assets		
Goodwill	$ 8,234	$ 7,597
Investments in and net advances from unconsolidated lease finance subsidiaries	23,200	13,048
Other assets (Note 7)	12,540	7,191
Total other assets	43,974	27,836

Note 7: Other Assets

Other assets consisted of the following (amounts in thousands):

	1986	1985
Installment notes receivable	$ 1,606	$ 864
Deferred start-up costs	1,908	2,073
Unamortized debt expense	1,123	642
Noncurrent portion of reacquired common shares, at cost, (261,247 and 57,257 shares at December 31, 1986 and 1985, respectively) to be utilized principally in connection with employee benefit plans (see Note 8)	5,249	981
Capitalized computer software costs	694	433
Other assets	1,960	2,198
	$12,540	$ 7,191

GENERAL MOTORS CORPORATION (DEC)

	1986	1985
	(in Millions)	
Total Current Assets	$26,768.4	$24,256.0
Equity in Net Assets of Nonconsolidated Subsidiaries and Associates (principally GMAC and its subsidiaries	7,232.3	5,718.5
Other Investments and Miscellaneous Assets—at cost (less allowances)	2,308.4	3,069.8
Common Stocks Held for the GM Incentive Program (Note 3)	190.3	190.2

Note 3 (In Part)

Common Stocks Held for the GM Incentive Program

Common stocks held for the GM Incentive Program are stated substantially at cost and are used exclusively for payment of Incentive Program liabilities.

(Dollars in Millions)	1986		1985	
	Shares	Amount	Shares	Amount
Balance at January 1	2,669,664	$190.2	2,072,694	$144.2
Acquired:				
$1-2/3	993,860	74.8	1,629,809	118.7
Class E	334,148	12.9	29,427	1.0
Class H	377,676	15.7	—	—
Delivered:				
$1-2/3	(1,406,299)	(100.8)	(1,023,688)	(73.0)
Class E	(29,721)	(1.0)	(38,578)	(.7)
Class H	(39,256)	(1.5)	—	—
Bal. at Dec. 31:				
$1-2/3	2,228,108	163.2	2,640,547	189.2
Class E	333,544	12.9	29,117	1.0
Class H	338,420	14.2	—	—
Total	2,900,072	$190.3	2,669,664	$190.2

OTHER ACCOUNTS SHOWN IN STOCKHOLDERS' EQUITY SECTION

In recent years there has been a significant increase in the number of survey company balance sheets showing stockholder equity accounts other than Capital Stock, Additional Paid-In Capital, Retained Earnings, and Treasury Stock. Other stockholder equity accounts appearing on the 1986 balance sheets of the survey companies include, but are not limited to, cumulative translation adjustments (345 companies), unearned or deferred compensation related to employee stock award plans (26 companies), guarantees of ESOP debt (20 companies), amounts owed to a company by employees for loans to buy company stock (15 companies), and valuation allowances for marketable equity securities classified as noncurrent assets (18 companies).

During 1986, 116 survey companies distributed stock purchase rights 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.

Cumulative Translation Adjustments

BARNES GROUP INC. (DEC)

	1986	1985
	(in thousands)	
Shareholders' equity		
Preferred stock—par value $1.00 per share Authorized:3,000,000 shares. Issued: none		
Common stock—par value $1.00 per share, Authorized: 30,000,000 shares, Issued: 1986-7,345,923; 1985-7,338,923 shares stated at	$ 15,737	$ 15,730
Additional paid-in capital	28,379	28,304
Retained earnings	115,992	105,858
Foreign currency translation adjustments	(9,095)	(10,363)
	151,013	139,529
Less treasury stock at cost, (1986-961,229; 1985-890,935 shares)	27,988	25,551
	123,025	113,978

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Foreign Currency Translation

The following is an analysis of the changes in the foreign currency translation adjustments component of shareholders' equity:

Dollars in thousands	1986	1985
Balance—January 1	$(10,363)	$(10,982)
Translation adjustments	1,268	619
Balance—December 31	$ (9,095)	$(10,363)

Included in income from continuing operations are foreign currency translation and exchange losses of $376,000 and $332,000 in 1986 and 1985 and a gain of $294,000 in 1984.

BORG-WARNER CORPORATION (DEC)

	1986	1985
	($ millions)	
Shareholders' equity:		
Capital stock:		
Preferred stock, liquidation preference $2.3 million in 1986 and $2.9 million in 1985	$ .1	$ .2
Common stock, 91,824,968 shares issued in 1986 and 1985	229.6	229.6
Capital in excess of par value	147.6	151.5
Retained earnings	1,398.7	1,461.5
Currency translation adjustment	(54.4)	(85.0)
Investment valuation allowance	(39.2)	—
	1,682.4	1,757.8
Less treasury common stock, at cost	157.6	105.3
Total shareholders' equity	1,524.8	1,652.5

NOTES TO FINANCIAL STATEMENTS

Currency Translation Adjustment

Following is an analysis of the change in the currency translation adjustment for the years ended December 31:

(millions of dollars)	1986	1985	1984
Currency translation adjustment at January 1	$(85.0)	$(95.9)	$(67.0)
Current translation adjustments and net asset hedges	21.7	9.9	(27.8)
Amounts allocated to income tax liabilities	.1	1.0	(1.1)
Amounts applicable to Air Conditioning	8.8	—	—
Currency translation adjustment at December 31	$(54.4)	$(85.0)	$(95.9)

The currency translation effect on working capital included in the Statement of Changes in Financial Position reflects the net effect of currency translation resulting from the application of SFAS No. 52 to the elements of the balance sheet.

THE FOXBORO COMPANY (DEC)

	1986	1985
	($000)	
Shareowners' equity:		
Common stock, $1 par value: Authorized, 30,000,000 shares, Issued, 12,570,070 shares	$ 12,570	$12,570
Capital in excess of par value	71,916	71,907
Cumulative translation adjustment	(4,377)	(14,028)
Retained earnings	201,669	195,475
Less treasury stock, at cost: 1986, 256,151 shares; 1985, 216,705 shares	(6,993)	(6,013)
Total shareowners' equity	274,785	259,911

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Translation of foreign currencies:

All assets and liabilities of the Company's foreign subsidiaries in "non-hyperinflationary" economies are translated at exchange rates in effect on reporting dates and income and expenses are translated at rates which approximate those in effect on transaction dates. With some exceptions, differences due to changing translation rates are charged or credited to "cumulative translation adjustment" in shareowners' equity.

For those countries considered "hyperinflationary", exchange rates employed in translation are similar to the above except for inventories, property, plant and equipment and associated cost of sales and depreciation, where historic rates are used. Resulting exchange gains and losses are included in the statements of income.

PREMIER INDUSTRIAL CORPORATION (MAY)

	1986	1985
	(in thousands)	
Shareholders' equity:		
Capital stock:		
Serial preferred, without par value; authorized but unissued 1,500,000 shares	$ —	$ —
Common, par value $1 per share; authorized 35,000,000 shares, issued 29,905,449 in 1986 and 1985, respectively	29,905	29,905
Retained earnings	218,775	190,266
Foreign currency translation adjustment	(821)	(1,655)
Treasury shares at cost (301,680 and 473,814 shares in 1986 and 1985, respectively)	(8,237)	(13,100)
	239,622	205,416

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

(b) Translation of Foreign Currencies

The Company translates foreign currency financial statements by translating balance sheet accounts at the current exchange rate and income statement accounts at the average exchange rate for the year. Translation gains and losses are recorded in shareholders' equity, and realized gains and losses are reflected in income.

RORER GROUP INC. (DEC)

	1986	1985
	($000)	
Shareholders' Equity		
Preferred shares, without par value; shares authorized, 3,000,000; shares issued, none		
Common shares, without par value; stated value $1 per share; shares authorized; 1986, 100,000,000 shares; 1985, 50,000,000 shares; issued and outstanding at stated value; 1986, 21,803,355; 1985, 21,627,153	$ 21,803	$ 21,627
Capital in excess of stated value	27,148	21,954
Retained earnings	337,574	236,439
Cumulative translation adjustments	3,853	(14,368)
Total shareholders' equity	390,378	265,652

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in Thousands)

Note 15. Foreign Currency Translation

In accordance with the provisions of Financial Accounting Standards Board Statement No. 52, "Foreign Currency Translation" (SFAS 52), foreign currency assets and liabilities are translated into U.S. dollars at the current exchange rate in effect at year end. All income and expenses are translated at the weighted average exchange rates during the year. Translation adjustments result from the process of translating foreign currency financial statements into U.S. dollars. These translation adjustments, which are generally not included in the determination of net income, are reported separately as a component of shareholders' equity.

Foreign currency transaction gains and losses result from the effect of exchange rate fluctuations on certain foreign currency transactions. Transactions that are designated as and are effective as economic hedges, resulted in losses that are included in the separate component of shareholders' equity. Losses of $316, net of taxes of $285, and $1,106, net of taxes of $189, were included in the separate component of equity in 1986 and 1985, respectively. Transaction gains and losses not designated as economic hedges are not significant.

Unearned Compensation Relating To Stock Award Plans

KRAFT, INC. (DEC)

	1986	1985
	(in millions)	
Shareholders' equity		
Preferred stock, $5.00 par value; authorized 150,000,000 shares; issued—none	$ —	$ —
Common stock, $1.00 par value; authorized 600,000,000 shares; issued 164,735,955 shares	164.7	164.7
Additional paid in capital	33.2	317.5
Retained earnings	2,810.9	3,191.8
Treasury stock, 29,457,022 shares in 1986 and 20,402,106 shares in 1985, at cost	(1,074.9)	(503.3)
Unearned portion of restricted stock issued for future services	(.9)	(1.0)
Cumulative foreign currency adjustments	(135.0)	(289.5)
Total shareholders' equity	1,798.0	2,880.2

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 7 (In Part): Retirement and Incentive Compensation Plans

A Restricted Stock Plan provides for awards of common stock to selected employees, subject to forfeiture if employment terminates prior to the end of the prescribed restricted period. At December 27, 1986, certain employees held 67,345 shares of restricted common stock of the company. The company's Performance Unit Plan provides for awards of cash and/or common stock of the company to selected employees, based upon the attainment of prescribed performance criteria. At December 27, 1986, there were 5,675,026 shares reserved for issuance under these plans.

NORTHROP CORPORATION (DEC)

	1986	1985
	($ millions)	
Shareholders' equity		
Paid-in capital		
Preferred stock, 10,000,000 shares authorized, None issued		
Common stock, 200,000,000 shares authorized, Issued and outstanding: 1986-46,587,034; 1985-46,298,621	$176.8	$161.6
Retained earnings	740.9	755.5
Unvested employee restricted award shares	(19.0)	(18.1)
	898.7	899.0

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (In Part)

Long-Term Incentive Plans

Restricted award shares are granted to key employees without payment to the corporation. Recipients have all of the rights of shareholders except that the shares are deposited with the company and cannot be disposed of until the restrictions have lapsed. On the date of grant, the market price of the shares is added to paid-in capital and an equal amount is deducted from shareholders' equity (unvested employee restricted award shares). The unvested amount is amortized to compensation expense over the vesting period, generally 10 years.

The company records compensation expense for stock appreciation rights (SARs) in a liability account which is adjusted for fluctuations in the market value of the corporation's common stock through additions to or deductions from income as market value increases or decreases. When employees exercise SARs that were issued concurrently with stock options, they are paid the difference between the fair market value and the option price of the shares covered by the surrendered option. If paid in cash, this amount is deducted from the liability established for such benefits. If payment is made in shares of the corporation's common stock, the previously established liability is added to paid-in capital.

When employees exercise stock options that were issued concurrently with SARs, the proceeds, together with the liability accrued to satisfy the SARs, are added to paid-in capital.

When stock options that are not accompanied by SARs are exercised, the amount of the proceeds are added to paid-in capital. There are no additions to or deductions from income in connection with these options.

RALSTON PURINA COMPANY (SEP)

	1986	1985
	(Dollars in millions)	
Shareholders Equity		
Preferred stock, $1 par value, authorized 6,000,000 shares-None outstanding		
Common stock, $.41⅔ par value, authorized 180,000,000 shares-Issued 114,493,340 shares in 1986 and 114,183,388 in 1985	$ 47.7	$ 47.6
Capital in excess of par value	228.0	189.6
Retained earnings	1,893.3	1,588.4
Cumulative translation adjustment	(37.5)	(54.4)
Common stock in treasury, at cost, 38,249,230 shares in 1986 and 33,999,297 in 1985	(1,099.4)	(846.7)
Unearned portion of restricted stock	(33.2)	
Total Shareholders Equity	998.9	924.5

NOTES TO FINANCIAL STATEMENTS

Shareholders Equity (In Part)

The unvested amount at September 30, 1986 of restricted stock issued at market during the fiscal year under the 1982 Incentive Stock Plan is reflected as a reduction in shareholders equity.

SUNDSTRAND CORPORATION (DEC)

	1986	1985
	(in thousands)	
Stockholder's Equity		
Common Stock, par value $1; authorized 50,000,000 shares; issued 1986-18,921,507 shares, 1985-18,921,507 shares	$ 18,921	$ 18,921
Additional contributed capital	130,921	128,244
Retained earnings	476,774	465,117
Foreign currency translation adjustment	(7,152)	(8,365)
Treasury Common Stock at cost; 1986-166,001 shares, 1985-254,138 shares	(5,705)	(8,651)
Unamortized value of restricted stock issued	(9,090)	(6,137)
	604,669	589,129

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Restricted Stock Plans

During 1986 and 1985, in accordance with the terms of the Sundstrand restricted stock plans, which were approved by the stockholders, 86,500 and 1,000 shares, respectively, of Common Stock were sold to key managerial employees at a price substantially below market price. This Common Stock may not be resold, except to Sundstrand, until the restrictions placed on these shares expire. The amount of compensation represented by the sale of restricted stock is being amortized over a nine-year vesting period. At December 31, 1986, 105,070 shares were available for granting under restricted stock plans.

Guarantee Of ESOP Debt

AVERY INTERNATIONAL CORPORATION (NOV)

	1986	1985
	($000)	
Shareholders' equity:		
Common stock, $1 par value	$ 19,926	$ 19,847
Capital in excess of par value	65,478	63,892
Retained earnings	291,534	256,840
Cumulative foreign currency translation adjustment	(8,988)	(24,734)
Guarantee of Employee Stock Accumulation Plan (ESAP) borrowings	(17,940)	(1,390)
Total shareholders' equity	350,010	314,455

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 8 (In Part): Shareholders' Equity

In 1985, the Company established an Employee Stock Accumulation Plan for its domestic employees who are not covered by a collective bargaining agreement. During 1986, this plan borrowed $16,550,000 to purchase 430,480 shares of the Company's common stock, primarily from related parties, at market prices ranging from $35.00 to $45.75 per share. During 1985, this plan borrowed $1,390,000 to purchase 40,000 shares of common stock, primarily from related parties, at market prices ranging from $32.56 to $35.88 per share. The obligation of this plan to repay these borrowings is guaranteed by the Company; therefore, the unpaid balance of the borrowings has been reflected in the accompanying consolidated balance sheet as a liability, and an equal amount, representing deferred employee benefits, has been recorded as a deduction from shareholders' equity.

THE STANLEY WORKS (DEC)

	1986	1985
	($000)	
Stockholders' Equity-Note I		
Preferred Stock, without par value: Authorized and unissued 10,000,000 shares		
Common Stock, par value $2.50 per share: Authorized 55,000,000 shares; issued 42,737,948 shares in 1986 and 28,253,730 shares in 1985	106,845	70,634
Capital in excess of par value	9,333	45,676
Retained earnings	521,874	469,332
Foreign currency translation adjustment	(46,308)	(49,335)
Debt guarantee for ESOP	(32,363)	(23,000)
	559,381	513,307
Less cost of Common Stock in treasury (174,254 shares in 1986 and 403,182 shares in 1985)	3,919	10,718
Total Stockholders' Equity	555,462	502,589

Note I (In Part): Long-Term Debt and Credit Arrangements

The Composition of long-term debt, in thousands of dollars, at the end of each year was as follows:

	1986	1985
Sinking Fund Debentures Due 2016, payable in annual sinking fund payments of not less than $3,563,000 beginning in 1997 with interest at 9¼%	$ 75,000	
Notes payable in 1996 with interest at 8¼%	75,000	
European Currency Unit (ECU) notes payable in 1993 with interest at 7¾%	59,521	
Borrowings under Revolving Credit Agreement with interest at 7½%	37,500	
Notes payable at 12.41%	37,500	
ESOP loan guarantee, primarily payable in varying monthly installments to 1993 with interest at 5.1%	32,363	
ESOP loan guarantee, payable in varying monthly installments to 1990 with interest at 7.505%		$23,000
Capital lease obligations due in varying annual installments to 2019 with interest at rates ranging from 6% to 13.95%	22,020	24,995
Other	39,280	40,239
	378,184	88,234
Less current maturities	14,767	6,818
	$363,417	$81,416

The net book value of property, plant and equipment subject to the capital lease obligations was $17,000,000 at January 3, 1987. Reference is made to Note O for additional information.

On April 2, 1986, the Company sold $75,000,000 of 8¼% Notes Due 1996 and $75,000,000 of 9¼% Sinking Fund Debentures Due 2016. On August 26, 1986, a United Kingdom subsidiary issued ECU 55,000,000 (U.S. $56,455,000) seven year notes at 7¾% which are guaranteed by the Company.

In 1985 and 1986, the Company's Employee Stock Ownership Plan (ESOP) borrowed monies guaranteed by the Company to acquire a total of 1,735,198 shares of its stock. The Company and its actuaries believe this debt will be serviced by the ESOP from employee contributions and dividends. However, current financial reporting practice requires this contingent liability to be recorded as debt with a corresponding charge to Stockholder's Equity.

THE QUAKER OATS COMPANY (JUN)

	1986	1985
	(in millions)	
Common Shareholders' Equity:		
Common stock, $5 par value, issued 41,994,698 shares; and 20,997,349 shares respectively	$210.0	$210.0
Additional paid-in capital	.6	3.4
Reinvested earnings	847.7	728.4
Cumulative exchange adjustment	(67.9)	(103.2)
Deferred compensation	(20.0)	—
Treasury common stock, at cost	(139.3)	(51.7)
Total common shareholders' equity	831.1	786.9

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 9. Deferred Compensation

As described in Note 7, during fiscal year 1986, the Company borrowed $20 million, which was concurrently loaned to the Quaker Employee Stock Ownership Plan Trust ("ESOP") on the same terms. With the proceeds, the ESOP purchased approximately 390,000 shares of the Company's common stock in the open market at an average price of $51.39 per share.

The loan has been recorded as long-term debt on the Company's consolidated balance sheet. A like amount of deferred compensation is recorded as a reduction of common shareholders' equity. Deferred compensation included as a component of shareholders' equity represents the Company's prepayment of future compensation expense. As the Company makes annual contributions to the ESOP, these contributions, plus the dividends accumulated on the Company's common stock held by the ESOP, will be used to repay the loan to the Company. As the loan is repaid, common stock is allocated to ESOP participants and deferred compensation is reduced by the amount of the principal payment on the loan. The first annual payment on the loan, including interest, was made on July 15, 1986 in the amount of $2.9 million and 37,232 shares of common stock were allocated to ESOP participants.

Investment Valuation Allowances

THE SINGER COMPANY (DEC)

	1986	1985
	(in Millions)	
Shareholders' equity:		
Preferred stock (liquidation preferences: 1986-$143.6 million; 1985-$160.2 million)	$ 18.7	$ 22.0
Common stock (authorized 50,000,000 shares; issued: 1986-20,964,694 shares; 1985-17,265,147 shares)	209.6	172.7
Additional paid-in capital	121.4	41.4
Retained earnings	269.5	361.5
Unrealized loss on marketable equity security	(12.9)	—
Equity adjustment from currency translation	.7	(34.0)
Total shareholders' equity	607.0	563.6

NOTES TO FINANCIAL STATEMENTS

9 (In Part): Investments

Summary of Investments at December 31,	1986	1985
	(Amounts in Millions)	
Investment in SSMC	$38.4	$ —
Singer Credit Corporation	4.4	23.5
Other	13.1	15.4
	$55.9	$38.9

The investment in SSMC is carried at cost and is comprised of 923,832 shares, or 15% of SSMC's outstanding common stock and all of the 125,000 shares of outstanding Series B Non-Voting Convertible Preferred Stock of SSMC, which was retained by Singer in conjunction with the spin-off of SSMC. The shares of preferred stock are convertible into SSMC's common stock at an initial conversion rate of eight shares of SSMC's common stock for each share of preferred stock.

As of December 31, 1986, the value ascribed to the investment in SSMC Common Stock exceeded the market value of that investment by $12.9 million, based on the closing price of $14.50 as listed in *The Wall Street Journal*—Composite Transactions. Accordingly, the unrealized loss was recorded as a separate component of shareholders' equity.

UNIVERSAL LEAF TOBACCO COMPANY, INCORPORATED (JUN)

	1986	1985
	($000)	
Shareholders' Equity		
Common stock, no par value, authorized 24,000,000 shares, issued and outstanding 17,202,652 shares	$ 14,533	$ 17,492
Treasury stock		(24,497)
Retained earnings	281,678	274,068
Foreign currency translation adjustments	(8,314)	(8,770)
Net unrealized investment gains (Note 7)	5,877	2,724
Total shareholders' equity	293,774	261,017

Note 7: Investments

An analysis of investments as of June 30, 1986 and 1985 follows:

	Cost	Market	Carrying Value
1986			
Title insurance operations:			
Bonds	$77,033	$83,431	$ 77,033
Marketable equity securities	40,016	48,177	48,177
Mortgage loans	2,507	2,507	2,507
			127,717
Other investments	814	6,438	814
Total			128,531
1985			
Title insurance operations:			
Bonds	61,698	65,302	61,698
Marketable equity securities	29,671	33,454	33,454
Mortgage loans	3,693	3,693	3,693
			98,845
Other investments	$ 1,893	$ 6,137	1,893
Total			$100,738

Realized gains on the sale of investments included in "Income Before Income Taxes and Other Items" were $6,307 and $3,334 in 1986 and 1985, respectively.

Unrealized investment gains reflected in shareholders' equity at June 30, 1986 and 1985 are net of $2,284 and $1,059 of deferred taxes, respectively. Gross unrealized investment losses at June 30, 1986 and 1985 were not material.

Receivable From Sale of Stock

BAIRD CORPORATION (SEP)

	1986	1985
Stockholders' equity:		
Common stock of $1 par value per share		
Authorized 5,000,000 shares; issued 2,244,786 shares in 1986, 2,238,323 shares in 1985 (net of treasury stock at par value of 16,940 shares and 13,100 shares, in 1986 and 1985 respectively)	$ 2,227,846	$ 2,225,223
Other paid-in capital	14,610,937	14,603,740
Installments receivable from officers (note 3)	(133,650)	(138,650)
Foreign currency translation	(45,303)	(422,025)
Retained earnings	5,387,716	4,506,622
Total stockholders' equity	22,047,546	20,774,910

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. Installments Receivable from Officers

In 1975 and subsequently, the Company sold 186,970 shares of common stock to certain officers for an aggregate of $369,813. The related receivable outstanding at September 30, 1986, will be paid in a final installment of $133,650 in fiscal 1987.

COLECO INDUSTRIES, INC. (DEC)

	1986	1985
	(in thousands)	
Stockholders' Equity:		
Preferred stock—$1 par value, 300,000 shares authorized; no shares issued		
Common stock—$1 par value, 75,000,000 shares authorized; 1986—17,139,558 shares issued, 1985—16,997,725 shares issued	$17,140	$ 16,998
Common stock subscribed	11	157
Capital in excess of par value	23,284	22,222
Retained earnings (deficit)	(43,813)	67,436
Equity adjustment from translation	(3,589)	(3,927)
	(6,967)	102,886
Treasury stock at cost, 42,000 shares	(648)	
Subscriptions receivable	(49)	(534)
Total stockholders' equity	(7,664)	102,352

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Long-Term Incentive Plan—For stock subscription rights, the excess of the fair market value of the shares subscribed over the purchase price of the shares is charged to compensation expense and credited to capital in excess of par value ratably over the restriction period (generally four years). Subscriptions receivable representing the purchase price of the shares is deducted from stockholders' equity. For restricted stock, the fair market value of the shares is charged to compensation expense and credited to capital in excess of par value ratably over the restriction period (generally five years).

Note 6 (In Part): Long-Term Incentive Plan

The 1981 Long-Term Incentive Plan for officers and key employees of the Company provides for various types of awards. These awards include stock subscription rights, restricted stock and non-qualified and qualified incentive stock options. The number of shares authorized under the Plan at December 31, 1986 is 2,744,445, of which 492,000, 256,000 and 547,000 shares were available for award at December 31, 1986, 1985 and 1984, respectively.

Stock subscription rights granted under the Plan generally provide for a subscription price equal to one-third of the fair market value of the common stock on the date of grant. Changes in stock subscription rights under the Plan were as follows:

(Amounts in thousands, except per share data)	Number of Shares	Subscription Price Per Share	Total
Subscription rights outstanding at December 31, 1983	464	$2.96-$7.54	$1,400
Granted	60	$4.42	265
Exercised	(36)	$2.96-$4.42	(128)
Canceled	(72)	$2.96	(213)
Subscription rights outstanding at December 31, 1984	416	2.96-$7.54	1,324
Granted	60	$4.17	250
Exercised	(308)	$2.96-$7.54	(1,007)
Canceled	(11)	$2.96	(33)
Subscription rights outstanding at December 31, 1985	157	$2.96-$7.54	534
Exercised	(137)	$2.96-$7.54	(445)
Canceled	(9)	$4.42	(40)
Subscription rights outstanding at December 31, 1986	11	$4.42	$ 49

Receivables arising from the granting of subscription rights bear interest at rates up to 9% and are payable in annual installments through 1988.

Stock Purchase Rights

COLGATE-PALMOLIVE COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

11 (In Part): Shareholders' Equity

Common Stock

The common stock consists of 250,000,000 authorized shares, $1 par value, of which 70,025,577 and 70,659,156 shares were outstanding at December 31, 1986 and 1985, respectively.

In September 1985, the Company completed a cash tender offer for 12,000,000 shares of its common stock at an offer price of $29.50 per share. At that time, the Board of Directors authorized the purchase by the Company of up to an additional 3,000,000 shares, of which 1,000,000 shares were repurchased during 1986.

At the respective year-ends, 380,114 and 376,616 shares had been purchased and held for distribution under the Executive Incentive Compensation Plan, which provides for cash and common stock awards for officers and other executives of the Company and its major subsidiaries. The cost of these shares totaled $8,438 at December 31, 1986, and $7,653 at December 31, 1985, and has been offset against the related noncurrent liability in the consolidated balance sheet.

On December 31, 1986, the Company had outstanding 70,025,577 common stock purchase rights ("Rights"). The Rights were originally issued in October 1984 as a dividend to holders of the common stock at the rate of one Right for each share of common stock outstanding. Each Right entitles the holder thereof, until October 31, 1994, to buy one-half (½) of a share of common stock at an exercise price of $37.50. The exercise price and the number of shares of common stock issuable upon the exercise of the Rights are subject to adjustment in certain cases to prevent dilution. The Rights are evidenced by the common stock certificates and are not exercisable, or transferable apart from the common stock, until ten days after a person acquires 20% or more or makes a tender offer for 30% or more of the common stock. In the event the Company is acquired in a merger or other business combination transaction (including one in which the Company is the surviving corporation), it is provided that each Right will entitle its holder to purchase, at the then current exercise price of the Right, that number of shares of common stock of the surviving company which at the time of such transaction would have a market value of two times the exercise price of the Right. The Rights do not have any voting rights and are redeemable, at the option of the Company, at a price of $0.10 per Right prior to any person acquiring beneficial ownership of at least 20% of the common stock. The Rights expire on October 31, 1994. So long as the Rights are not separately transferable, the Company will issue one Right with each new share of common stock issued.

EATON CORPORATION (DEC)

FINANCIAL REVIEW

Shareholders' Equity (In Part)

There are 150 million Common Shares authorized. Since September 1985, each outstanding Common Share has one share purchase right (Right), which entitles holders to buy from the Company one additional Common Share at an exercise price of $150. The Rights become exercisable if a person or group acquires, or tenders for, 20% or more of the Company's Common Shares. The Company is entitled to redeem the Rights at 10 cents per Right at any time before any person or group has acquired 20% of its Common Shares. Upon a merger or similar transaction between the Company and a party owning 20% or more of the Company's Common Shares, each Right, other than those held by the acquiring party, entitles the holder effectively to buy $300 worth of the shares of the surviving company at a 50% discount. The Rights expire on October 8, 1995.

HALLIBURTON COMPANY (DEC)

	1986	1985
	(In thousands)	
Shareholders' Equity		
Preferred stock, no par value—authorized 5,000,000 shares, none issued		
Series A junior participating preferred stock, no par value—authorized 2,000,000 shares, none issued (Note 10)		
Common stock, par value $2.50 per share—authorized 200,000,000 shares, issued 119,051,700 and 118,868,701 shares respectively	$ 297,629	$ 297,172
Paid-in capital in excess of par value	127,329	121,447
Retained earnings	2,122,057	2,764,705
	2,547,015	3,183,324
Less treasury stock—13,141,420 and 10,219,198 shares, respectively, at cost	396,843	325,470
Total shareholders' equity	2,150,172	2,857,854

Note 10. Series A Junior Participating Preferred Stock

On May 20, 1986, the Company declared a dividend of one preferred stock purchase right (a "Right") on each outstanding share of common stock, par value $2.50 per share (the "Common Shares"). Under certain circumstances each Right will entitle the holder thereof to buy one one-hundredth of a share of a newly created Series A Junior Participating Preferred Stock, without par value (the "Preferred Shares"), of the Company at an exercise price of $70.00, subject to adjustment. The Rights will not be exercisable or transferable apart from the Common Shares, until the earlier to occur of (i) 10 days following a public announcement that a person or group has acquired 20% or more of the Common Shares or (ii) 10 days following the announcement by a person or group of an intention to make an offer for 30% or more of the Common Shares. The Rights will not have any voting rights or be entitled to dividends.

If, after the Rights become exercisable, the Company is a party to a merger or other business combination transaction, each Right will entitle its holder to purchase, at the exercise price of the Right, that number of shares of common stock of the acquiring company which at the time of such transaction would have a market value of two times the exercise price of the Right. Alternatively, if a 20% or more holder were to acquire the Company by means of a reverse merger in which the Company and its stock survive, or were to engage in certain "self dealing" transactions, each Right not owned by the 20% or more holder would become exercisable for the number of Common Shares which, at that time, would have a market value of two times the exercise price of the Right.

The Rights are redeemable at $.05 per Right at any time prior to the time that a person or group acquires beneficial ownership of 20% or more of the Common Shares. The Rights will be redeemable at such redemption price at the option of the Company's board of directors if the ownership percentages of such person or group should drop below 10% in a transaction or series of transactions not involving the Company. The Rights will expire on June 1, 1996.

KERR-McGEE CORPORATION (DEC)

	1986	1985
	(in millions)	
Stockholders' Equity		
Common stock, par value $1.00—150,000,000 shares authorized, 53,006,559 shares issued in 1986 and 53,004,110 shares issued in 1985	$ 53	$ 53
Capital in excess of par value	230	230
Preferred stock purchase rights	1	—
Retained earnings	1,192	1,538
	1,476	1,821
Less common stock in treasury, at cost—4,648,489 shares in 1986 and 3,305,389 shares in 1985	138	99
Total Stockholders' Equity	1,338	1,722

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

15 (In Part): Stockholders' Equity

In 1986, the company's Board of Directors adopted a stockholder-rights plan, and such rights were distributed as a dividend at the rate of one right for each share of the company's common stock. The rights may be exercised beginning 10 days after a person or group acquires 20 percent or more of the company's common stock or announces a tender offer that could result in the person or group owing at least 30 percent of the company's stock. Subject to possible extension, the rights may be redeemed by the company at $.05 per right at any time until 10 days after 20 percent or more of Kerr-McGee's stock is acquired by a person or group. Once exercisable, unless redeemed within the time permitted under the plan, each right entitles the holder to buy 1/100 of a share of Kerr-McGee's Series A Junior Participating Preferred Stock for $85. In the event the company is acquired in a merger or other business combination transaction, each right would entitle the holder to buy, at the exercise price of $85, the number of shares of the acquiring company's common stock having a market value of $170 or twice the right's exercise price. Unless redeemed earlier, the rights expire in 1996.

Warrants

RAYTECH CORPORATION (FORMERLY RAYMARK CORPORATION)

	1986	1985
	($000)	
Shareholders' Equity		
Capital stock		
Cumulative preference stock, no par value, 800,000 shares authorized, none issued & outstanding		
Common stock, par value $1.00 and $12.50 in 1986 and 1985, respectively, 11,000,000 and 4,000,000 shares authorized in 1986 and 1985, respectively, 2,986,806 and 2,860,806 shares issued & outstanding in 1986 and 1985, respectively	$ 2,987	$35,760
Common stock warrants—4,000,000 authorized in 1986, 3,072,135 issued and outstanding	3,072	—
Additional paid in capital	53,447	19,099
Accumulated deficit	(46,256)	(50,944)
Cumulative translation adjustment	2,277	(282)
Total shareholders' equity	15,527	3,633

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

($000's omitted)

Note A: Formation of Raytech Corporation

On October 10, 1986, the shareholders of Raymark approved a plan of merger whereby Raymark became a wholly owned subsidiary of Raytech Corporation. Management believes that the formation of the holding Company is intended to provide a means to gain access to new sources of capital and borrowed funds which could be used to finance the acquisition and operation of new businesses in a corporate structure that should not subject Raytech or such acquired businesses to the asbestos-related liabilities of its principal subsidiary, Raymark. Additionally, the shareholders approved a proposal to amend Raymark's Restated Certificate of Incorporation to reduce the par value of Raymark common stock from $12.50 to $1.00. Accordingly, the shareholders' equity section in the accompanying 1986 balance sheet was adjusted to reflect the par value reduction by reducing common stock and increasing additional paid in capital by $34,348. Effective October 15, 1986, each share of common stock of Raymark was automatically converted into both a share of Raytech common stock and a right to purchase a warrant for Raytech common stock. Each Warrant entitles the holder to purchase one share of Raytech common stock at a price of $9.00 at any time, subject to certain limitations, prior to October 1, 1991. At December 28, 1986, 3,072,135 of these warrants were purchased for $1.00 each and the amount of $3,072 is included in the shareholders' equity section in the accompanying 1986 balance sheet. After giving effect to the merger, Raytech now has an authorized capital structure consisting of 11,000,000 shares of Raytech common stock with a par value of $1.00, and 800,000 shares of preferred stock without par value. Raytech is now reserving approximately 4.5 million shares of its authorized stock for possible issuance upon exercise of the warrants and employee stock options.

Section 3: Income Statement

TITLE OF INCOME STATEMENT

Table 3-1 summarizes the key word terms used in income statement titles.

TABLE 3-1: INCOME STATEMENT TITLE

	1986	1985	1984	1983
Income	315	319	321	329
Earnings	150	155	166	167
Operations	124	116	108	98
Other	11	10	5	6
Total Companies	**600**	**600**	**600**	**600**

INCOME STATEMENT FORMAT

Prior to 1984, a majority of the survey companies presented a single-step income statement. Table 3-2 shows that starting in 1984 a majority of the survey companies present a multiple-step income statement. A substantial number of income statements, both single-step and multiple-step, show income taxes, or equity in operating results of investees, or minority interest as a separate caption immediately preceding *net income* or *income before extraordinary item*.

Effective for fiscal years ending after December 15, 1980, the Securities and Exchange Commission requires that annual reports to stockholders include a statement of income presenting the 3 most recent fiscal years.

TABLE 3-2: INCOME STATEMENT FORMAT

	1986	1985	1984	1983
Single-step Form				
Federal income tax shown as separate last item	264	265	275	291
Federal income tax listed among operating items	11	15	20	23
Multiple-step Form				
Costs and expenses deducted from sales to show operating income	201	181	169	155
Costs deducted from sales to show gross margin	124	139	136	131
Total Companies	**600**	**600**	**600**	**600**

REVENUES AND GAINS

Paragraphs 78 and 82 of FASB *Statement of Financial Accounting Concepts No. 6* define revenues and gains.

78. Revenues are inflows or other enhancements of assets of an entity or settlements of its liabilities (or a combination of both) from delivering or producing goods, rendering services, or other activities that constitute the entity's ongoing major or central operations.

82. Gains are increases in equity (net assets) from peripheral or incidental transactions of an entity and from all other transactions and other events and circumstances affecting the entity except those that result from revenues or investments by owners.

Paragraphs 19 and 26 of *APB Opinion No. 30* comment on the presentation and disclosure of gains.

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, items shown after the caption for income taxes (Table 3-15), and extraordinary gains (Table 3-16). Examples of revenues and gains follow.

TABLE 3-3: REVENUE CAPTION TITLE

	1986	1985	1984	1983
Net Sales				
Net sales	362	363	370	368
Net sales and operating revenues	10	10	10	9
Net sales combined with other terms	11	9	7	11
Sales				
Sales	83	90	95	94
Sales and operating revenue	21	24	24	22
Sales combined with other terms	14	13	13	18
Other Captions				
Revenue	91	82	74	72
Gross sales, income, billings, shipments, etc.	8	9	7	6
Total Companies	**600**	**600**	**600**	**600**

REVENUES

THE AMERICAN SHIP BUILDING COMPANY (SEP)

	1986	1985	1984
		(In thousands)	
Revenues	$83,022	$194,349	$117,264
Costs and expenses	82,554	184,320	117,363
Operating income (loss)	468	10,029	(99)

ANALOGIC CORPORATION (JUL)

	1986	1985	1984
Revenues:			
Product and service, net	$126,770,725	$128,756,885	$143,706,375
Engineering and licensing	9,998,917	3,262,486	4,205,534
Gain on sale of patient monitoring technology	7,315,283		
Interest and dividend income	4,125,715	3,945,810	4,529,532
Total revenues	148,210,640	135,965,181	152,441,441

EAGLE-PICHER INDUSTRIES, INC. (NOV)

	1986	1985	1984
		(In thousands)	
Net Sales	$648,337	$641,736	$663,929
Operating Costs and Expenses			
Cost of products sold	521,613	523,315	545,647
Selling and administrative	55,202	57,089	57,967
	576,815	580,404	603,614
Operating Income	71,552	61,332	60,315

FOSTER WHEELER CORPORATION (DEC)

	1986	1985	1984
		(In thousands)	
Revenues			
Operating revenues	$1,257,858	$1,227,758	$1,326,859
Other income (including interest: 1986—$17,042; 1985—$18,128; 1984—$26,353)	37,317	29,274	36,239
Total Revenues	1,295,175	1,257,032	1,363,098

THE GREAT ATLANTIC & PACIFIC TEA COMPANY, INC. (FEB)

	1986	1985	1984
		(In thousands)	
Sales	$6,615,422	$5,878,286	$5,222,013
Cost of merchandise sold	5,043,440	4,523,275	4,041,033
Gross margin	1,571,982	1,355,011	1,180,980

THE PERKIN-ELMER CORPORATION (JUL)

	1986	1985	1984
		(In thousands)	
Net sales	$1,290,558	$1,304,612	$1,182,256
Cost of sales	726,975	732,863	687,633
Gross margin	563,583	571,749	494,623

PHELPS DODGE CORPORATION (DEC)

	1986	1985	1984
		(In thousands)	
Sales and other operating revenues	$845,941	$886,635	$910,067
Operating costs and expenses			
Cost of products sold	689,153	732,688	899,596
Depreciation depletion and amortization	54,858	55,287	59,836
Selling and general administrative expense	28,761	30,830	35,863
Exploration and research expense	8,990	9,824	14,173
Provision for loss on restructuring	—	—	110,000
	781,762	828,629	1,119,468
Operating income (loss) from continuing operations	64,179	58,006	(209,401)

TYSON FOODS, INC. (SEP)

	1986	1985	1984
		(In thousands)	
Sales	$1,503,719	$1,135,712	$750,112
Cost of Sales	1,271,928	954,425	651,901
	231,791	181,287	98,211

TABLE 3-4: GAINS

	Number of Companies			
	1986	**1985**	**1984**	**1983**
Interest	277	278	272	268
Disposition of assets	158	149	120	133
Equity in earnings of investees	108	106	119	116
Dividends	83	73	64	54
Foreign currency	80	67	61	66
Pension plan settlements	28	4	3	—
Royalties	25	29	31	28
Rentals	14	12	15	18
Early retirement of debt	8	16	28	21
Litigation settlements	8	13	12	8

GAINS

Interest Income

THE DOW CHEMICAL COMPANY (DEC)

	1986	1985	1984
		(In millions)	
Net sales	$11,113	$10,500	$10,679
Operating costs and expenses			
Cost of sales	8,332	8,578	8,789
Selling and administrative	1,496	1,285	1,054
Restructuring charge	—	592	157
Total operating costs and expenses	9,828	10,455	10,000
Operating income	1,285	45	679
Other income (expense)			
Equity in earnings of related companies:			
Nonconsolidated subsidiaries	54	48	23
20%-50% owned companies	(6)	151	50
Interest income	78	79	89
Capitalized interest	36	28	28
Interest and amortization of debt discount and expense	(383)	(413)	(460)
Gains on foreign currency transactions	30	52	14
Gains on sale of investments	—	—	183
Sundry income—net	142	40	57
Income before provision for taxes on income	1,236	30	663

POTLATCH CORPORATION (DEC)

	1986	1985	1984
		(In thousands)	
Net sales	$976,373	$950,323	$993,910
Costs and expenses:			
Depreciation, amortization and cost of fee timber harvested	64,391	61,225	59,545
Materials, labor and other operating expenses	722,050	747,698	780,688
Selling, administrative and general expenses	60,343	61,003	53,548
	846,784	869,926	893,781
Earnings from operations	129,589	80,397	100,129
Interest expense, net of capitalized interest of $2,799 ($593 in 1985 and $49 in 1984)	(26,755)	(22,139)	(24,482)
Interest income	3,131	5,820	4,507
Other income (expense), net	1,603	(8,819)	(3,396)
Earnings before taxes on income	107,568	55,259	76,758

ELCOR CORPORATION (JUN)

	1986	1985	1984
Sales	$115,357,145	$129,008,980	$162,731,840
Costs and Expenses			
Cost of goods sold	85,555,240	110,332,315	134,298,674
Selling, general and administrative	19,294,821	19,744,193	20,802,618
Income (Loss) From Operations	10,507,084	(1,067,528)	7,630,540
Other Income (Expense)			
Interest expense, net of interest income of $240,164, $207,087, and $324,432	(3,540,280)	(4,047,971)	(4,314,493)
Provision for closing certain subsidiary operations	—	(4,615,000)	—
Gain on dispositions of assets	560,107	2,310,704	—
Income (Loss) from Continuing Operations before Federal Income Taxes	7,526,911	(7,419,795)	3,316,055

SYNTEX CORPORATION (JUL)

	1986	1985	1984
		(In thousands)	
Net sales	$980,038	$849,494	$799,709
Costs and expenses:			
Cost of goods sold	233,260	220,263	214,117
Selling, general and administrative	373,899	330,255	316,313
Research and development	143,024	122,505	111,651
Total	750,183	673,023	642,081
Operating income	229,855	176,471	157,628
Nonoperating income (expense):			
Interest income	43,072	37,909	34,450
Interest expense	(27,161)	(32,641)	(33,512)
Other	(2,937)	2,038	(3,283)
Total	12,974	7,306	(2,345)
Income before taxes on income	242,829	183,777	155,283

GENERAL SIGNAL CORPORATION (DEC)

	1986	1985	1984
		(In thousands)	
Net sales	$1,583,368	$1,800,878	$1,786,883
Costs and expenses:			
Cost of sales	1,114,564	1,278,648	1,240,037
Selling, general, and administrative expenses	348,656	372,703	362,562
Provision for restructuring	—	72,000	—
	1,463,220	1,723,351	1,602,599
Operating earnings	120,148	77,527	184,284
Interest income	9,422	11,706	11,605
Interest expense	(12,023)	(9,044)	(7,434)
Earnings before income taxes	117,547	80,189	188,455

Sale of Assets

DOW JONES & COMPANY, INC. (DEC)

	1986	1985	1984
		(In thousands)	
Revenues:			
Advertising	$678,247	$632,277	$589,607
Circulation	264,350	245,216	234,631
Information services, book publishing and other	192,270	163,425	141,382
Total revenues	1,134,867	1,040,918	965,620
Expenses:			
News, production and delivery	287,656	272,870	254,089
Selling, administrative and general	314,126	277,539	248,273
Newsprint	119,277	114,300	112,117
Second class postage and alternate delivery	85,394	81,434	77,631
Depreciation	64,784	52,079	43,323
Operating expenses	871,237	798,222	735,433
Operating income	263,630	242,696	230,187
Other Income (Deductions):			
Investment income	5,240	8,212	9,794
Interest expense	(8,592)	(11,593)	(2,532)
Equity in earnings of associated companies	21,368	14,404	8,082
Gain on disposition of investments	49,426	—	—
Other, net	251	4,741	357
Income before income taxes	331,323	258,460	245,888

NOTES TO FINANCIAL STATEMENTS

Note 3 (in part): Investments in Associated Companies, at Equity

On January 3, 1986 the company sold 2 million of its 3.1 million shares of Continental Cablevision, Inc. stock to Continental for $100 million. The gain on the sale, after applicable income taxes, was $31,358,000, or $.32 per share. The company's remaining 17% ownership is included in the Balance Sheet caption "Other Investments."

INGERSOLL-RAND COMPANY (DEC)

	1986	1985	1984
		(In thousands)	
Net sales	$2,799,481	$2,637,421	$2,478,120
Cost of goods sold	2,105,587	2,012,246	1,884,182
Administrative, selling and service engineering expenses	455,457	422,148	416,317
Restructure of operations	23,000	5,700	6,500
Operating income	215,437	197,327	171,121
Interest expense	60,900	62,490	75,586
Other income (expense), net	(16,592)	(2,156)	2,660
Nonrecurring gains	33,694	—	—
Nonrecurring charges	17,305	—	—
Earnings before income taxes and extraordinary item	154,334	132,681	98,195

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4—Sale of Assets:

During the third quarter of 1986, the company sold certain unused property for a pretax gain of $20,640,000. Additionally, in the fourth quarter of 1986, the company sold the leveraged lease portfolio of its wholly owned finance subsidiary for a pretax gain of $13,054,000. Prior to the consummation of this sale, all non-leveraged lease assets and liabilities of the company's wholly owned finance subsidiary were transferred to a newly formed company, which retained the operations and name of the company sold.

On July 31, 1985, the company, Dresser Industries and a management group established a joint venture which combined the business of the company's Oilfield Products group with Dresser's Ideco division. The new venture purchased inventory, property, plant and equipment and certain other assets from the company for notes in the aggregate amount of $35,608,000 payable over a period of three to seven years. Revenues and operating results prior to the investment are included in the consolidated financial statements. Operating results since the date of the investment are included in equity in net earnings of partially owned affiliated companies. The company owns 39% of the venture.

In April 1984, the company sold the business and certain assets including inventory of the Proto industrial hand tool division and, in August 1984, the company sold its cutting tool product line. The proceeds from the sale of these assets approximated $43,000,000 in cash. The operating results of these units have been excluded from the company's 1984 consolidated income statement because they were provided for in a prior restructure of operations charge.

INLAND STEEL INDUSTRIES, INC. (DEC)

	1986	1985	1984
		(In thousands)	
Net sales	$3,173,242	$2,999,422	$3,134,991
Operating costs and expenses:			
Cost of goods sold (excluding depreciation)	2,746,263	2,687,982	2,733,044
Selling, general and administrative expenses	143,746	120,490	114,216
Depreciation	123,214	119,142	124,004
State, local and miscellaneous taxes	50,899	50,118	46,519
Salaried workforce reduction provision	—	18,000	28,000
Facilities shutdown provisions	9,500	65,300	43,975
Total	3,073,622	3,061,032	3,089,758
Operating income or (loss)	99,620	(61,610)	45,233
Other income and (expense):			
General corporate expense, net of income items	(17,300)	(20,991)	(19,484)
Interest and other expense on debt	(71,607)	(64,939)	(62,254)
Gain on sale of assets (Note 10)	26,000	—	—
Income or (loss) before taxes on income	36,713	(147,540)	(36,505)

Note 10. Sale of Assets

In 1986, Inland Steel Company sold its Illinois coal properties and reserves for $100 million in cash, resulting in a gain of $16.5 million. The sales agreement requires the purchase, by Inland Steel Company, of 7,400,000 tons of metallurgical and steam coal over a period of six years and five months at prices which approximate market.

On December 31, 1986, the Company sold its headquarters building in Chicago, Illinois and is leasing back a part of it. The sale resulted in a gain of approximately $24.9 million, of which $9.5 million was recognized in 1986. The remaining $15.4 million was deferred and will be recognized over the life of the lease. The lease, which is being accounted for as an operating lease, has a term of 15 years and will require future minimum lease payments aggregating approximately $40 million. Minimum rental payments will be $1.8 million per year for 1987 through 1989, and $2.3 million per year in 1990 and 1991. The proceeds of the sale include a short-term mortgage note receivable of $20.8 million, and a subordinated mortgage note receivable of $4.6 million due in 15 years, with an interest rate of 10.5 percent.

EVEREST & JENNINGS INTERNATIONAL (DEC)

	1986	1985	1984
		(In thousands)	
Net sales:	$195,258	$174,184	$171,597
Costs and expenses:			
Cost of goods sold	133,477	123,450	121,355
Selling, general and administrative	51,296	46,417	45,373
	184,773	169,867	166,728
Earnings from operations	10,485	4,317	4,869
Other income (expense):			
Interest Expense	(4,481)	(5,914)	(6,498)
Interest Income	1,371	409	—
Gains on sale of real estate not used in operations and expired purchase options	20,285	3,014	5,473
Provision for plant closure	—	(9,709)	(1,412)
Miscellaneous, net	(386)	158	638
	16,789	(12,042)	(1,799)
Earnings (loss) before taxes on income	27,274	(7,725)	3,070

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Gains on Sale of Real Estate:

In January 1986 the Company sold a major portion of its West Los Angeles property for $7,690,000 cash and a $19,100,000 five-year note receivable with interest based on prevailing market rates. The Company recognized a gain on sale of $17,407,000. The sale agreement also calls for additional payments of up to $4,500,000, payable in cash upon the issuance of building permits for commercial space in excess of 500,000 square feet.

In June 1986 the Company sold a parcel of its West Los Angeles property for $2,700,000 cash, resulting in a gain of $1,640,000.

Four additional parcels of West Los Angeles property were sold during 1986 to certain officers, directors and principal shareholders for $1,630,000 cash, with gains totaling $1,238,000. These sales are believed by the Company to be on terms at least as favorable as those which could have been obtained in transactions involving third parties.

MONSANTO COMPANY (DEC)

	1986	1985	1984
		(In millions)	
Net Sales	$6,879	$6,747	$6,691
Cost of goods sold	4,344	4,841	4,839
Gross Profit	2,535	1,906	1,852
Marketing and administrative expenses	1,244	919	722
Technological expenses	596	548	446
Amortization of intangible assets	218	88	7
Restructuring expense (income)—net	(158)	949	—
Operating Income (Loss)	635	(598)	677

NOTES TO FINANCIAL STATEMENTS

Restructuring (in part):

The 1986 gain included in "Restructuring expense (income)—net" resulted from the sales of product lines that were planned for divestiture under the 1985 restructuring program. The principal sale was those product lines of the Texas City, Texas petrochemical plant that were part of the restructuring program. The impact on 1986 net income from the restructuring gain was $97 million (after related taxes), or $1.25 per share.

MUNSINGWEAR, INC. (DEC)

	1986	1985	1984
		(In thousands)	
Net sales	$147,851	$114,247	$92,645
Cost of sales	104,455	84,079	68,761
Gross profit	43,396	30,168	23,884
Operating expenses, including advertising, distribution, general and administrative	38,187	30,108	24,394
Operating income (loss)	5,209	60	(510)
Other income (deductions):			
Royalties	679	650	2,775
Interest expense	(2,436)	(1,616)	(1,256)
Interest income	167	147	609
Gain on sale of trademarks	2,075	—	—
Relocation of Vasarette headquarters	(425)	—	—
Litigation settlement	—	—	(1,100)
Gain on sale of facilities and lease rights	—	3,590	14
Non-recurring gains (losses) and other, net	(604)	(126)	20
	(544)	2,645	1,062
Earnings before income taxes, extraordinary items and cumulative effect of a change in accounting principle	4,665	2,705	552

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

N. Disposition of Trademark Rights

During the quarter ended July 5, 1986, the Company sold certain Vassarette intimate apparel trademarks in Japan to C. Itoh & Co., Ltd., the Company's former licensee of these trademarks. The sale resulted in income of $2,075,000 which is included in Other Income in 1986. As a result of the sale, the license agreement was cancelled. Royalty income under this license was $134,000, $248,000 and $340,000 in 1986, 1985 and 1984, respectively.

In December 1984, the Company exchanged the rights to certain trademarks in Japan, South Korea and Taiwan for 1,904,274 shares of the Company's common stock owned by three Japanese corporations. The amount recorded by the Company as common shares held in treasury and the gain from exchange of trademark rights are based on the fair value of the trademarks surrendered. Prior to the exchange, one of the former stockholders held an exclusive license to manufacture and market certain products bearing Company trademarks in various countries in Southeast Asia. As a result of the exchange, the license agreement was cancelled. Royalty income under this license was $1,932,000 in 1984. Sales to the former stockholders for 1984 were $394,000.

TRANSTECH INDUSTRIES, INC. (DEC)

	1986	1985	1984
Operating Revenues	$69,194,719	$50,176,075	$23,868,426
Cost of Operations			
Direct operating costs	54,260,381	37,741,248	12,096,991
Landfill closing costs	—	2,914,024	6,080,890
Selling, general and administrative expenses	7,228,009	6,868,261	2,037,801
Income from Operations	7,706,329	2,652,542	3,652,744
Other Income (Expense)			
Investment income	882,076	655,251	756,257
Gain on sale of property, plant and equipment	95,253	283,772	53,790
Other income	180,631	265,465	—
Interest expense	(3,081,029)	(2,076,876)	(592,716)
Gain (loss) on investment (Note 15)	753,217	(1,322,929)	—
Income from Continuing Operations Before Income Taxes (Credit) and Minority Interest	6,536,477	457,225	3,870,075

Note 15—Gain/Loss on Investments:

During 1986, the Company sold its interests in a less than 20%-owned company and certain partnerships. A gain of $753,217 has been recognized from the sale of these investments.

During 1985, the Company wrote off substantially all of its investments in, advances to and lease obligations receivable from several small business corporations, all of which were less than 20% owned. Management of the Company determined that these assets were not currently realizable due to the continuing unprofitable operations of these businesses. Accordingly, the consolidated statement of operations includes a charge of $1,322,929 for the year ended December 31, 1985.

UNITED FOODS, INC. (FEB)

	1986	1985	1984
Sales and Service Revenues	$163,056,460	$177,238,202	$183,630,025
Cost of Sales and Services	117,669,204	129,056,759	134,852,617
Gross profit	45,387,256	48,181,443	48,777,408
Selling, Administrative and General Expenses	41,599,869	38,820,097	38,880,759
Operating income	3,787,387	9,361,346	9,896,649
Other Income (Expense):			
Gain on sale of division assets (Note 6)	29,603,674	—	—
Interest expense	(5,093,561)	(5,851,281)	(6,265,552)
Miscellaneous	116,464	(1,345,528)	(3,102)
Total other income (expense)	24,626,577	(7,196,809)	(6,268,654)
Income before taxes on income	28,413,964	2,164,537	3,627,995

Note 6—Sale of Division Assets

On February 28, 1986, the Company sold the assets of its Freezer Queen Division, resulting in a pretax gain of approximately $29,604,000. The division was sold to an unrelated party for approximately $35,140,000, net of expenses, of which $3,464,000 is to be received in August 1986 and is included in Notes and Accounts Receivable at February 28, 1986. The historical revenues and operating income (before allocation of interest, corporate expenses and income taxes) of the Freezer Queen Division for the last three fiscal years were as follows:

	1986	1985	1984
Revenues	$42,214,951	$39,956,427	$34,847,681
Operating income	$ 6,134,731	$ 5,109,125	$2,846,666

In connection with the Freezer Queen sale, the Company has agreed, under certain circumstances, to guarantee certain purchase commitments of a major co-pack customer through December 1988. Based upon historical data, management considers that costs, if any, incurred under this agreement will not be significant.

Equity in Income of Investees

FAIRCHILD INDUSTRIES, INC. (DEC)

	1986	1985	1984
		(In thousands)	
Revenue:			
Sales	$643,292	$576,332	$511,851
Other income (expense)	1,632	4,111	(393)
Equity in earnings of affiliated companies	1,564	1,507	532
	646,488	581,950	511,990

MEREDITH CORPORATION (JUN)

	1986	1985	1984
		(In thousands)	
Revenues (less returns and allowances)	$533,376	$474,921	$450,623
Operating Costs and Expenses:			
Production, distribution, and editorial	246,347	225,629	211,411
Selling, general, and administrative	213,603	184,015	179,653
Depreciation and amortization	18,243	14,930	13,482
Total Operating Costs and Expenses	478,193	424,574	404,546
Income from Operations	55,183	50,347	46,077
Gain from Sale of Properties	6,918	—	3,035
Equity in 50%-Owned Printing Operations	19,942	20,378	15,524
Interest Income	2,511	4,710	4,053
Interest Expense	(7,352)	(5,701)	(5,208)
Earnings Before Income Taxes	77,202	69,734	63,481

PPG INDUSTRIES, INC. (DEC)

	1986	1985	1984
		(Millions)	
Net sales	$4,687.1	$4,345.5	$4,242.2
Cost of Sales	2,799.6	2,644.2	2,654.5
Gross margin	1,887.5	1,701.3	1,587.7
Other expenses			
Selling, general and administrative	674.2	611.6	546.5
Depreciation	242.2	213.5	205.9
Taxes—exclusive of income taxes	149.3	142.9	146.0
Research and development-net	203.5	175.6	149.6
Interest	98.6	60.5	47.9
Other charges	42.8	48.1	32.7
Total other expenses	1,410.6	1,252.2	1,128.6
Share of net earnings of equity affiliates	17.5	14.9	12.2
Other earnings	68.5	75.3	55.6
Earnings before income taxes and minority interest	562.9	539.3	526.9

REICHHOLD CHEMICALS, INC. (DEC)

	1986	1985	1984
		(In thousands)	
Net sales	$765,588	$822,534	$801,355
Operating costs and expenses:			
Cost of goods sold	591,966	669,620	644,810
Selling, administrative and technological expenses	148,781	144,716	112,994
Restructuring program	(14,603)	39,577	(1,001)
	726,144	853,913	756,803
Operating income (loss)	39,444	(31,379)	44,552
Other income (deductions):			
Equity in net income (loss) of affiliated companies	2,932	(414)	2,128
Minority interest	(431)	(1,169)	190
Interest expense	(14,314)	(12,660)	(6,530)
Interest income	2,296	2,428	2,093
Sundry—net	(1,096)	(4,338)	(233)
	(10,613)	(16,153)	(2,352)
Income (loss) before income taxes	28,831	(47,532)	42,200

Foreign Currency Transactions

BAUSCH & LOMB INCORPORATED (DEC)

	1986	1985	1984
		(In thousands)	
Net Sales	$698,867	$596,151	$533,558
Costs and Expenses:			
Cost of products sold	324,887	276,234	249,149
Selling, administrative and general	209,988	170,027	149,082
Research and development	25,712	21,480	18,223
	560,587	467,741	416,454
Operating Earnings	138,280	128,410	117,104
Other (Income) Expenses:			
Investment income	(11,814)	(8,375)	(5,558)
Interest expense	17,597	13,602	16,687
(Gain) loss from foreign currency	(3,226)	2,336	2,850
Other, net	22,578	19,932	18,098
	25,135	27,495	32,077
Earnings from continuing operations before income taxes	113,145	100,915	85,027

NOTES TO FINANCIAL STATEMENTS

Accounting Policies (in part)

Foreign Currency Translation

Assets and liabilities of international subsidiaries have been translated at current exchange rates and related revenues and expenses have been translated at average rates of exchange in effect during the year. Resulting cumulative translation adjustments have been recorded as a separate component of shareholders' equity. Also included in this component of shareholders' equity are gains and losses on forward contracts designated as hedges of foreign intercompany investments of a long-term nature. Translation adjustments relating to subsidiaries in countries with highly inflationary economies are included in net earnings, along with all transaction gains and losses for the period.

Pension Plan Terminations

DRESSER INDUSTRIES, INC. (OCT)

	1986	1985	1984
		(In Millions)	
Sales revenues	$3,431.8	$3,642.2	$3,267.9
Service revenues	229.5	469.0	464.5
Total sales and service revenues	3,661.3	4,111.2	3,732.4
Cost of sales	2,483.9	2,613.3	2,302.0
Cost of services	230.5	348.0	352.0
Total costs of sales and services	2,714.4	2,961.3	2,654.0
	946.9	1,149.9	1,078.4
Selling, engineering, administrative and general expenses	970.4	1,046.3	932.4
Special charges	25.3	269.8	—
Earnings (loss) from operations	(48.8)	(166.2)	146.0
Other income (deductions)			
Interest expense	(75.1)	(79.9)	(68.8)
Interest earned	37.0	37.4	44.5
Royalties earned	12.5	10.4	8.1
Pension plan settlements—Note M	61.7	—	—
Other, net	32.3	(10.8)	(2.7)
Total other income (deductions)	68.4	(42.9)	(18.9)
Earnings (loss) before income taxes	19.6	(209.1)	127.1

Note M (in part): Pension Plans and Retiree Benefits

Effective May 1, 1986, the Company terminated its U.S. penson plans for salaried employees in connection with a reversion of the plans' surplus funds, and adopted a successor pension plan with a different benefit formula. The salaried retirement plans purchased an annuity contract for approximately 18,000 members of the pension plans guaranteeing the payment of their future pension benefits. In connection with this transaction, approximately $129 million of pension assets reverted to the Company. The Company also terminated 12 hourly plans and $5.1 million of assets from those plans also reverted to the Company.

The Company adopted Statement of Financial Accounting Standards No. 88 (SFAS 88), "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits." Under SFAS 88, the Company recognized a gain of $56.7 million on the settlement of salaried plan liabilities and $5.0 million on the settlement of the hourly plan liabilities. The difference between the assets which reverted to the Company and the $61.7 million gain is included in long-term pension liabilities.

H. H. ROBERTSON COMPANY (DEC)

	1986	1985	1984
		(Thousands)	
Revenues:			
Net product sales	$417,384	$434,517	$446,140
Construction and other services	136,791	150,547	117,582
Total	554,175	585,064	563,722
Cost and expenses:			
Product	363,249	383,991	359,821
Construction and other services	142,738	155,018	113,322
Cost of sales	505,987	539,009	473,143
Selling, general and administrative	75,502	75,366	74,198
Product research and development	3,861	2,938	3,274
Reorganization costs	4,438	20,122	—
Settlement of patent litigation	5,015	—	—
Total (including depreciation: 1986, $11,017; 1985, $10,283; 1984, $9,308)	594,803	637,435	550,615
Operating income (loss)	(40,628)	(52,371)	13,107
Other income:			
Gain on sale of investment	4,513	—	—
Gain on pension plan reversion	4,443	—	—
Interest income	987	1,053	2,072
Miscellaneous	2,899	1,742	2,194
Total	12,842	2,795	4,266
Other deductions:			
Interest expense	9,552	7,448	3,739
Miscellaneous	2,308	1,767	798
Total	11,860	9,215	4,537
Income (loss) from continuing operations before provision (credit) for taxes on income	(39,646)	(58,791)	12,836

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

12 (in part): Retirement Benefits

Effective July 31, 1986, the Company terminated two defined benefit retirement plans covering certain domestic salaried employees. A group annuity contract was purchased to fund the accrued benefits of retired and vested terminated participants under the plans. Active participants were provided an election to have their accrued benefits funded under the annuity contract or to have a lump sum held in trust under a newly established individual account plan. As a result, a reversion gain of $4,443,000 was recorded in the consolidated income statement. Effective August 1, 1986, the Company amended an existing defined contribution plan in order to improve retirement benefits for those employees previously covered under the two terminated defined benefit plans.

QUANEX CORPORATION (OCT)

	1986	1985	1984
		(In thousands)	
Net sales	$324,835	$296,974	$398,314
Costs and expenses:			
Cost of sales	304,330	263,746	340,765
Selling, general and administrative	26,476	26,452	33,272
Earnings (loss) from operations	(5,971)	6,776	24,277
Other income (expense):			
Provision for business disposition	(4,000)	5,080	(16,729)
Pension obligation settlement gain (Note 8)	5,798	4,991	—
Interest expense	(17,255)	(17,737)	(18,848)
Capitalized interest	—	6,876	8,926
Other, net	(1,715)	(666)	1,653
Earnings (loss) before income tax benefit and extraordinary loss	(23,143)	5,320	(721)

NOTES TO FINANCIAL STATEMENTS

8. Pension Obligation Settlement

In October, 1985 three of the non-contributory defined benefit pension plans sponsored by the Company were terminated and similar plans were reestablished. This action provided for the settlement of accumulated benefit obligations by the purchase of annuity contracts for each covered employee. Gains of $5,798,000 and $4,991,000 were recognized in 1986 and 1985, respectively, based on the pro-rata portion of pension obligations settled to total terminated plan obligations before settlement. The Company received $20,173,000 in cash as a result of the return of excess pension plan assets during fiscal 1986. Principally due to investment appreciation, excess pension assets exceeded estimates recorded in 1985.

Public Offering of Subsidiary Stock

TIME INCORPORATED (DEC)

	1986	1985	1984
		(In millions)	
Revenues	$3,762	$3,404	$3,067
Costs and Expenses			
Editorial, programming and production	1,956	1,752	1,566
Selling, administrative and general	1,498	1,264	1,110
Total Costs and Expenses	3,454	3,016	2,676
Operating Income	308	388	391
Interest income	46	24	44
Interest expense	(72)	(50)	(46)
Other income—net	26	25	32
Gain on partial sale of a subsidiary	318	—	—
Income Before Taxes	626	387	421

NOTES TO FINANCIAL STATEMENTS

Partial Sale of ATC Subsidiary

During August 1986, ATC made an initial public offering of 20 million shares of Class A Common Stock, par value $.01 per share, which resulted in a pretax gain of $318 million or $3.59 per share to the Company. Prior to the public offering, the Company completed a recapitalization of ATC involving, among other things, the establishment of ATC Class A and Class B Common Stock, and the borrowing by ATC of $800 million from certain banks under the terms of a Revolving Credit and Term Loan Agreement, see "Long-Term Debt." In addition, the Company paid $145 million to ATC in settlement of certain obligations under a tax allocation agreement. ATC used these proceeds to pay dividends to the Company totaling $855 million and repay $90 million of intercompany accounts. The Company has retained ownership of 80 million shares of ATC's Class B Common Stock, par value $.01 per share, which constitute 80 percent of ATC's outstanding common stock and 92 percent of the voting rights. Minority interest of $32 million is included in Other Liabilities at December 31, 1986.

ATC used the net proceeds of $350 million which it received from the offering to repay a portion of the debt incurred in the recapitalization.

During the first quarter of 1987, the Company expects to transfer Manhattan Cable Television, Inc. (MCTV), a wholly owned subsidiary, to ATC in exchange for additional shares of ATC Class B Common Stock. Prior to the transfer, MCTV will borrow $50 million, the proceeds of which will be used to pay a dividend to the Company.

THE COCA-COLA COMPANY (DEC)

	1986	1985	1984
		(In thousands)	
Net Operating Revenues	$8,668,556	$7,212,093	$6,592,743
Cost of goods and services	4,644,235	3,859,612	3,556,518
Gross Profit	4,024,321	3,352,481	3,036,225
Selling, administrative and general expenses	2,699,293	2,367,853	2,046,244
Provisions for disinvestment and restructured operations	180,000	—	—
Operating Income	1,145,028	984,628	989,981
Interest income	134,184	150,683	131,480
Interest expense	185,769	168,462	125,646
Other income (deductions)—net	42,837	96,597	35,469
Gain on sale of stock by Coca-Cola Enterprises Inc.	375,000	—	—
Income from Continuing Operations before Income Taxes	1,511,280	1,063,446	1,031,284

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3 (in part): Investments In and Advanced to Affiliated Companies.

On September 12, 1986, the Company transferred the operating assets of substantially all previously owned and recently acquired bottling companies in the United States to

Coca-Cola Enterprises Inc. (Enterprises), a wholly owned subsidiary. In connection with these transactions, Enterprises assumed approximately $233 million of debt incurred by the Company in conjunction with certain of the acquisitions. In addition, in September 1986, Enterprises acquired the Coca-Cola bottling companies controlled by John T. Lupton and his family and the soft drink bottling operations of BCI Holdings Corporation (the successor to The Beatrice Companies, Inc.) and the remaining interest in The Detroit Bottling Company, Inc. for an aggregate cost of approximately $2.25 billion; these acquisitions were funded with borrowings under a credit agreement entered into by Enterprises with a syndicate of banks. The Company is not a party to the credit agreement and has not guaranteed any of the borrowings thereunder.

On November 21, 1986, Enterprises sold 71.4 million shares of its unissued common stock for net proceeds of approximately $1.12 billion. This transaction reduced the Company's ownership interest to 49 percent and resulted in a pretax gain of $375 million. Consistent with its reduced ownership interest, the Company has commenced reporting its investment in Enterprises under the equity method of accounting. The consolidated financial statements have been restated to reflect Enterprises under the equity method of accounting for all periods presented. The restatement had no effect on shareholders' equity, income from continuing operations, net income or related per share amounts.

Royalties

SUNDSTRAND CORPORATION (DEC)

	1986	1985	1984
		(In thousands)	
Net sales	$1,433,940	$1,284,141	$1,041,948
Costs and expenses			
Costs of products sold	944,297	850,460	688,375
Marketing and administration	343,398	296,379	238,654
Provision for resolution of government contract disputes	61,500	—	—
	1,349,186	1,146,839	927,029
Earnings before other income (deductions)	84,754	137,302	114,919
Other income (deductions)			
Royalties and commissions	8,201	5,534	4,112
Interest expense	(56,349)	(38,825)	(25,322)
Interest and dividend income	26,299	13,539	13,469
Unclassified, net	3,504	2,142	4,472
	(18,345)	(17,610)	(3,269)
Earnings before income taxes	66,409	119,692	111,650

Liquidation of Investments

GEORGIA-PACIFIC CORPORATION

	1986	1985	1984
		(Millions)	
Net sales	$7,223	$6,716	$6,682
Costs and expenses			
Cost of sales	5,783	5,553	5,441
Selling, general and administrative	511	431	426
Depreciation and depletion	339	310	282
Interest	138	132	156
	6,771	6,426	6,305
Income from continuing operations before unusual items, income taxes and extraordinary item	452	290	377
Unusual items	33	19	19
Income from continuing operations before income taxes and extraordinary item	485	309	396

Note 2. Unusual Items

The Corporation realized certain gains during the last three years which are considered to be unusual items:

	Year ended December 31		
(Millions)	1986	1985	1984
Liquidation of investments	$33	$—	$—
Sale of timberlands	—	19	—
Sale of Portland office building	—	—	19
	$33	$19	$19

In the 1986 fourth quarter, the Corporation received cash proceeds of $92 million from liquidation of portions of its investment in Georgia Gulf Corporation, purchaser of the Corporation's commodity chemicals subsidiary in 1984 (Note 3). A $33 million pre-tax gain was recorded from this liquidation, including $17 million from the sale of approximately 969,000 warrants. The Corporation retained a $16 million investment in preferred stock and warrants exercisable for approximately 1,831,000 shares of common stock. Neither the preferred stock, the remaining warrants, nor the underlying common stock are registered securities, and therefore may not currently be offered for sale to the public.

The Corporation has an agreement with an unrelated third party to sell or exchange approximately 134,000 acres of Oregon timberlands from time to time over a three-year period ending April 1, 1988. A pre-tax gain of $19 million was recorded in 1985 from the sale of a portion of the timberlands under this agreement.

The Corporation's former headquarters building in Portland, Oregon, owned by GA-MET, a joint venture in which the Corporation has a 50% ownership interest, was sold in 1984. The Corporation recorded a pre-tax gain of $19 million from this transaction.

Minority Interest In Losses of Subsidiaries

HALLIBURTON COMPANY (DEC)

	1986	1985	1984
		(In thousands)	
Net Revenues			
Services	$2,750,155	$3,465,192	$3,997,748
Sales	776,822	1,316,198	1,429,945
Equity in income (losses) of joint venture operations	(17,538)	(2,695)	18,026
Total net revenues	3,509,439	4,778,695	5,445,719
Operating Costs and Expenses			
Services	2,736,989	3,161,931	3,652,561
Sales	677,500	1,063,346	1,067,660
Special write-downs	502,915	257,830	—
General and administrative	186,727	206,515	227,608
Total operating costs and expenses	4,104,131	4,689,622	4,947,829
Operating income (loss)	(594,692)	89,073	497,890
Interest expense	(77,103)	(105,876)	(138,047)
Interest income	66,551	114,731	133,652
Other nonoperating income, net	8,877	16,805	37,066
Benefit (provision) for income taxes	37,442	(113,834)	(240,004)
Net income of unconsolidated insurance subsidiaries	40,398	36,152	41,585
Minority interest in net (income) loss of consolidated subsidiaries	3,313	(8,315)	(2,547)
Income (Loss) Before Extraordinary Item	(515,214)	28,736	329,595

EXPENSES AND LOSSES

Paragraphs 80 and 83 of FASB *Statement of Financial Accounting Concepts No. 6* define expenses and losses.

80. Expenses are outflows or other using up of assets or incurrences of liabilities (or a combination of both) from delivering or producing goods, rendering services, or carrying out other activities that constitute the entity's ongoing major or central operations.

83. Losses are decreases in equity (net assets) from peripheral or incidental transactions of an entity and from all other transactions and other events and circumstances affecting the entity except those that result from expenses or distributions to owners.

Paragraphs 19 and 26 of *APB Opinion No. 30* comment on the presentation and disclosure of losses.

Table 3-5 reveals that most of the survey companies show a single caption and amount for cost of goods sold. Table 3-6 summarizes the nature of the expenses, other than cost of goods sold.

Excluded from Table 3-6 are rent (Table 2-28), employee benefits (Tables 3-8 and 3-9), depreciation (Table 3-10), and income taxes (Table 3-11).

TABLE 3-5: EXPENSES—COST OF GOODS SOLD CAPTIONS

	1986	1985	1984	1983
Single Amount				
Cost of sales	232	221	221	225
Cost of products sold	120	124	125	123
Cost of goods sold	118	116	126	129
Elements of cost	7	13	11	14
Other captions	92	87	81	77
	569	561	564	568
More Than One Amount	31	39	36	32
Total Companies	600	600	600	600

Table 3-7 lists losses most frequently disclosed by the survey companies. Table 3-7 shows that, in 1986, 133 survey companies accrued a charge for restructuring their operations. *Staff Accounting Bulletin No. 67* issued by the SEC staff specifies that restructuring charges should be included in income from continuing operations or, if a multiple-step income statement is presented, in operating income. Excluded from Table 3-7 are losses shown after the caption for income taxes (Table 3-15), segment disposals, and extraordinary losses (Table 3-16). Examples of expenses and losses follow.

TABLE 3-7: LOSSES

	Number of Companies			
	1986	1985	1984	1983
Foreign currency	96	114	120	134
Restructuring of operations	133	103	74	76
Disposition of assets	27	29	25	28
Write-down of assets	58	49	42	38
Minority interest	29	40	38	33
Equity in losses of investees	28	21	15	25
Litigation settlements	11	17	11	9

EXPENSES

Cost of Goods Sold

AM INTERNATIONAL, INC. (JUL)

	1986	1985	1984
		(In thousands)	
Revenues:			
Machines and supplies	$511,202	$454,103	$442,642
Service	177,708	157,641	155,809
Total revenues	688,910	611,744	598,451
Operating costs and expenses:			
Cost of sales			
Machines and supplies	316,990	269,910	263,811
Service	108,430	95,966	96,027
Total cost of sales	425,420	365,876	359,838
Selling, general and administrative	213,510	202,701	204,655
Research, development and engineering	20,896	15,621	13,946
Total operating costs and expenses	659,826	584,198	578,439
Operating income	29,084	27,546	20,012

TABLE 3-6: EXPENSES—OTHER THAN COST OF GOODS SOLD

	Number of Companies			
	1986	1985	1984	1983
Selling, general and administrative	331	332	319	319
Selling and administrative	173	165	168	176
General and/or administrative	73	89	90	94
Selling	19	18	28	23
Interest	575	574	572	576
Research, development, engineering, etc.	287	299	297	296
Maintenance and repairs	90	99	93	98
Taxes other than income taxes	71	81	81	84
Advertising	47	62	53	55
Bad debts	33	28	34	38
Exploration, dry holes, abandonments	25	24	25	26

ACME-CLEVELAND CORPORATION (SEP)

	1986	1985	1984
Revenues:			
Net sales	$186,050,158	$213,608,852	$146,109,907
Other income	3,207,196	1,541,696	5,455,844
Interest income	1,932,450	989,643	2,614,475
	191,189,804	216,140,191	154,180,226
Cost and expenses:			
Cost of products sold	125,779,724	138,480,927	103,562,010
Selling, general and administrative expense	45,817,161	46,946,156	31,578,127
Depreciation and amortization of intangibles	11,718,431	11,352,202	7,614,069
Interest	4,070,371	5,586,091	2,758,402
Restructuring of operations	—0—	3,391,000	—0—
Other	3,632,239	1,267,861	5,123,493
	191,017,926	207,024,237	150,636,101
Earnings from Continuing Operations before Income Taxes	171,878	9,115,954	3,544,125

ADAMS-MILLIS CORPORATION (DEC)

	1986	1985	1984
Net sales	$178,264,000	$116,292,000	$111,223,000
Cost and Expenses:			
Cost of goods sold	138,622,000	90,954,000	86,647,000
Selling and administrative	24,758,000	14,303,000	11,645,000
Interest	3,462,000	1,737,000	2,652,000
Gain on sale of real estate	—	(576,000)	(491,000)
	166,842,000	106,418,000	100,453,000
Earnings before Income Taxes	11,422,000	9,874,000	10,770,000

ALLIS-CHALMERS CORPORATION (DEC)

	1986	1985	1984
		(Thousands)	
Revenues			
Sales	$771,188	$770,607	$756,398
Other income (expense)	(2,343)	1,969	16,490
Total Revenues	768,845	772,576	772,888
Costs and Expenses			
Cost of sales	574,293	601,126	628,063
Marketing and administrative	165,417	151,716	158,858
Interest	28,290	41,117	46,070
Income taxes	5,025	6,115	5,137
Total Costs and Expenses	773,025	800,074	838,128
Loss from Continuing Operations	(4,180)	(27,498)	(65,240)

JOHN FLUKE MFG. CO. INC. (SEP)

	1986	1985	1984
		(In thousands)	
Net sales	$209,030	$216,559	$208,076
Cost of goods sold	95,834	97,991	92,210
Gross margin	113,196	118,568	115,866

VULCAN MATERIALS COMPANY

	1986	1985	1984
		(In thousands)	
Net sales	$957,796	$971,796	$967,729
Cost of goods sold	717,817	767,713	759,938
Gross profit on sales	239,979	204,083	207,791

WINN-DIXIE STORES, INC. (JUN)

	1986	1985	1984
		(In thousands)	
Net sales	$8,225,244	$7,774,480	$7,302,369
Cost of sales, including warehousing and delivery expenses	6,371,124	6,061,220	5,708,341
Gross profit on sales	1,854,120	1,713,260	1,594,028

Interest Expense

AMP INCORPORATED AND PAMCOR, INC. (DEC)

	1986	1985	1984
		(In thousands)	
Net Sales	$1,933,055	$1,636,112	$1,812,824
Cost of Sales	1,267,918	1,118,832	1,136,041
	665,137	517,280	676,783
Selling, General and Administrative Expenses	362,432	318,346	307,238
Income from operations	302,705	198,934	369,545
Interest Expense	(17,378)	(17,031)	(13,621)
Other Income, net	8,678	10,630	6,748
Income before income taxes	294,005	192,533	362,672

NOTES TO COMBINED FINANCIAL STATEMENTS

5. *Interest*—Interest costs for the year ended December 31 were:

(dollars in thousands)	1986	1985	1984
Interest Costs Incurred	$18,046	$20,118	$17,050
Less—Interest Costs Capitalized	668	3,087	3,429
Interest Expensed—Per Statements of Income	$17,378	$17,031	$13,621

Interest income for the year ended December 31 was $8,434,000 in 1986, $10,156,000 in 1985 and $15,365,000 in 1984.

AMERICAN PETROFINA, INCORPORATED (DEC)

	1986	1985	1984
		(In thousands)	
Revenues:			
Sales and other operating revenues	$1,960,030	2,408,502	2,125,853
Interest and other income	60,873	13,143	19,352
	2,020,903	2,421,645	2,145,205
Costs and expenses:			
Cost of raw materials and products purchased	1,486,883	1,817,095	1,603,607
Direct operating expenses	262,464	287,071	247,578
Selling, general and administrative expenses	74,739	79,363	70,129
Taxes, other than on income	31,841	34,788	31,553
Dry holes, delay rentals and abandonments	15,156	20,352	21,261
Depreciation, depletion, amortization and lease impairment	128,290	171,730	98,018
Interest	65,333	70,405	54,964
Less interest capitalized	(3,940)	(10,356)	(23,494)
	2,061,766	2,470,448	2,103,616
Earnings (loss) before income taxes	(40,863)	(48,803)	41,589

ANCHOR HOCKING CORPORATION (DEC)

	1986	1985	1984
		(In thousands)	
Net sales	$757,820	$720,347	$712,973
Costs and expenses:			
Cost of products sold	603,569	575,515	595,763
Selling and administrative expenses	127,305	112,803	97,930
Asset realignment program	—	—	48,667
Operating income (loss)	26,946	32,029	(29,387)
Other income (expense)	1,671	(108)	2,465
Interest expense	(12,829)	(12,904)	(11,057)
Unusual items	(2,866)	(13,362)	(2,140)
Income (loss) before income taxes and extraordinary gain	12,922	5,655	(40,119)

THE PILLSBURY COMPANY (MAY)

	1986	1985	1984
		(In millions)	
Net sales	$5,847.9	$4,843.4	$4,334.8
Costs and expenses:			
Cost of sales	4,102.6	3,465.5	3,115.0
Selling, general and administrative expenses	1,270.9	984.7	871.9
Interest expense, net	97.3	53.0	44.2
	5,470.8	4,503.2	4,031.1
Earnings before taxes on income	377.1	340.2	303.7

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5. Interest expense, net

	1986	1985	1984
		Year ended May 31 (In millions)	
Interest expense on:			
Long-term obligations	$108.7	$62.3	$63.0
Capital lease obligations	8.6	5.9	6.2
Short-term obligations	20.4	24.0	16.6
Capitalized interest	(3.9)	(2.4)	(2.3)
Interest income	(11.1)	(14.3)	(18.4)
Amortization of unearned income on direct financing leases	(25.4)	(22.5)	(20.9)
	$97.3	$53.0	$44.2

GUILFORD MILLS, INC. (JUN)

	1986	1985	1984
		(In thousands)	
Net sales	$416,265	$356,521	$360,572
Costs and expenses:			
Cost of goods sold	334,071	286,632	275,883
Selling and administrative	44,330	38,503	35,519
	378,401	325,135	311,402
Operating income	37,864	31,386	49,170
Other income (expense):			
Interest, net (Note 4)	(2,618)	(1,540)	(1,142)
Other, net	580	(42)	297
	(2,038)	(1,582)	(845)
Income before Income Taxes	35,826	29,804	48,325

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. (in part): Long-Term Debt and Current Borrowings:

Interest expense reflected in the accompanying statements of income is comprised of the following components (in thousands)—

	1986	1985	1984
Interest expense on:			
Long-term debt	$1,050	$1,136	$1,191
Short-term debt	1,449	615	264
Other interest expense (income), net	103	(229)	(348)
Amortization of debt expense	16	18	35
	$2,618	$1,540	$1,142

Research and Development

COLLINS INDUSTRIES, INC. (OCT)

	1986	1985	1984
Sales	$101,944,450	$85,313,659	$40,540,193
Cost of sales	88,034,983	75,079,659	32,254,914
Gross profit	$ 13,909,467	$10,234,000	$ 8,285,279
Selling, general and administrative expenses	9,944,179	8,981,459	5,189,226
Research and development expenses	434,935	330,655	79,114
Income from operations	$ 3,530,353	$ 921,886	$ 3,016,939

EATON CORPORATION (DEC)

	1986	1985	1984
		(Millions)	
Net Sales	$3,811.6	$3,674.5	$3,509.8
Costs and expenses:			
Cost of products sold	2,870.5	2,703.2	2,516.5
Selling and administrative expenses	497.6	482.2	475.0
Research and development expenses	134.1	123.6	112.6
Provision for exiting businesses	74.7	—0—	—0—
	3,576.9	3,309.0	3,104.1
Income From Operations	234.7	365.5	405.7

HARSCO CORPORATION (DEC)

	1986	1985	1984
		(In thousands)	
Net sales	$1,130,253	$1,261,193	$1,101,271
Operating expenses:			
Cost of sales	877,400	973,416	868,796
Selling, administrative and general expenses	151,642	157,419	139,923
Research and development	9,322	7,464	6,650
Provision for facility discontinuances or disposals	10,286	14,965	6,868
	1,048,650	1,153,264	1,022,237
Income from operations	81,603	107,929	79,034

THE LUBRIZOL CORPORATION (DEC)

	1986	1985	1984
		(In thousands)	
Revenues:			
Net Sales	$976,776	$903,403	$831,681
Royalties and other revenues	8,406	9,948	12,494
Total	985,182	913,351	844,175
Cost and expenses:			
Cost of sales	695,068	659,130	627,378
Selling and administrative expenses	129,427	114,867	81,937
Research and development expenses	51,223	43,491	32,564
Total	875,718	817,488	741,879
Income from operations	109,464	95,863	102,296

Taxes Other Than Income Taxes

AMOCO CORPORATION (DEC)

	1986	1985	1984
		(Millions)	
Revenues			
Sales and other operating revenues	$18,281	$26,922	$26,949
Consumer excise taxes	1,753	1,615	1,555
Other income	197	336	504
Total revenues	20,231	28,873	29,008
Costs and expenses			
Purchased crude oil, petroleum products, and merchandise	7,593	12,569	12,246
Operating expenses	3,314	3,739	3,880
Petroleum exploration expenses, including exploratory dry holes	925	1,425	1,286
Selling and administrative expenses	1,357	1,390	1,302
Taxes other than income taxes	2,591	3,448	3,825
Depreciation, depletion, amortization, and retirements and abandonments	2,418	2,059	2,090
Interest expense	445	432	446
Total costs and expenses	18,643	25,062	25,075
Income before income taxes	1,588	3,811	3,933

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

15. Taxes

Taxes other than income taxes include:

Millions of dollars	1986	1985	1984
Consumer excise taxes	$1,753	$1,615	$1,555
U.S. crude oil excise tax	(23)	447	590
Production and severance taxes			
United States	154	243	260
Foreign	274	658	968
Property taxes	250	262	241
Social Security, corporation, and other taxes	183	223	211
	$2,591	$3,448	$3,825

GENERAL REFRACTORIES COMPANY (DEC)

	1986	1985	1984
		(In thousands)	
Net Sales	$362,765	$316,012	$311,396
Operating Costs and Expenses			
Materials, supplies, production labor and expenses	247,960	222,731	221,693
Selling, general and administrative expenses	67,973	57,207	54,295
Depreciation and amortization	11,590	8,938	9,207
Taxes other than income taxes	23,569	17,605	17,230
Provision for separation pay	—	1,525	—
Gain on restructuring operations	—	—	(300)
	351,092	308,006	302,125
Income from operations	11,673	8,006	9,271
Other income	4,611	7,409	7,727
Nonrecurring costs	—	(2,610)	—
Litigation settlement	—	—	975
Interest expense	(7,505)	(6,940)	(7,630)
Income before income taxes and extraordinary credit	8,779	5,865	10,343

G. HEILEMAN BREWING COMPANY, INC. (DEC)

	1986	1985	1984
Sales:	$1,326,917,000	$1,326,338,000	$1,341,549,000
Less excise taxes	153,131,000	157,110,000	170,188,000
	1,173,786,000	1,169,228,000	1,171,361,000

ROHR INDUSTRIES, INC. (JUL)

	1986	1985	1984
		(In thousands)	
Sales	$626,124	$593,583	$605,966
Costs and expenses:			
Cost of operations, exclusive of the following costs:	482,160	464,446	482,258
General and administrative expenses	33,590	26,520	22,890
Taxes except taxes on income	23,193	20,921	19,068
Depreciation and amortization	14,967	13,202	12,939
	553,910	525,089	537,155
Operating income:	72,214	68,494	68,811
Interest income:	8,038	13,556	7,967
Interest expense:	2,534	3,644	6,315
Income before taxes on income:	77,718	78,406	70,463

SUN COMPANY, INC. (DEC)

	1986	1985	1984
		(Millions)	
Revenues			
Sales and other operating income (including consumer excise taxes)	$10,047	$14,435	$15,118
Gain on sale of master limited partnership units	—	104	—
Gain on other divestments	99	314	50
Other income	294	223	229
	10,440	15,076	15,397
Costs and Expenses			
Cost of products sold and operating expenses	7,109	10,372	10,860
Selling, general and administrative expenses	681	820	793
Taxes, other than income taxes (Note 3)	898	1,266	1,394
Depreciation, depletion and amortization	603	693	759
Exploratory costs and leasehold impairment	246	357	348
Provision for write-down of assets and other matters	117	506	—
Interest cost and debt expense	293	339	365
Interest capitalized	(99)	(93)	(99)
	9,848	14,260	14,420
Income before provision for income taxes	592	816	977

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. Taxes, Other than Income Taxes

	1986	1985	1984
		(Millions of Dollars)	
Consumer excise	$671	$ 666	$ 652
Windfall profit	(62)	141	249
Production	100	193	232
Canadian petroleum compensation	—	66	74
Payroll, property and other	189	200	187
	$898	$1,266	$1,394

Included in windfall profit tax in 1986 is a $66 million benefit resulting from the favorable settlement of Sun's windfall profit tax returns for years prior to 1982. This favorable settlement including related interest income increased Sun's 1986 net income and net income per share of common stock by $52 million and $.48, respectively. If Sun's windfall profit tax returns for years after 1981 are settled in a similar manner, significant additional benefits would be recognizable in the future.

Production taxes for 1984 were reduced by $29 million as a result of a refund from the Canadian government of a portion of the Incremental Oil Revenue Tax (IORT) paid in prior years. Effective January 1, 1985, the IORT was terminated. In addition, in connection with the deregulation of Canadian oil prices effective June 1, 1985, Canadian petroleum compensation charges were eliminated.

LOSSES

Restructuring of Operations

AMERICAN TELEPHONE AND TELEGRAPH COMPANY (DEC)

	1986	1985	1984
		(In millions)	
Sales and Revenues			
Sales of services, net of access charges	$19,108	$17,393	$15,781
Sales of products	10,178	11,235	10,189
Rental revenues	4,801	5,789	7,217
Total operating revenues	34,087	34,417	33,187
Operating Costs and Expenses			
Cost of services	8,954	9,097	8,984
Cost of products	7,196	7,066	6,405
Cost of rentals	2,099	1,936	2,100
Selling, general and administrative expenses	11,071	11,104	11,216
Research and development expense	2,278	2,228	2,188
Provision for business restructuring	2,157	—	—
Total operating costs and expenses	33,755	31,431	30,893
Operating Income	332	2,986	2,294

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in millions)

(E) Business Restructuring, Accounting Change and Other Charges

In 1986, the Company announced that major restructuring, downsizing and other actions would take place to refocus business operating strategies and improve competitiveness. These actions include Company-wide force reductions and facility consolidations, which are expected to occur primarily in 1987 and 1988, as well as a change in accounting for depreciation. The total estimated cost of these actions reduced the 1986 pretax income by $2,489 ($1,295 after taxes or $1.21 per share) as described below:

—$2,157 ($1,120 after taxes or $1.05 per share) including $1,125 for force termination costs and $1,032 for consolidation of factories, warehouses and other facilities. These costs are identified as "Provision for business restructuring" in the Company's financial statements.

—$332 ($175 net of taxes or $.16 per share) due to a change from group to unit method of depreciation for certain factory machinery and laboratory equipment. This change was made in 1986 to provide better identification of service lives and better assignment of costs to products. The net income effect of $175 for years prior to 1986 is shown in the financial statements as "Cumulative prior years' effect (to December 31, 1985) of a change in depreciation method." The effect of the accounting change on depreciation for any of the years presented is not material.

In addition, $761 ($409 after taxes or $.38 per share) was charged in the fourth quarter 1986 for inventory writedowns, primarily for communications and office automation products reflecting soft market conditions, and for increased depreciation primarily related to rental equipment and other assets; this charge is included in various cost and expense categories as appropriate.

CHAMPION SPARK PLUG COMPANY (DEC)

	1986	1985	1984
		(In millions)	
Net sales	$883.8	$829.4	$816.5
Costs and expenses:			
Cost of goods sold	656.3	587.5	574.3
Selling, administrative and general expenses	213.8	194.2	183.8
Restructuring costs	13.4	8.0	3.3
	883.5	789.7	761.4
Operating earnings	.3	39.7	55.1

NOTES TO FINANCIAL STATEMENTS

Restructuring Costs

The Company recorded a $13.4 million charge for restructuring costs during 1986. Included in this charge was a third quarter expense of $4.5 million and a fourth quarter expense of $1.9 million relating to worldwide automotive product workforce reductions and a $2.6 million third quarter write-off of excess machinery and equipment. Throughout the year, $3.9 million of costs were recorded relating to the restructuring of DeVilbiss operations.

Restructuring costs recorded in 1985 totaled $8.0 million and included a fourth quarter charge of $5.5 million for severence costs related to salaried employee terminations.

In 1984, restructuring costs of $3.3 million included a $2.0 million first quarter charge in connection with the consolidation of the Toledo, Ohio, Fort Industry plant into other operations. In addition, fourth quarter results included a $1.3 million charge to move and consolidate The Anderson Company operation into a newly acquired facility in Michigan City, Indiana.

THE DOW CHEMICAL COMPANY (DEC)

	1986	1985	1984
		(In Millions)	
Net sales	$11,113	$10,500	$10,679
Operating costs and expenses			
Cost of sales	8,332	8,578	8,789
Selling and administrative	1,496	1,285	1,054
Restructuring charge	—	592	157
Total operating costs and expenses	9,828	10,455	10,000
Operating income	1,285	45	679

NOTES TO FINANCIAL STATEMENTS

(In Millions)

E. Restructuring Charges

SEC Staff Accounting Bulletin No. 67 of December 8, 1986 requires "Restructuring Charges" to be included in operating income in the Consolidated Statement of Income. Accordingly, the position of these charges in 1985 and 1984 has changed from a separate line below operating income to a separate line above operating income.

This change also impacts the presentation of geographic and industry segments.

Details of the restructuring charges are included in the 1986 annual report in the Management's Discussion and Analysis section under "Analysis of 1985 Restructuring Charge." There were no restructuring charges in 1986.

The fourth quarter of 1985 included a restructuring pretax charge of $471 for asset-related write-offs and write-downs and $121 for personnel-related costs. These asset-related elements were concentrated in Dow's basic chemicals and plastic businesses, primarily in the U.S., with the effect of reducing excess capacity.

In 1984, the Company reduced the carrying value of its mothballed crude oil processing plant in Texas based on an independent appraisal. The adjustment reduced pretax profits by $157.

FLEMING COMPANIES, INC. (DEC)

	1986	1985	1984
		(In thousands)	
Net sales	$7,652,624	$7,094,991	$5,511,819
Costs and expenses:			
Cost of sales	7,314,623	6,763,642	5,241,094
Selling and administrative	224,374	216,756	180,528
Interest	25,444	21,626	14,938
Restructuring costs	17,795	—	—
Total costs and expenses	7,582,236	7,002,024	5,436,560
Earnings before income taxes	70,388	92,967	75,259

NOTES TO FINANCIAL STATEMENTS

Restructuring Costs

During the fourth quarter of 1986, the company recorded the results of a restructuring plan designed to improve operating efficiency. The restructuring costs incurred and estimated to be incurred totaled $10.9 million (after income tax benefits of $6.9 million) or 50 cents per share. The plan primarily included the restructuring of certain operations in the Southeast including the closing of 17 company-owned retail stores; the net cost of closing an outmoded distribution center in Richmond, Calif., and moving the operations to more modern facilities; and the write-down of assets related to prior purchases of retail locations that were later sold to independent operators.

GOULDS PUMPS, INCORPORATED (DEC)

	1986	1985	1984
		(In thousands)	
Net sales	$356,226	$323,672	$286,615
Cost of goods sold	257,297	227,632	198,209
Gross profit	98,929	96,040	88,406
Selling, general and administrative expenses	69,930	64,283	58,484
Loss on discontinued subsidiary in Brazil *(Note 10)*	1,991	—	—
Income from operations	27,008	31,757	29,922

Note 10 (in part): Foreign Operations

During 1986, management determined that there was no economic benefit to be derived from continued operations in Brazil. As a consequence, the Company discontinued its subsidiary in Brazil and recognized a loss of $1,991,000. Due to applicable tax laws, the Company was able to recognize a tax benefit of $2,760,000. The effect of this transaction was to increase earnings by $769,000 or $.04 per share.

GREAT NORTHERN NEKOOSA CORPORATION (DEC)

	1986	1985	1984
		($ millions)	
Net sales	$2,039.2	$1,934.8	$1,873.3
Cost of sales	1,637.8	1,652.6	1,519.7
Gross margin	401.4	282.2	353.6
Selling, general and administrative expense	182.6	177.2	163.0
Provision for reduced operations	41.0	—	—
Operating income	177.8	105.0	190.6

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2. Provision for reduced operations in Maine

In June 1986 the company recorded a pretax charge of $41.0 million. This charge, which is equivalent to 80 cents a share on an aftertax basis, represents the costs of reducing operations and implementing productivity improvement programs at the company's Great Northern Paper division in Maine.

PIONEER HI-BRED INTERNATIONAL, INC. (AUG)

	1986	1985	1984
		(In thousands)	
Net sales	$884,726	$854,154	$743,865
Cost of goods sold	474,275	450,886	411,328
Gross profit	$410,451	$403,268	$332,537
Operating expenses:			
Selling	$189,401	$164,128	$146,217
General and administrative	55,066	43,672	40,617
	$244,467	$207,800	$186,834
Reorganization, relocation and early retirement expense (Note 5)	$ 18,556	$ —0—	$ —0—
Operating income	$147,428	$195,468	$145,703

Note 5. Reorganization, Relocation and Early Retirement Expense

During the year ended August 31, 1986, the Company underwent a major restructuring of its North American Seed divisions. The previous five seed divisions and a wholly-owned subsidiary, Pioneer Hi-Bred Limited, were reorganized into a single production unit and two marketing units. The costs of reorganization totaling approximately $9,072,000 were primarily plant closing costs, severance pay related to the closings, and relocation expenses for those employees who were transferred to other locations.

During the year ended August 31, 1986, the Company offered an early retirement program to its employees. The cost of this program was approximately $9,484,000.

Foreign Currency Transactions

BOISE CASCADE CORPORATION (DEC)

	1986	1985	1984
		(In thousands)	
Revenues			
Sales	$3,739,970	$3,737,220	$3,816,850
Other income (expense), net	(4,150)	52,240	16,470
	3,735,820	3,789,460	3,833,320
Costs and expenses			
Materials, labor, and other operating expenses	2,925,870	2,997,570	3,056,800
Depreciation and cost of company timber harvested	191,360	176,320	147,220
Selling and administrative expenses	337,990	355,200	388,860
Provision for restructuring operations	—	—	88,000
	3,455,220	3,529,090	3,680,880
Income from operations	280,600	260,370	152,440
Interest expense	(114,160)	(114,080)	(79,170)
Interest income	6,210	6,980	6,200
Foreign exchange gain (loss)	(550)	4,740	4,800
	(108,500)	(102,360)	(68,170)
Income before income taxes	172,100	158,010	84,270

NOTES TO FINANCIAL STATEMENTS

1 (in part): Summary of Significant Accounting Policies

Foreign Currency Translation. Foreign exchange gains and losses, which arise primarily from activities of the Company's Canadian subsidiaries, are included in income. Other translation adjustments were insignificant and have been included in "Retained earnings" on the Balance Sheets.

UNIFI, INC. (JUN)

	1986	1985	1984
Net Sales	$248,873,241	$216,039,060	$216,520,150
Costs and Expenses:			
Cost of Sales	$221,487,965	$193,655,472	$191,073,181
Selling General & Administrative	11,487,928	10,218,611	10,510,250
Interest and Debt Expense	2,113,820	1,834,664	1,294,659
Other Income	(3,014,367)	(650,454)	(586,543)
	$232,075,346	205,058,293	$202,291,547
Income from Operations	$ 16,797,895	$ 10,980,767	$ 14,228,603
Foreign Currency Gain (Loss)	(171,169)	189,518	(759,832)
Income Before Taxes	$ 16,626,726	$ 11,170,285	$ 13,468,771

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (in part) Accounting Policies and Financial Statement Information

Foreign currency translation:

Assets and liabilities of foreign subsidiaries are translated at year-end rates of exchange and revenues and expenses are translated at the average rates of exchange for the year. Gains and losses resulting from translation are accumulated in a separate component of shareholders' equity. Gains and losses resulting from foreign currency transactions (transactions denominated in a currency other than the subsidiary's functional currency) are included in net income.

SCHERING-PLOUGH CORPORATION (DEC)

	1986	1985	1984
		(In Millions)	
Sales	$2,398.7	$2,079.2	$2,025.4
Operating Costs and Expenses:			
Cost of sales	750.4	665.1	651.1
Selling, general and administrative	1,038.1	915.7	885.5
Research and development	212.1	188.6	173.1
Total operating costs and expenses	2,000.6	1,769.4	1,709.7
Operating Income	398.1	309.8	315.7
Non-Operating Income (Expense):			
Investment income	83.6	56.0	59.4
Interest expense	(78.7)	(81.8)	(94.3)
Foreign exchange losses	(5.9)	(6.3)	(11.8)
Other, net	(22.8)	(14.4)	13.4
Total non-operating income (expense)	(23.8)	(46.5)	(33.3)
Income before Income Taxes	374.3	263.3	282.4

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in millions)

Foreign Currency Translation

The net assets of most of the Company's foreign subsidiaries are translated into U.S. dollars using current exchange rates; the U.S. dollar effects that arise from translating the net assets of these subsidiaries at changing rates during the year are recorded in the Foreign Currency Translation Adjustment account in shareholders' equity. Also recorded in the Foreign Currency Translation Adjustment account are exchange gains and losses on hedges of foreign net investments and on intercompany balances of a long-term investment nature. Other foreign currency transaction gains and losses are included in determining net income. During 1986 and 1985, net credits of $21.5 and $19.4, respectively, which include tax credits of $4.8 and $4.1, respectively, were recorded in the Foreign Currency Translation Adjustment account. During 1984, an aggregate charge of $48.4 was recorded; the related tax effects were not material.

For foreign subsidiaries operating in highly inflationary economies, principally Argentina, Brazil and Mexico, net nonmonetary assets are translated using historical rates, while net monetary assets are translated at current rates, with the U.S. dollar effects of rate changes included in net income.

Write-Down of Assets

GENERAL DYNAMICS CORPORATION (DEC)

	1986	1985	1984
		(In millions)	
Net sales	$8,892.0	$7,952.3	$7,291.3
Operating Costs and Expenses:			
Cost of sales and operating expenses	8,242.8	7,298.9	6,695.2
Cessna Aircraft purchase price write-off	420.2	—	—
	8,663.0	7,298.9	6,695.2
Operating Earnings	229.0	653.4	596.1

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in millions)

B. Cessna Aircraft

In 1985, the Corporation acquired approximately 95% of the outstanding common shares of Cessna Aircraft (Cessna), a manufacturer of general aviation aircraft, pursuant to a $30 per share cash tender offer dated 16 September 1985. Any shares not acquired in the tender offer were converted into a right to receive $30 per share in early 1986. The acquisition was accounted for as a purchase and, accordingly, the results of operations of Cessna since 27 October 1985, the effective date of acquisition, are included in the Consolidated Financial Statements.

The excess of the purchase price over initial estimates of the fair value of the net assets acquired was classified in the Consolidated Balance Sheet as Cost in Excess of Net Assets Acquired at 31 December 1985. The valuation of assets acquired and liabilities assumed, net of future tax considerations, at acquisition was completed during 1986. This process resulted in the following change in net assets:

	At Acquisition	
	Reported	Revalued
Working capital	$191.6	$119.6
Unconsolidated investments	135.9	135.9
Deferred charges and other assets	170.3	96.6
Property, plant and equipment, net	85.1	85.1
Noncurrent liabilities	(171.3)	(201.3)
Net assets acquired	411.6	235.9
Cash investment	611.9	611.9
Untendered stock and stock acquired in prior years	51.8	51.8
Purchase price	663.7	663.7
Cost in excess of net assets acquired	$252.1	$427.8

The Corporation announced on 9 January 1987 the write-off of the Cost in Excess of Net Assets Acquired of Cessna. Management's decision for this write-off was made after extensive studies commissioned by the Corporation in 1986 indicated a permanent impairment in the value of this asset due principally to the current and anticipated continued depressed conditions in the general aviation industry.

INGERSOLL-RAND COMPANY (DEC)

	1986	1985	1984
		(In thousands)	
Net sales	$2,799,481	$2,637,421	$2,478,120
Cost of goods sold	2,105,587	2,012,246	1,884,182
Administrative, selling and service engineering expenses	455,457	422,148	416,317
Restructure of operations	23,000	5,700	6,500
Operating income	215,437	197,327	171,121
Interest expense	60,900	62,490	75,586
Other income (expense), net	(16,592)	(2,156)	2,660
Nonrecurring gains	33,694	—	—
Nonrecurring charges	17,305	—	—
Earnings before income taxes and extraordinary item	154,334	132,681	98,195

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3—Restructure of Operations and Nonrecurring Charges:

In the third and fourth quarters of 1986, the company provided $17.3 million and $23 million, respectively, or $40.3 million for the year, for restructuring and other nonrecurring charges. These provisions were to write down certain assets and investments in partially owned affiliated companies involved in depressed energy-related businesses and to provide principally for estimated costs, including severance and closing costs, associated with the ventures recently formed or announced by the company.

During 1985, the company substantially completed the realignment of its international operations by disposing of a manufacturing facility in Brazil and obtaining local partners for its operations in Malaysia and Mexico. The company's interest in the operating results after the sale dates are included in equity in net earnings of partially owned affiliated companies. The company's interests in Malaysia and Mexico are included in investments in partially owned affiliated companies at December 31, 1986 and 1985.

In the fourth quarter of 1985, a $5.7 million charge was made for expenses associated with the consolidated and rearrangement of facilities. In the fourth quarter of 1984, the company provided $6.5 million to adjust the net realizable value estimate of closed manufacturing facilities.

Intangible Asset Amortization

BAXTER TRAVENOL LABORATORIES, INC. (DEC)

	1986	1985	1984
		(In millions)	
Net sales	$5,543	$2,348	$1,796
Operating costs and expenses			
Cost of goods and services	3,526	1,432	1,038
Marketing and administrative	1,331	590	442
Research and development	203	125	109
Special charge	—	—	145
Total operating costs and expenses	5,060	2,147	1,734
Operating income	483	201	62
Non-operating expenses (income)			
Interest expense	226	74	74
Interest income	(20)	(24)	(34)
Goodwill amortization	58	7	2
Other (income) expense, net	(41)	8	18
Total non-operating expenses	223	65	60
Income from continuing operations before income tax expense and extraordinary item	260	136	2

CAPITAL CITIES/ABC, INC. (DEC)

	1986	1985	1984
		(In thousands)	
Net revenues	$4,124,374	$1,020,880	$939,722
Costs and expenses			
Direct operating expenses	2,534,503	428,992	388,110
Selling, general and administrative	828,590	256,687	232,383
Depreciation	95,201	37,990	34,084
Amortization of intangible assets	63,402	19,710	17,633
	3,521,696	743,379	672,210
Operating income	602,678	277,501	267,512

Provision For Doubtful Accounts

HANDY & HARMAN (DEC)

	1986	1985	1984
Sales and service revenues	$558,917,000	$556,700,000	$619,507,000
Cost of sales and service	478,355,000	459,125,000	507,742,000
Gross profit	80,562,000	97,575,000	111,765,000
Selling, general, and administrative expenses (Note 7)	69,103,000	68,100,000	66,775,000
Restructuring charges	4,800,000	—	—
	73,903,000	68,100,000	66,775,000
Income from operations	6,659,000	29,475,000	44,990,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7 (in part): Supplemental Information

g—Provision for doubtful accounts included in selling, general and administrative expenses for 1986, 1985, and 1984 was $8,086,000, $3,360,000 and $2,059,000, respectively.

THE WURLITZER COMPANY (MAR)

	1986	1985	1984
Net Sales	$40,905,000	$39,267,000	$52,315,000
Costs and Expenses:			
Cost of Products Sold	37,938,000	33,222,000	40,382,000
Selling, Engineering and Administrative	8,685,000	9,562,000	9,396,000
Provision for Doubtful Accounts	584,000	670,000	171,000
Total Costs and Expenses	47,207,000	43,454,000	49,949,000
Earnings (Loss) from Operations	(6,302,000)	(4,187,000)	2,366,000

Minority Interest

CHAMPION INTERNATIONAL CORPORATION (DEC)

	1986	1985	1984
		(In thousands)	
Net sales	$4,387,623	$5,769,759	$5,121,089
Cost of products sold	3,590,044	4,866,613	4,316,054
Selling, general, and administrative expenses	359,641	539,360	503,171
Provision for wood products restructuring	—	—	220,100
Income From Operations	437,938	363,786	81,764
Interest and debt expense	164,645	170,895	102,187
Other (income) expense—net (Note 13)	(39,687)	(52,578)	(767)
Income (Loss) Before Income Taxes	312,980	245,469	(19,656)

Note 13. Other (Income) Expense—Net:

Other (income) expense—net includes the following:

Years Ended December 31 (in thousands of dollars)	1986	1985	1984
Interest income	$ (9,537)	$(28,878)	$(29,957)
Foreign currency losses—net	935	1,084	14,528
Minority interest in income of subsidiaries	6,801	2,247	8,579
Equity in net income of unconsolidated affiliates	(7,401)	(24,197)	(2,679)
Royalty, rental, and commission income	(4,053)	(4,658)	(5,844)
Net (gain) loss on disposal of fixed assets, timberlands and investments	(9,715)	(8,745)	16,005
Discount on sale of receivables	981	10,654	839
Miscellaneous—net	(17,698)	(85)	(2,238)
	$(39,687)	$(52,578)	$ (767)

Miscellaneous—net for 1986 includes gains attributable to favorable settlements of certain pre-acquisition St. Regis obligations. The Tax Reform Act of 1986 reduced the tax benefits that will become available when certain liabilities associated with the St. Regis acquisition are paid. The reduction was largely offset by other factors affecting these and similar liabilities.

COURIER CORPORATION (SEP)

	1986	1985	1984
Net sales	$122,517,000	$103,686,000	$95,663,000
Cost of sales	102,216,000	84,401,000	78,806,000
Gross profit	20,301,000	19,285,000	16,857,000
Selling and administrative expenses	13,404,000	11,429,000	10,575,000
Interest expense	1,394,000	1,163,000	488,000
Interest income	328,000	1,003,000	1,206,000
Other income (expense), net (Note J)	(268,000)	679,000	1,073,000
Income from continuing operations before taxes	5,563,000	8,375,000	8,073,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A. (in part): Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of Courier Corporation and all of its subsidiaries, including Anchor Brendon, Limited and North American Directory Corporation which are both 80% owned by the Company; the minority shareholders' interest in the equity and earnings of these subsidiaries are presented separately in the accompanying financial statements. All significant intercompany transactions have been eliminated.

J. Other Income (Expense)

Other income (expense) as reported in the accompanying income statements consisted of the following:

		Fiscal Year	
	1986	1985	1984
Net rental income	$ 624,000	$679,000	$ 675,000
Gain on sale of unused real estate	1,005,000	—	398,000
Gain on sale of an investment in an overseas printing firm	351,000	—	—
Costs related to union severance agreement	(1,950,000)	—	—
Minority interest in net income of consolidated subsidiaries (Note A)	(298,000)	—	—
Other income (expense), net	$ (268,000)	$679,000	$1,073,000

In September 1986, the Company entered into a job elimination arrangement with union employees of its North American Directory Corporation subsidiary. An agreement was reached which will result in a reduction of approximately 48 out of an average of 275 union positions in the directory operation. The severance arrangement provides for early retirement benefits to voluntary retirees, severance payments to persons involuntarily terminated, and incentive payments to union workers who remain employed.

SCOTT PAPER COMPANY (DEC)

	1986	1985	1984
		(In millions)	
Sales	$3,437.0	$3,049.5	$2,847.3
Costs and expenses			
Product costs	2,264.8	2,019.1	1,905.1
Marketing and distribution	635.2	553.9	488.1
Research, administration and general	182.0	170.0	149.8
Other	(13.4)	10.3	(1.9)
	3,068.6	2,753.3	2,541.1
Income from operations	368.4	296.2	306.2
Interest expense	122.0	81.4	64.2
Other income and (expense)	28.7	14.4	43.2
Income before taxes	275.1	229.2	285.2

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Other Income and (Expense)

(Millions)	1986	1985	1984
Interest income	$11.3	$ 7.7	$15.0
Dividend income	.2	11.8	19.5
Equity affiliate dispositions	19.0	(4.1)	(.2)
Legal settlement	—	—	9.6
Minority interest	(1.8)	(1.0)	(.7)
	$28.7	$14.4	$43.2

In 1986 Other Income and Expense for 1985 and 1984 has been restated to exclude gains and losses due to asset restructurings affecting income from operations.

Interest and dividend income results primarily from investments in marketable securities and time deposits.

In 1986 equity affiliate dispositions include the sale of Scott's interest in Amapá Florestal e Celulose S.A. (AMCEL) and the Company's indirect interest in British Columbia Forest Products Limited.

Minority interest represents that portion of earnings of the Company's consolidated international subsidiaries belonging to minority owners.

Equity in Losses of Investees

ECHLIN INC. (AUG)

	1986	1985	1984
		(In thousands)	
Net sales	$901,890	$771,390	$688,971
Cost of goods sold	613,606	533,195	476,033
Gross profit on sales	288,284	238,195	212,938
Selling and administrative expenses	195,186	155,233	136,428
Income from operations	93,098	82,962	76,510
Interest expense	12,335	11,155	7,490
Interest income	7,565	7,770	6,997
Interest expense, net	4,770	3,385	493
Equity in loss of Raymark Corporation	4,359	2,931	—
Income before taxes	83,969	76,646	76,017

Sale of Assets

DOVER CORPORATION (DEC)

	1986	1985	1984
Net sales	$1,439,843,585	$1,439,547,684	$1,288,480,966
Cost of sales	1,028,041,639	1,028,529,915	896,589,213
Gross profit	411,801,946	411,017,769	391,891,753
Selling and administrative expenses	270,432,381	250,176,263	215,876,864
Operating income	141,369,565	160,841,506	176,014,889
Other deductions (income):			
Interest expense	16,295,388	12,677,080	10,328,737
Interest income	(13,854,259)	(9,055,007)	(10,362,228)
Loss (gain) on sale of property, plant and equipment, net	873,965	(2,931,154)	804,828
Foreign exchange loss (gain)	534,880	(947,410)	(2,145,540)
All other, net	3,053,947	1,010,458	1,300,902
Total	6,903,921	753,967	(73,301)
Earnings before taxes on income	134,465,644	160,087,539	176,088,190

UNITED MERCHANTS AND MANUFACTURERS, INC. (JUN)

	1986	1985	1984
		(000 omitted)	
Net sales	$802,105	$795,360	$563,193
Cost of sales	$617,971	$602,899	$445,900
Selling, general and administrative expenses	155,428	133,361	73,615
	$773,399	$736,260	$519,515
Operating income	$ 28,706	$ 59,100	$ 43,678
Interest expense	$(51,494)	$(48,694)	$(20,952)
Interest income	7,717	5,976	3,023
Net interest expense	$(43,777)	$(42,718)	$(17,929)
Loss from termination and relocation of certain domestic operations	(5,803)	(23,586)	—
(Loss) gain on sale of foreign subsidiaries (Note 5)	(7,439)	4,187	—
Other income (expense)—net	3,207	1,266	1,046
Earnings (loss) before income taxes, minority interest and extraordinary item	$(25,106)	$ (1,751)	$ 26,795

Note 5 (in part): Foreign Operations

The Company's foreign operations are conducted by wholly-owned subsidiaries in Brazil, Ireland and England, a majority-owned subsidiary in Uruguay (95%) and joint ventures in Australia and Uruguay. In January 1985, the Company acquired the remaining 50% interest in Spun Glass Limited, a British corporation, not previously owned by it. The consolidated results of operations on a pro forma basis, as if Spun Glass Limited had been acquired at the beginning of fiscal 1985 and 1984, would not be materially different from the statements presented herein.

In January 1986, the Company sold its interest in its Venezuelan operations to affiliates of the local management, the principal subsidiary being Sudamtex de Venezuela, C.A. for $43,000,000 of which $28,096,000 has been paid through June 30, 1986, with the remainder to be payable as follows: $1,104,000 on January 31, 1987, which has been included in Receivables; $7,000,000 on January 31, 1989 and $6,800,000 on January 31, 1991, both of which have been included in Other Assets and Deferred Charges. The obligations bear interest at 1% above the Citibank, N.A. reference rate and are secured by certain of the securities purchased. In addition, the $7,000,000 payment due January 31, 1989 is secured by a bank letter of credit. A loss of $7,439,000 from the sale was included in the Company's results for the year ended June 30, 1986.

In July 1984, the Company sold its interest in the Argentine affiliate, Sudamtex S.A. Textil Sudamericana. A gain of $4,187,000 from the sale was included in operations for the year ended June 30, 1985.

Tender Offer Response Costs

THE GILLETTE COMPANY (DEC)

	1986	1985	1984
		(Millions of dollars)	
Net Sales	$2,818.3	$2,400.0	$2,288.6
Cost of Sales	1,183.8	992.1	959.8
Operating Expenses	1,223.7	1,027.5	976.5
Restructuring Expense	179.1	—	—
	2,586.6	2,019.6	1,936.3
Income from Operations	231.7	380.4	352.3
Nonoperating Charges (Income)			
Investment income, principally interest	(38.2)	(40.8)	(44.3)
Interest expense	85.2	88.5	79.3
Oil and gas operations	40.7	3.7	9.4
Tender offer response costs	19.4	—	—
Restructuring expense	25.9	—	—
Other charges—net	47.2	56.6	49.0
	180.2	108.0	93.4
Income before Income Taxes	51.5	272.4	258.9

NOTES TO FINANCIAL STATEMENTS

Tender Offer Response Costs

Tender offer response costs amounted to $19.4 million in 1986, including fees paid to the Company's investment bankers, outside legal counsel and other advisors. This amount also includes $9 million of Revlon Group's expenses in connection with its tender offer, including certain amounts paid to Revlon Group's investment bankers.

Litigation Settlement

HOLLY SUGAR CORPORATION (MAR)

	1986	1985	1984
		(In thousands)	
Sales	$260,184	$288,246	$259,664
Other income (expense) [includes gains on fixed asset sales]	(315)	1,288	8,861
Net revenue	259,869	289,534	268,525
Costs and expenses:			
Cost of sales	221,882	246,418	224,791
Selling, general and administrative	27,333	26,584	19,918
Depreciation	5,348	5,202	4,958
Interest expense	2,640	5,149	2,932
Total costs and expenses	257,203	283,353	252,599
Operating income	2,666	6,181	15,926
Other expenses:			
Settlement of litigation—Note 9	(1,000)	—	—
Closed plant expenses	—	(234)	(2,722)
Total other expenses	(1,000)	(234)	(2,722)
Income before income taxes	1,666	5,947	13,204

Note 9. Litigation:

In January 1984, the Company was named as a defendant in a lawsuit filed in the Federal District Court in Cheyenne, Wyoming, by six individual plaintiffs on behalf of themselves and five purported classes of plaintiffs. On September 23, 1985, the Company announced that it had entered into a Stipulation of Settlement in connection with this class action. The Stipulation of Settlement received final approval of the court on November 22, 1985 and the litigation was dismissed with prejudice. Pursuant to the Stipulation of Settlement, the Company paid an aggregate of $1,000,000 in settlement of the class action.

The Company is also involved in other claims and lawsuits but does not believe that the outcome of any of those matters will have a material adverse effect on the Company's financial condition.

Purchase Price Of Treasury Shares Exceeded Market Price

THE GOODYEAR TIRE & RUBBER COMPANY (DEC)

	1986	1985	1984
		(In millions)	
Net sales	$9,103.1	$8,377.7	$8,494.9
Other Income	121.6	114.2	82.9
	9,224.7	8,491.9	8,577.8
Cost and Expenses:			
Cost of goods sold	6,993.9	6,574.0	6,586.7
Selling, administrative and general expense	1,601.3	1,384.4	1,303.4
Interest and amortization of debt discount and expense	134.4	100.6	112.2
Unusual items:			
Restructuring costs	334.9	28.5	16.7
Pension settlement	(304.4)	—	—
Oil and gas write-down	214.8	—	—
Sale of facilities	(17.0)	(7.2)	(10.1)
Foreign currency exchange	18.8	33.8	46.9
Minority interest in net income of subsidiaries	9.6	6.6	6.5
	8,986.3	8,120.7	8,062.3
Income from continuing operations before income taxes	238.4	371.2	515.5

NOTES TO FINANCIAL STATEMENTS

Restructuring Costs

In connection with the Company's restructuring program charges of $334.9 million ($224.5 million after tax or $2.10 per share) were recorded. As an integral part of the program the Company acquired all of the 12,549,400 shares of the Company's common stock held by the General Oriental Group at a price of $49.50 per share. The Company also reimbursed and charged to 1986 income, certain expenses of $37.6 million. The General Oriental Group agreed not to acquire any of the Company's voting securities for five years and to use its best efforts to make certain banking facilities available to the Company. In addition, because the market price of the shares during the time of purchase was less than the amount paid, $34.5 million was charged against 1986 income. Such market price of the shares was recorded as the cost of treasury shares.

The before tax charge also includes $81.8 million from the closing of the Cumberland, Maryland and New Toronto, Ontario, Canada tire plants and the Windsor, Vermont shoe products plant. Also included are: $81.5 million for implementation of special employee reduction programs, $67.3 million from the disposal of assets no longer required and the incurrence of certain contractual costs, and other nonrecurring restructuring costs and fees of $32.2 million. Before tax charges of $28.5 million and $16.7 million were recorded in 1985 and 1984, respectively, for employee reduction programs.

Increase In Value Of Stock Appreciation Rights

THE INTERLAKE CORPORATION (DEC)

	1986	1985	1984
		(In thousands)	
Net Sales of Continuing Operations	$736,009	$635,327	$574,091
Cost of products sold	549,727	479,721	428,066
Gross profit	186,282	155,606	146,025
Selling and administrative expense	117,231	104,112	88,111
Unusual items of expense	5,496	—	—
Operating Income	63,555	51,494	57,914

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 5—Unusual Items of Expense

Interlake's announcement of its intention to reorganize and to spin off its iron, steel and domestic U.S. steel strapping businesses was closely associated with a significant advance in the price of Interlake's common stock during the first half of 1986. This resulted in certain unusual items of expense in connection with Interlake's stock incentive plans.

Interlake's stock incentive plans provide for the granting of stock awards (normally deliverable over a period of years) and stock appreciation rights (representing the spread between various stock option prices at the dates of grant and the market price). During the first half of 1986, the price of Interlake common stock (on a pre-split basis) advanced from $51⅞ at year-end 1985 to $81 at the date of the Spin-Off, and exceeded certain predetermined levels for more than ten consecutive days. Expense of $3,701,000 was recorded for the first half of 1986, reflecting the increased value of stock appreciation rights. The automatic conveyance of most undelivered stock awards was triggered under the terms of the plans, thereby accelerating recognition of expense of $1,795,000 for the first half of 1986.

The effect of these occurrences was to decrease income from continuing operations after taxes in 1986 by $2,968,000 ($.26 per share).

Repayment Of Wage Concessions

LACLEDE STEEL COMPANY (DEC)

	1986	1985	1984
		(In thousands)	
Net Sales	$236,575	$233,762	$231,643
Costs and Expenses:			
Cost of products sold	211,534	209,381	205,048
Selling, general and administrative expenses	9,172	8,034	7,244
Depreciation	4,486	4,012	3,620
Interest expense, net	2,852	2,348	1,709
Unusual item	1,330	300	2,000
Total costs and expenses	229,374	224,075	219,621
Earnings before income taxes and extraordinary credit	7,201	9,687	12,022

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 8. Unusual Item:

In 1983 the Company entered into an agreement with the United Steelworkers of America which included a Wage Restoration Plan. Under terms of the Plan the Company agreed to repay the wage concessions made by the Union during the periods June 6, 1982 through January 1, 1983 and January 30, 1983 through July 31, 1983 from future profits. A similar plan was developed for restoration of salaried concessions.

The terms of the agreement are that no repayment is required until 1986 and the amount of repayment in any year will be equal to the greater of 50% of the amount by which net income for the preceding year exceeds the limits listed below or the amount of any dividends paid by the Company in a fiscal year:

1985	$4,000,000
1986	$3,000,000
1987 and thereafter	$2,000,000

The total amount of wage and salary concessions subject to repayment was approximately $6,000,000.

The Company has also agreed to pay an annual sum equal to 7% of the unpaid concessions.

At the end of each year the Company evaluates the likelihood of future payment of concessions, either in whole or in part, and provides amounts that are probable of payment in accordance with FASB Statement No. 5, "Accounting for Contingencies."

In the years 1984, 1985 and 1986 these provisions amounted to $2,000,000, $300,000 and $1,330,000, respectively. This reduced net earnings in 1984 by $1,020,000 or $.38 per share, in 1985 by $162,000 or $.06 per share, and in 1986 by $743,000 or $.27 per share.

At December 31, 1986 unprovided concessions totaled $2,277,000.

Environmental Contingency

OUTBOARD MARINE CORPORATION (SEP)

	1986	1985	1984
		(In thousands)	
Net Sales	$971,828	$880,205	$911,195
Cost of Goods Sold including research and development	778,940	687,496	683,277
	192,888	192,709	227,918
Operating Expenses:			
Selling, general and administrative	157,603	131,419	128,585
Earnings from operations	35,285	61,290	99,333
Non-Operating Expense (Income):			
Interest expense	14,409	13,865	11,414
Special charge for environmental contingency (Note 18)	15,000	—	—
Other, net	(5,236)	(6,128)	(14,223)
	24,173	7,737	(2,809)
Earnings before provision for income taxes and extraordinary credit	11,112	53,553	102,142

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

18 (in part): Commitments and Contingent Liabilities

The Company is also engaged in the following significant, nonroutine legal proceedings:

As previously reported, in 1978 the Company, the Monsanto Company and the United States and Illinois Environmental Protection Agencies ("Agencies") initiated various litigation among each other in the United States District Court for the Northern District of Illinois, Eastern Division. The subject matter of these suits was the alleged presence of polychlorinated biphenyls in the water, biota and sediment of certain waterways adjacent to the Company's Waukegan, Illinois lakefront facility, in groundwater underlying and adjacent to said facility and on certain land of said facility. The suits by the Agencies sought to require Monsanto and the Company, jointly and severally, to cease any further discharge, to remove and dispose of all allegedly contaminated sediments and soils and to pay certain penalties.

On May 22, 1984, the Agencies jointly requested the Court to dismiss their suits. Their stated intention was to proceed on a "cleanup" of the Waukegan site to be funded under the Comprehensive Environmental Response, Compensation and Liability Act of 1980 ("Superfund") and thereafter to file a cost-recovery action against the Company. Subsequently, the Agencies indicated that they would implement a "fund-balanced" $27 million remedy. The Agencies have indicated that the remedy remains under design.

On February 6, 1985, the Court, over the Company's objection, permitted the Agencies to withdraw their suits. A condition of the dismissal prohibits the Agencies from refiling their suits and limits any further suit against the Company to a cost-recovery action under Superfund. The Court of Appeals has affirmed the decision of the District Court. The Company has filed a Petition for Writ of Certiorari to the U.S. Supreme

Court on the basis that a cost-recovery action also should be barred.

The Company has prepared, and will present to the Agencies in early December 1986, a proposal to resolve the matter. The cost of the remedy which forms the basis of the proposal is estimated to be $15 million and has been charged against 1986 earnings.

Proxy Contest And Merger Expenses

THE PENN TRAFFIC COMPANY (JAN)

	1987	1986	1985
		(In thousands)	
Sales and Revenues:			
Net sales and service fees	$547,991	$510,479	$541,765
Other revenues	7,991	5,888	3,841
	555,982	516,367	545,606
Costs and Expenses:			
Cost of sales (including buying and occupancy costs)	448,815	418,736	442,775
Selling and administrative expenses	87,380	81,543	90,333
Interest expense..........	3,580	3,432	3,657
Provision for store closings	83	943	2,400
Proxy contest and merger expenses (Note 13) ...	2,204	—	—
	542,062	504,654	539,165
Income before income taxes	13,920	11,713	6,441

Note 13. Proxy Contest and Merger Expenses and Subsequent Events

On January 25, 1987, the Company received an offer for all of its outstanding shares of common stock from a company affiliated with Miller Tabak Hirsh & Co., a New York based investment firm (MTH). The Company's Board of Directors voted to accept such offer and the Company entered into an agreement and plan of merger. As a result, investment banking and legal fees totalling $1,400,000 were incurred by the Company and have been presented with related proxy contest expenses as a separate item in the Consolidated Statement of Income. A total of 3,804,589 shares (91.6%) were owned by PTC Holdings at February 27, 1987, the date the Tender Offer expired.

The total amount of funds required by the acquirer to consummate the acquisition is approximately $141,730,000. The acquirer has secured written commitments from two lenders relating to the financing which is to be used to purchase shares to pay related fees and expenses and to pay existing long-term debt under the Revolving Credit Agreement. The commitments provide for aggregate investments of up to $138,730,000. The remaining $3,000,000 will be supplied from the Company's cash on hand.

The Company will be the surviving entity after the completion of the mergers with corporations established by MTH. The acquisition will be accounted for as a purchase, and accordingly, significant adjustments will be made to the amounts of assets and liabilities of the Company recorded in the January 31, 1987 consolidated balance sheet.

A shareholder group affiliated with MTH challenged certain proposals in the Company's proxy statement issued in connection with the 1986 Annual Shareholders' meeting. The proxy contest expenses and related legal fees incurred totalling $804,000 in connection with this matter have been presented with the tender offer and merger expenses as a separate item in the Consolidated Statement of Income.

Early Retirement Program And Product Withdrawal

SMITHKLINE BECKMAN CORPORATION (DEC)

	1986	1985	1984
		(In millions)	
Sales	$3,745.4	$3,256.6	$2,949.2
Operating costs and expenses:			
Cost of sales	1,315.2	1,200.2	1,031.2
Marketing, administrative and general	1,289.1	1,019.0	938.8
Research, development and engineering........	376.9	309.6	279.2
	2,981.2	2,528.8	2,249.2
Operating income	764.2	727.8	700.0
Nonoperating income (expense):			
Interest income	65.1	68.2	84.2
Interest expense..........	(51.0)	(37.7)	(46.6)
Nonrecurring charges.....	(57.8)	—	—
Other, net	1.8	(1.6)	(24.9)
	(41.9)	28.9	12.7
Earnings before income taxes......................	722.3	756.7	712.7

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in millions)

(7) Nonrecurring Charges

Nonrecurring charges to earnings in 1986 include early retirement program expenses of $41.8 and Consumer Health Care product withdrawal expenses of $16.0.

Early retirement program expenses include increased pension benefits and special onetime payments to eligible employees participating in the voluntary program.

In March 1986, after tampering incidents, the Company voluntarily withdrew "Contac," "Teldrin" and "Dietac" from the U.S. market. The $16.0 charge reflects customer returns, freight and handling expenses net of insurance proceeds. In June 1986, the Company reintroduced "Contac" and "Teldrin."

Termination Of Interest Rate Swaps

TRIBUNE COMPANY (DEC)

	1986	1985	1984
		(In thousands)	
Operating revenues	$2,029,813	$1,937,878	$1,794,436
Operating expenses			
Cost of sales (exclusive of items shown below)	1,121,489	1,099,171	1,068,750
Selling, general and administrative	508,795	500,165	451,616
Depreciation, depletion and amortization of intangible assets	96,741	97,130	85,594
Disposition of chemical operations	21,478	—	—
Total operating expenses	1,748,503	1,696,466	1,605,960
Operating income	281,310	241,412	188,476
Interest income	19,280	18,930	17,615
Interest expense	(54,306)	(35,346)	(33,898)
Termination of interest rate swaps	(12,335)	—	—
Sale of Los Angeles *Daily News*	138,318	—	—
Sale of cable television	145,000	—	—
Other—net	5,604	6,466	14,421
Income before income taxes	522,871	231,462	186,614

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4 (in part): Debt

The Company terminated $110,500,000 of interest rate swap agreements and repaid the related debt in the fourth quarter of 1986. The cost to terminate these agreements of $12,335,000 ($6,246,000 net of income tax) was charged against income.

Marketing Expenses

PEPSICO, INC. (DEC)

	1986	1985	1984
		(In millions)	
Net Sales	$9,290.8	$7,653.4	$7,107.6
Costs and Expenses			
Cost of sales	3,731.8	3,148.3	2,974.4
Marketing, administrative and other expenses	4,738.4	3,760.4	3,407.4
Refranchising (credit) charge	—	(25.9)	156.0
Interest expense	263.2	195.4	205.1
Interest income	(122.9)	(96.4)	(86.1)
	8,610.5	6,981.8	6,656.8
Income From Continuing Operations Before Income Taxes	680.3	671.6	450.8

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (In Part)

Marketing Costs. Costs of advertising and other marketing and promotional programs are charged to expense during the year, generally in relation to sales, and except for materials in inventory and prepayments, are substantially expensed in the year in which incurred. Certain discounts related to promotional programs in the soft drinks segment, which were previously included in the Consolidated Statement of Income under the caption "Marketing, administrative and other expenses," have been reclassified as a reduction of "Net Sales" for all periods presented. This reclassification conforms PepsiCo's presentation to industry practice.

EMPLOYEE RETIREMENT BENEFITS

Statements of Financial Accounting Standards No. 87 and *No. 88* are the authoritative pronouncements on pension accounting and reporting. The requirements of *SFAS No. 87*, except for the recognition of an additional minimum liability, are effective for fiscal years beginning after December 15, 1986. The effective date for recognition of an additional minimum liability, as defined in paragraphs 36-38 of *SFAS No. 87*, is fiscal years beginning after December 15, 1988. Of the 560 survey companies disclosing the existence of a pension plan, 285 have elected to comply with the requirements of *SFAS No. 87*.

Paragraph 54 of *SFAS No. 87* enumerates the disclosure requirements for a defined benefit pension plan. These disclosure requirements include disclosing the discount rate and rate of compensation increase used in determining the projected benefit obligation and the expected rate of return on plan assets. Table 3-8 shows the assumption rates used by the 285 survey companies for their domestic pension plans. Practically all of the companies classified as "Other" in Table 3-8 disclose that the rate used for an actuarial assumption was a range rather than a single percent.

In addition to providing pension plans for their employees, 332 survey companies disclosed that they provide postretirement health care and life insurance benefits. Paragraph 6 of *Statement of Financial Accounting Standards No. 81* sets forth the information that should be disclosed about health care and life insurance benefits.

Examples of employee retirement benefit disclosures follow.

PENSION PLANS

Defined Benefit Plans

ASHLAND OIL, INC. (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note A (In Part): Significant Accounting Policies

Pension costs

Effective October 1, 1985, Ashland changed its method of accounting for pension costs to conform with Financial Accounting Standards Board Statement No. 87, "Employers' Accounting for Pensions." This change increased net income by $8,831,000 ($.27 per share) in 1986.

Note L: Employees' Pension and Retirement Benefits

Ashland sponsors pension and retirement plans which cover substantially all employees, other than union employees covered by multiemployer pension plans under collective bargaining agreements. Benefits under these plans generally are based on the employee's years of service and compensation during the years immediately preceding retirement. Ashland's general funding policy is to contribute amounts deductible for federal income tax purposes.

Effective October 1, 1985, Ashland changed its method of accounting for pension costs (see Note A). Under this method, pension income of $16,920,000 was recognized in 1986, compared to expense of $36,000 in 1985 and $5,352,000 in 1984. An increase in the discount rate and plan amendments eliminating employee contributions had the net effect of decreasing pension cost by approximately $4,700,000 in 1985. The following tables detail the components of pension income under the new method, the funded status of the plans and amounts recognized in Ashland's consolidated balance sheets, and major assumptions used to determine these amounts.

(In thousands)	1986	1985
Components of pension income (expense)		
Service cost	$ (13,835)	
Interest cost	(32,515)	
Actual return on plan assets	152,379	
Net amortization and deferral	(89,109)	
	$ 16,920	
Plan assets at fair value (primarily listed stocks, bonds and guaranteed investment contracts)	$709,827	$574,697
Actuarial present value of projected benefit obligations		
Accumulated benefit obligations		
Vested	(365,394)	(244,183)
Nonvested	(4,545)	(22,014)
Provision for future salary increases	(102,617)	(67,403)
Excess of plan assets over projected benefit obligations	237,271	241,097
Unrecognized net loss	2,773	—
Unrecognized net asset	(225,538)	(243,511)
Prepaid (accrued) pension cost	$ 14,506	$ (2,414)
Major assumptions at year-end[1]		
Discount rate	8%	10%
Rate of increase in compensation levels	5%	5%
Expected long-term rate of return on plan assets	8%	8%

[1] Pension costs ore determined using the assumptions as of the beginning of the year. The funded status is determined using the assumptions as of the end of the year.

During October, 1986, Ashland purchased annuities covering most of the accumulated benefit obligations of its pension plans. After necessary regulatory approvals are received and the final cost of the annuities is determined, excess pension funds in certain plans will be contributed to the LESOP and used to retire a substantial portion of the LESOP debt (see Note J). While the purchase of annuities will constitute a settlement and result in a gain for financial reporting purposes, such gain will be largely offset by the portion of the LESOP contribution charged to expense. The remaining surplus in the other plans designated for reversion will be transferred to Ashland in 1988.

Certain union employees are covered under multiemployer defined benefit plans administered by unions. Amounts charged to pension cost and contributed to the plans were $4,968,000 in 1986, $4,596,000 in 1985 and $4,341,000 in 1984.

Ashland also sponsors a Thrift Plan to assist eligible employees in providing for retirement or other future financial needs. Employee contributions (up to 6% of their earnings) are matched by Ashland at a rate of 70% (20% for LESOP participants after 1986). Ashland's contributions to the Plan

TABLE 3-8: PENSION PLAN ASSUMPTION RATES

%	Discount Rate	Rate of Compensation Increase	Rate of Return
4	—	3	—
5	—	46	—
5.5	—	39	—
6	—	104	—
6.5	—	35	—
7	6	22	2
7.5	23	5	11
8	103	4	38
8.5	59	2	30
9	61	—	77
9.5	13	—	33
10	11	—	51
10.5	—	—	11
11	1	—	14
11.5 or greater	—	—	9
Other	8	25	9
Total Companies	**285**	**285**	**285**

amounted to $10,840,000 in 1986, $10,883,000 in 1985 and $10,613,000 in 1984.

Health care and life insurance benefits are provided for most employees who reach retirement while working for Ashland. The cost of such benefits (approximately $3,625,000 in 1986 and $3,250,000 in 1985 after employee contributions) are generally expensed as claims are paid.

THE BARDEN CORPORATION (OCT)

NOTES TO FINANCIAL STATEMENTS

Note G.

The Company has several defined benefit pension plans covering most U.S. employees. The benefits are based on years of service and the highest consecutive five-year average earnings during the last ten years of credited service prior to retirement.

Total pension expense approximated $336,000 (1986), $1,124,000 (1985) and $1,431,000 (1984). In October 1986, the Company elected early adoption of FASB Statement No. 87, "Employers' Accounting for Pensions" for the U.S. pension plans. The effect of this adoption was to reduce 1986 pension cost by approximately $720,000 and increase net earnings by approximately $365,000 ($.23 per share). Pension expense for 1985 has not been restated. The reduction in 1985 was due to minor changes in actuarial assumptions and methods.

In the past, the Company's policy has been to fund pension costs accrued. However, due to the adoption of the new pension accounting standards, this will not necessarily be true in the future.

The funded status of the Company's U.S. defined benefit pension plans at November 2, 1986 and November 3, 1985 is as follows:

	1986	1985
Actuarial present value of benefit obligations:		
Vested benefits	$21,115,683	$15,712,269
Nonvested benefits	454,597	213,658
Accumulated benefit obligations	21,570,280	15,925,927
Effect of assumed increase in compensation levels	4,757,405	5,581,474
Projected benefit obligations for services rendered to date	26,327,685	21,507,401
Plan assets at fair value	29,782,320	25,873,543
Excess of assets over projected benefit obligations	3,454,635	4,366,142
Unrecognized net loss	786,556	
Unrecognized net transition asset	(3,968,477)	(4,366,142)
Prepaid pension cost included in other assets	$ 272,714	

The discount rate and rate of increase in future compensation levels used in determining the actuarial present value of the projected benefit obligations were 7.75 percent and 5.45 percent, respectively, at November 2, 1986 and 9.25 percent and 6.95 percent, respectively, at November 3, 1985. The expected long-term rate of return on plan assets in 1987 was 7.75 percent.

The periodic net pension cost of defined U.S. benefit plans for 1986 include the following components:

Service cost—benefits earned during the period	$1,116,695
Interest cost on projected benefit obligations	1,903,661
Return on assets	
—Actual	(4,774,175)
—Deferred gain	2,428,221
Amortization of unrecognized net transition asset	(397,665)
Net periodic pension cost	$ 276,737

Plan assets consist principally of investments in the unallocated regular account of a group annuity contract, a guaranteed income contract, unallocated separate accounts investing in common stocks and a participating mortgage separate account.

Employees of the Company's foreign subsidiaries are covered by a pension plan. Commencing in 1990, the Company will be required to adopt certain accounting changes regarding its foreign plan under FASB Statement No. 87. However, the Company has not determined the impact, if any, of such changes. Plan assets exceed the actuarially computed vested benefits of these plans at October 30, 1986 and July 9, 1985.

CBI INDUSTRIES, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Thousands of dollars)

19. Retirement and Pension Benefits

CBI Pension Plan—

All employees of CBI Industries, Inc. and certain employees of subsidiaries are covered by the CBI Pension Plan. To qualify initially, employees must have worked 1,000 hours in a twelve month period. Employees do not make contributions to the plan. Company contributions are based on computations by independent actuarial consultants. Due to the present excess funded position of the CBI Pension Plan, no contributions have been made since 1981.

CBI adopted the income statement and disclosure provisions of Statement of Financial Accounting Standards No. 87 for the CBI Pension Plan for the year beginning January 1, 1986. The effect of this change was to reduce 1986 net periodic pension cost by $5,379. This reduction occurred primarily because FAS 87 requires a more rapid amortization of surplus assets.

Net periodic pension cost for 1985 and 1984 was determined under provisions of the previous pension accounting standard. Because of the significant changes in determining net periodic pension cost under FAS 87, cost for 1986 is not comparable to costs for 1985 and 1984.

The 1986 net periodic pension cost of $570 is computed as follows:

Service cost		$ 4,841
Interest cost		14,049
Actual return on plan assets		(26,876)
Net amortization and deferral		
Amortization of initial unrecognized net asset as of January 1, 1986	$ (564)	
Amortization of unrecognized prior service cost	0	
Amortization of unrecognized net gain/(loss)	9,120	
Total		8,556
Net periodic pension cost		$ 570
Net periodic pension cost as a percentage of valuation earnings		0.5%

Although the actual return on plan assets is shown, the expected long-term rate of return used in determining net periodic pension cost was 10%. The difference between the actual return and expected return is included in net amortization and deferral.

The actuarial present value of benefits was determined using a discount rate of 8%. The rate of compensation increase used to measure the projected benefit obligation was 6%.

The following table sets forth the funded status of the CBI Pension Plan at December 31, 1986:

Accumulated benefit obligation	
—Vested	$152,044
—Nonvested	6,335
—Total	$158,379
Projected benefit obligation	$188,251
Market value of plan assets	(189,066)
Unfunded projected benefit obligation	$ (815)
Unrecognized net transition asset	10,077
Pension liability recognized in the consolidated balance sheet	$ 9,262

The plans' assets include common stock, fixed income securities and short-term investments and cash.

Effective March 4, 1986, CBI amended the CBI Pension Plan to provide that, in the event of certain defined changes in control of the Company, any existing surplus assets in the CBI Pension Trust shall vest in the participants for the purpose of either future benefit increases or a distribution of such assets upon any termination of the Plan, eliminating any possible reversion of such assets to the Company.

Subsidiary Plans—

Nine subsidiaries sponsor eighteen different pension plans some of which require employee contributions. CBI has elected not to adopt FAS 87 early for foreign plans and has elected not to adopt FAS 87 for U.S. plans because they are not significant.

Total Pension Costs—

The provision for contributions to all plans totalled $3,511 in 1986, $8,791 in 1985 and $5,900 in 1984. The increased contribution for 1985 resulted from including Liquid Carbonic plans for a full year. These amounts include amortization of prior service cost over periods up to forty years.

Other Benefit Costs—

In addition to providing pension benefits, CBI provides certain life insurance and health care benefits for employees retiring under the CBI Pension Plan who are eligible for an immediate pension and who are not covered by a union retiree plan. Such benefits are nonvested. The cost of retiree life insurance benefits, which were $242 in 1986, $324 in 1985 and $353 in 1984, is recognized as an administrative expense as claims are paid.

In 1985, the CBI Pension Plan was amended to allow payment of retiree health care benefits from the CBI Pension Trust; however, such benefits remain nonvested. Effective January 1, 1986, the assets and benefit payments for these retiree benefits were separated from the CBI Pension Trust. 1986 benefits paid from these segregated assets were $2,036. $1,872 of such benefits were charged against the Trust in 1985. In 1984, $1,854 of retiree health benefits were charged to administrative expense.

COOPER INDUSTRIES, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Pensions

For the year ended December 31, 1986, domestic pension expense was determined in accordance with the requirements of Statement of Financial Accounting Standards (SFAS) No. 87—Employers' Accounting for Pensions. Nondomestic pension expense for all years and domestic pension expense for years prior to 1986 were determined as required by Accounting Principles Board (APB) Opinion No. 8—Accounting for the Cost of Pension Plans.

Note 5 (In Part): Plant and Equipment & Intangibles

	December 31, 1986	December 31, 1985
	(000 omitted)	
Intangibles:		
Goodwill	$908,340	$906,782
Asset related to pension plans	18,215	—
Other	13,590	12,580
	940,145	919,362
Accumulated amortization	(80,425)	(55,898)
	$859,720	$863,464

Note 7: Pensions and Other Benefit Plans

In the fourth quarter of 1986, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 87—Employers' Accounting for Pensions with respect to the determination of domestic pension expense for all of 1986. The effect of this change was not material to income for either the fourth quarter or the full year of 1986.

The Company and its subsidiaries have numerous pension, savings and/or profit sharing plans covering substantially all United States employees and, in foreign locations, pension and similar arrangements in accordance with local custom. Pension expense amounted to $7,900,000 in 1986, $7,800,000 in 1985 and $22,500,000 in 1984.

The 1986 pension expense reflects a reduction resulting from the adoption of SFAS No. 87 offset by improved benefits in several plans. The 1985 decrease in comparison to 1984 resulted from the adoption of a new actuarial cost method and a shorter amortization period for gains and losses with respect to the Salaried Employees' Retirement Plan of Cooper Industries, Inc. as well as the use of a higher interest rate assumption for most domestic pension plans.

In 1986, pension expense amounted to $5,900,000 ($4,700,000 in 1985 and $4,400,000 in 1984) with respect to contributions (generally set forth in labor agreements) made to United States defined contribution plans in which various groups of domestic hourly employees participate.

	Components of Domestic Defined Benefit Plan Pension Expense Year Ended December 31, 1986 (000 omitted)
Service cost—benefits earned during the period	$18,984
Interest cost on projected benefit obligation	51,732
Actual return on assets	(73,624)
Net amortization and deferral	3,143
Net pension cost	$ 235

	1986 Computational Assumptions	
	Net Pension Cost	Projected Benefit Obligation
Discount rate	8½%	8%
Rate of increase in compensation levels	6%	5½%
Expected long-term rate of return on assets	9½%	—
Benefit basis:		
Salaried plans—earnings during career		
Hourly plans—dollar unit multiplied by years of service		

	Funded Status of Domestic Defined Benefit Plans December 31, 1986	
	Plans With Assets in Excess of Accumulated Benefits	Plans With Accumulated Benefits in Excess of Assets
	(000 omitted)	
Actuarial present value of:		
Vested benefit obligation	$(396,076)	$(123,207)
Accumulated benefit obligation	$(524,521)	$(132,260)
Projected benefit obligation	$(541,521)	$(132,260)
Plan assets at fair value	614,560	116,843
Projected benefit obligation (in excess of) or less than plan assets	73,039	(15,417)
Unrecognized net loss	10,047	3,105
Unrecognized net (asset) obligation at January 1, 1986	(87,290)	9,557
Adjustment required to recognize minimum liability	—	(18,215)
Prepaid pension cost (pension liability) at December 31, 1986	$ (4,204)	$ (20,970)

The $18,215,000 liability for pension plans with accumulated benefits in excess of assets has been recorded in the Company's consolidated financial position as a long-term liability with an offsetting intangible asset. The assets of the various domestic pension plans are maintained in various trusts and consist primarily of equity and fixed income securities.

In years prior to 1986, the Company's policy was to fund all amounts expensed with respect to domestic pension plans. As a result of the adoption of SFAS No. 87, in 1986 and future years expensing and funding will be different. The Company's policy will be to fund normal cost plus an amortization of past service costs and actuarial gains and losses over periods ranging from 15 to 30 years.

The actuarially computed value of the Company's Canadian plans at December 31, 1986, reflect vested benefits of $11,700,000, nonvested benefits of $700,000 and $21,700,000 of plan assets. The actuarially computed value of vested benefits and plan assets has not been determined for the Company's pension and similar plans in countries other than the United States and Canada, although the amounts are not believed to be significant.

At December 31, 1985, based primarily on January 1, 1985, actuarial valuations of domestic and Canadian defined benefit plans and utilizing an overall weighted average interest rate of 8.8%, vested benefits amounted to $513,000,000, non-vested benefits amounted to $30,000,000 and the net assets available for benefits were $670,000,000.

In addition to pension plans, most of the Company's employees are covered by savings plans as well as employee stock ownership plans, and certain domestic employees of the acquired McGraw-Edison operations are covered by profit sharing plans. The expense related to the various profit sharing and savings plans amounted to $15,000,000 in 1986 ($8,300,000 in 1985 and none in 1984). During 1986, 85,000 (158,000 in 1985) shares of common stock were issued under the stock ownership plans. Contributions to the employee stock ownership plans do not affect net income because the Company receives a U.S. Federal income tax credit equal to the market value of the stock contributed.

THE DUN & BRADSTREET CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4. Retirement Plans

The Company has defined benefit pension plans which provide benefits to substantially all employees in the United States. Effective January 1, 1986, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 87 "Employers' Accounting for Pensions" for all of these plans. Adoption of SFAS No. 87 reduced 1986 pension costs by approximately $22,932,000. Pension cost (benefit) for 1986 is summarized as follows:

Service Cost	$17,546,000
Interest Cost	38,122,000
Actual Return on Plan Assets	(99,025,000)
Net Amortization and Deferral	27,886,000
Foreign Plans	8,314,000
Total Pension Benefit	$ (7,157,000)

During the fourth quarter of 1986, the Company offered a voluntary early retirement opportunity, enabling certain employees to elect early retirement. The early retirement opportunity, which was accounted for under SFAS No. 88, "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits," resulted in a charge to 1986 expense of $100 million.

Additionally a curtailment and settlement gain of $7,649,000 was included in the determination of the gain on the sale of Technical Publishing Company.

The Company's pension cost was $21,556,000 in 1985 and $29,984,000 in 1984.

The status of the defined benefit plans covering employees in the United States at December 31, 1986, is as follows:

	Funded	Unfunded
Fair Value of Plan Assets	$701,925,000	—
Actuarial Present Value of Benefit Obligations:		
Vested Benefits	(412,375,000)	$ (7,163,000)
Non-vested Benefits	(31,523,000)	(417,000)
Accumulated Benefit Obligation	(443,898,000)	(7,580,000)
Effect of Projected Future Salary Increases	(86,363,000)	(8,214,000)
Projected Benefit Obligation	(530,261,000)	(15,794,000)
Plan Assets in Excess of (Less than) Projected Benefit Obligation	171,664,000	(15,794,000)
Unrecognized Net (Gain) Loss	(5,588,000)	1,563,000
Unrecognized Prior Service Cost	1,800,000	1,077,000
Unrecognized Net (Asset) Obligation at December 31, 1986	(197,627,000)	5,774,000
Accrued Pension Cost	$ (29,751,000)	$ (7,380,000)

The expected long-term rate of return on plan assets was 9.0% for 1986 and 7.5% for 1985. The discount rate and rate of increase in future compensation levels used in determining the actuarial present value of accumulated benefit obligations at December 31, 1986, were 8% and 5.9%, respectively. Plan assets are invested in a diversified portfolio that primarily consists of equity and debt securities.

The actuarial present value of vested and non-vested accumulated plan benefits as of January 1, 1985, for funded plans was $322,350,000 and $35,207,000, respectively; net assets available for plan benefits amounted to $524,222,000.

In addition to providing pension benefits, the Company provides various health care and life insurance benefits for retired employees. Substantially all of the Company's domestic employees become eligible for these benefits if they reach normal retirement age while working for the Company. The costs of providing such benefits were not material to the Company's results of operations for 1986, 1985 and 1984.

CROWN CORK & SEAL COMPANY, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

H. Pensions

The Company and its affiliates have a number of benefit plans covering substantially all domestic and some employees of the foreign affiliates under which the cost of benefits is currently funded. The benefits for these plans are based primarily on years of service and employees' remuneration near retirement.

Plan assets consist principally of common stocks, including $25,879,000 of the Company's Common Stock, and U.S. government obligations.

In the fourth quarter of 1986, the Company adopted FAS 87 for all domestic pension plans, retroactive to January 1, 1986. Pension cost for these plans for 1986 and related disclosures as of December 31, 1986, are determined under the provisions of FAS 87. Pension cost for non-domestic plans in 1986 and for all plans in 1985 and 1984 was determined under the provisions of previous accounting principles.

The 1986 pension cost for domestic plans includes the following components:

(in thousand dollars)		
Service cost—benefits earned during the period		$ 2,019
Interest cost on projected benefit obligation		12,506
Return on assets—actual	($20,469)	
—deferred gain	7,656	(12,813)
Amortization of net unrecognized gain at January 1, 1986		(466)
Net pension cost for 1986		1,246
Cost attributable to plant closings		5,654
Total pension cost		$ 6,900

The funded status of domestic plans at December 31, 1986, was as follows:

(in million dollars)	Plans in which: Accumulated Benefits Exceeded Assets	Assets Exceed Accumulated Benefits	Total
Actuarial present value of:			
Vested benefit obligation	($ 99.0)	($46.1)	($145.1)
Non-vested benefits	(1.3)	(1.9)	(3.2)
Accumulated benefit obligation	($100.3)	($48.0)	($148.3)
Actuarial present value of projected benefit obligation	(100.7)	($57.5)	($158.2)
Plan assets at market value	81.7	67.0	148.7
Plan assets in excess of (less than) projected benefit obligation	(19.0)	9.5	(9.5)
Unrecognized (gain)/loss at January 1, 1986	4.5	(11.7)	(7.2)
Unrecognized 1986 net loss	7.0	2.8	9.8
(Accrued)/Prepaid pension cost at December 31, 1986	($ 7.5)	$ .6	($ 6.9)

The above information includes the effects of plan curtailments related to plant closings of $5,654,000, which were accounted for in accordance with FAS 88.

The projected benefit obligation was determined using an assumed discount rate of 9% (10% at January 1, 1986). The effect of this 1% change in the discount rate assumption was an increase of $17,449,000 in the aggregate unrecognized 1986 net loss.

The assumed long-term rate of return on plan assets is 10%. An assumed long-term rate of compensation increase of 7% was used for benefits based on employees' remuneration.

At December 31, 1985 the actuarial present value of accumulated plan benefits for the Company's domestic plans was $146,400,000 (of which $3,700,000 was non-vested) compared with net assets available for benefits of $134,987,000.

Certain domestic union employees participate in multiemployer retirement plans sponsored by their respective unions. Amounts charged to pension cost, representing the Company's required contribution to these plans for 1986, was $1,404,000. Pension coverage for employees of the Company's non-domestic affiliates is provided, to the extent deemed appropriate, through separate plans. The 1986 pension cost for these plans was $2,717,000.

On a consolidated basis, pension cost, including the cost of plan curtailments, for 1986 was $11,021,000. The 1986 pension cost is not directly comparable with 1985 and 1984 pension cost because of the significant changes in accounting for pension cost under FAS 87. The effect of the FAS 87 changes was to reduce 1986 pension cost by $6,100,000. Pension cost for 1985 and 1984 has not been restated and, as previously reported, was $11,264,000 in 1985 and $12,601,000 in 1984.

In addition to providing pension benefits, the Company provides certain health care and life insurance benefits for substantially all retired employees of the domestic operations. The cost of these benefits is recognized as expense as claims are paid. These costs totaled $1,459,000, $1,600,000 and $2,100,000 in 1986, 1985 and 1984, respectively.

CUMMINS ENGINE COMPANY, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 10: Retirement Plans

The company and its subsidiaries have several contributory and noncontributory retirement plans covering substantially all employees. Benefits for salaried plans are generally based on the employee's compensation during the three to five years preceding retirement. Under the hourly plans, benefits are generally based on various monthly amounts for each year of credited service. It is the company's policy to make contributions to these plans sufficient to meet the minimum funding requirements of applicable laws and regulations, plus such additional amounts, if any, as the company's actuarial consultants advise to be appropriate. Plan assets for these plans consist principally of equity securities and corporate and U.S. Government obligations.

Effective January 1, 1986, the company elected to adopt the provisions of Statement of Financial Accounting Standards No. 87, Employers' Accounting for Pensions, for its principal retirement plans in the United States and United Kingdom. The effect of this adoption was to reduce 1986 pension cost by approximarely $19.3 million. Net periodic pension cost (credit) for these plans consisted of the following in 1986:

$ Millions	U.S. Plans	U.K. Plans
Service cost for benefits earned during the year	$ 15.2	$1.9
Interest cost on projected benefit obligation	49.0	3.9
Actual return on plan assets	(132.6)	(8.8)
Amortization of transition asset	(8.3)	(.7)
Other amortization and deferral	70.7	3.2
Net pension cost (credit)	$ (6.0)	$ (.5)

The following table sets forth the funded status of these plans at September 30, 1986, and the amounts recognized in the company's *Consolidated Statement of Financial Position* at December 31, 1986:

$ Millions	U.S. Plans	U.K. Plans
Actuarial present value of:		
Vested benefit obligation	$(605.2)	$(19.3)
Accumulated benefit obligation	$(619.3)	$(19.9)
Projected benefit obligation	$(679.8)	$(45.3)
Plan assets at fair value	735.8	59.6
Excess of assets over projected benefit obligation	56.0	14.3
Unrecognized net experience gain	(11.4)	(6.9)
Unrecognized prior service cost	—	1.5
Accrued pension liability	53.1	.7
Unrecognized net asset	$ 97.7	$ 9.6

The projected benefit obligation for the U.S. plans was determined using a weighted-average discount rate of 7.6 percent, and for salaried plans an assumed long-term rate of compensation increase of 1.5 percent over expected inflation. For the U.K. plans, the projected benefit obligation was determined using a weighted-average discount rate of 10 percent and an assumed long-term rate of compensation increase of 2 percent over expected inflation. The long-term rates of return on assets were assumed to be 10 percent for the U.S. plans and 11¼ percent for the U.K. plans during 1986.

Pension cost was determined under the provisions of previous accounting principles in 1985 and 1984 and aggregated $10.4 million and $10.2 million, respectively. The company increased the assumed rate of investment return of its U.S. salaried plan in 1985 and for all its U.S. plans in 1984, which had the effect of reducing pension cost by $4.3 million and $6.9 million, respectively. The actuarial present value of accumulated plan benefits for the U.S. plans at December 31, 1985, was $390.4 million (of which $63.7 million was nonvested), compared with net assets available for benefits of $631.0 million. Accumulated plan benefit information for 1985 was estimated by the company's actuarial consultant using a 9 percent assumed interest rate for the U.S. salaried plan and 8 percent for all other U.S. plans. Such benefit and net asset information was not available for foreign plans.

The company also has an excess benefit plan and a supplementary life insurance plan, which are nonqualified plans that provide officers and certain employees with defined retirement benefits in excess of qualified plan limits imposed by Federal tax law. At December 31, 1986, the projected benefit obligation for these plans totaled $10.6 million, of which $4.0 million (comprised of an unrecognized net obligation of $1.8 million and unrecognized net losses of $2.2 million) is subject to later amortization. The remaining $6.6 million is included in the accrued pension liability in the company's *Consolidated Statement of Financial Position*.

In addition to providing pension benefits, the company and its subsidiaries provide certain health care and life insurance benefits for retired employees in the United States. The cost of these benefits is recognized as claims and premiums are incurred and, exclusive of amounts for early retirees, aggregated $5.1 million in 1986, $4.6 million in 1985 and $3.3 million in 1984.

HERSHEY FOODS CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8. Retirement Plans and Other Retiree Benefits

The Corporation and its subsidiaries sponsor a number of defined benefit retirement plans covering substantially all employees. Plans covering salaried employees provide retirement benefits based on career average or final pay compensation as defined within the provisions of the individual plans, while plans covering hourly employees generally provide benefits based on years of service. The Corporation's policy is to fund the normal cost plus amounts required to amortize actuarial gains and losses and prior service costs over periods ranging from 15 to 30 years. Plan assets are invested in a broadly diversified portfolio consisting primarily of domestic and international common stocks and fixed income securities. The Corporation also participates in several multiemployer retirement plans which provide defined benefits to employees covered under certain collective bargaining agreements.

In the fourth quarter of 1986, the Corporation adopted Statement of Financial Accounting Standards No. 87, "Employers' Accounting for Pensions" (FAS No. 87), for all domestic retirement plans, retroactive to January 1, 1986. Pension expense for the Canadian plan in 1986 and for all plans in 1985 and 1984 was determined using provisions of previous accounting principles. In accordance with the provisions of FAS No. 87, pension expense for 1985 and 1984 has not been restated. Pension expense for the first three quarters of 1986 was not restated as the effects would not have been material.

Pension expense for 1986 is not directly comparable with 1985 and 1984 because of the significant changes in accounting for pension expense under FAS No. 87. If FAS No. 87 had not been adopted for domestic plans in 1986, pension expense for 1986 would have been higher than 1985, primarily due to benefit improvements in certain salary and hourly plans. The pension expense decrease under FAS No. 87 reflects revised salary increase assumptions recognizing the outlook for lower inflation, updated discount rates and investment return rates based upon expectations of long-term rates of return.

The following is a summary of consolidated pension expense for the year ended December 31, 1986 (in thousands of dollars):

Corporate sponsored domestic pension plans, prior to application of FAS 87	$14,703
Effect of adopting FAS 87	(7,270)
Corporate sponsored domestic pension plans	7,433
Multiemployer plans	558
Canadian pension plan	221
Other	355
Total pension expense	$ 8,567

Pension expense for the years ended December 31, 1985 and 1984 was $13,810,000 and $13,542,000, respectively.

For the year ended December 31, 1986, pension expense for the domestic plans sponsored by the Corporation included the following components (in thousands of dollars):

Service cost (benefits earned during the period)	$ 9,758
Interest cost on projected benefit obligation	16,689
Investment return on plan assets	(31,514)
Net amortization and deferral	12,500
Corporate sponsored domestic pension plans	$ 7,433

The projected benefit obligation for the domestic plans was determined using an assumed discount rate of 8.5% and an assumed long-term compensation increase rate of principally 6%. The assumed long-term rate of return on plan assets was 9.5%.

The following table sets forth the funded status and amounts recognized in the consolidated balance sheet at December 31, 1986 for the domestic plans sponsored by the Corporation:

(in thousands of dollars)	Assets Exceed Accumulated Benefits	Accumulated Benefits Exceed Assets
Actuarial present value of:		
Vested benefit obligation	$162,521	$4,101
Accumulated benefit obligation	$173,498	$5,272
Projected benefit obligation	$210,123	$9,154
Plan assets at fair value	237,670	—
Plan assets greater than (less than) the projected benefit obligation	27,547	(9,154)
Unrecognized net (gain) loss at January 1, 1986	(6,862)	5,890
Unrecognized net (gain) loss during the year	(12,784)	(75)
Prepaid pension expense (pension liability) at December 31, 1986	$ 7,901	$(3,339)

The actuarial present value of consolidated accumulated benefits for the Corporate sponsored domestic pension plans at December 31, 1985 was $168,476,000 (of which $8,307,000 was nonvested), compared with market value of net assets available for benefits of $199,461,000. The assumed rate of return used in determining the actuarial present value of accumulated plan benefits was 8%.

Retirement benefits provided to employees in Canada are based on local practice and are administered through a separate plan. In accordance with transition provisions, the Corporation has not adopted FAS No. 87 for this plan. The actuarial present value of accumulated benefits for this plan at April 1, 1986 was $2,535,000 (of which $186,000 was nonvested), compared with net assets available for benefits of $4,661,000. The assumed average rate of return used in determining the actuarial present value of benefits was 7.5%.

The Corporation and its subsidiaries provide certain health care and life insurance benefits for retired employees. Substantially all of the Corporation's domestic employees become eligible for these benefits at normal retirement age. Retiree health care and life insurance premiums of $2,250,000, $2,027,000 and $1,760,000 were expensed as paid during 1986, 1985, and 1984, respectively.

PHILLIPS PETROLEUM COMPANY (DEC)

NOTES TO FINANCIAL STATEMENTS

Note 12: Retirement Income Plans

The company elected to adopt FASB Statement No. 87, "Employers' Accounting for Pensions," with respect to its U.S. retirement plans, effective January 1, 1985. Application of FASB Statement No. 87 increased 1985 earnings $57 million before-tax, $31 million after-tax ($.11 per common share).

The company has defined benefit retirement plans covering substantially all employees. Effective September 1, 1986, the company's principal retirement plan was restructured into two separate plans—one covering active employees and the other covering retirees. Annuity contracts, purchased from an insurance company, settled the company's obligation for retiree benefits as well as those accrued by active employees as of September 1, 1986. On that date, a surplus of $125 million of assets remained in the active plan. Surplus funds of $379 million were returned to the company.

The active plan is noncontributory and benefits for service on or after September 1, 1986, are based on an employee's years of service and average earnings for the three highest consecutive calendar years of compensation during the 10 years immediately preceding retirement. Plans of subsidiaries which have not adopted the company's principal retirement plan are generally noncontributory with benefit formulas based on employee earnings, credited service or both. The company's funding policy for U.S. plans is to contribute the minimum required by the Employee Retirement Income Security Act of 1974. Plans for the majority of foreign employees are fully insured, and premiums are expensed when paid. Pension cost (income) was as follows:

	Millions of Dollars		
	1986	1985	1984
U.S. Plans			
Service cost—benefits earned during the period	$ 23	28	38
Interest cost on projected benefit obligation	64	101	—
Return on assets			
Actual	(158)	(300)	—
Deferred gains	64	149	—
Amortization of			
Net asset	(18)	(31)	—
Unrecognized net gains	(7)	—	(37)
Net pension cost (income) for U.S. plans	(32)	(53)	1
Foreign Plans	8	8	7
Net pension cost (income)	$ (24)	(45)	8
Assumptions Used for U.S. Plans— Weighted Average at December 31			
Discount rate	9¼%	9¼	8
Rate of increase in compensation levels	6¼	7	6
Long-term rate of return on assets	9¼	9¼	8

In determining net pension cost, the company has elected to amortize, on a straight-line basis over 10 years, net gains and losses arising subsequent to its adoption of FASB Statement No. 87 effective January 1, 1985. The restructuring of the company's principal retirement plan in 1986 increased pension cost $22 million.

All the company's funded U.S. plans have assets in excess of the accumulated benefit obligation. Assets include commingled funds, a participation right to an annuity contract, deposit administration insurance contracts and real estate. The following table presents the funded status of the plans and a reconciliation with (accrued) prepaid pension cost and deferred gain on reversion at December 31.

	Millions of Dollars	
	1986	1985
Plan assets at fair value	$158	1,454
Actuarial present value of benefit obligations		
Vested benefits	47	688
Nonvested benefits	1	39
Accumulated benefit obligation	48	727
Effect of projected future salary increases	105	219
Projected benefit obligation	153	946
Plan assets in excess of projected benefit obligation	5	508
Unrecognized net gains	(12)	(96)
Unrecognized net asset	(96)	(353)
(Accrued) prepaid pension cost and deferred gain on reversion	$(103)	59

The restructuring at September 1, 1986, reduced the plan assets $1,316 million, the projected benefit obligation $937 million, the unrecognized net gains $37 million, and the unrecognized net asset $238 million.

RANCO INCORPORATED (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9. Retirement Plans and Accounting Changes

At September 30, 1986, the Company and its subsidiaries had a number of retirement plans covering substantially all full-time employees except those at certain foreign subsidiaries. These plans provide benefits based on an employee's years of service and compensation or stated amounts for each year of service. The Company also has contractual arrangements with certain key employees which provide supplemental retirement benefits. In general, the Company's policy is to fund its pension plans based on legal requirements, tax considerations, local practices and investment opportunities.

In the third quarter of fiscal 1986, the Company adopted the provisions of the new Financial Accounting Standards Board Statement No. 87 "Employers' Accounting for Pensions," (FASB 87), which changed the accounting for its U.S. and U.K. pension plans. Concurrent with the adoption of FASB 87, the Company modified its actuarial assumptions on its U.K. plans. All of these changes were effective as of the beginning of the fiscal year and had the effect of decreasing 1986 pension expense by $1,300,000 ($.19 per share).

In the fourth quarter of fiscal 1986, the Company cut back its salaried and hourly personnel to reduce costs. This led to a pretax curtailment gain under the provisions of Financial Accounting Standards Board Statement No. 88 "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and Termination Benefits" (FASB 88), of $220,000 ($.03 per share). Also in the fourth quarter of fiscal 1986, several of the Company's pension plans purchased irrevocable annuities from an insurance company for certain retired participants. This resulted in a $3,574,000 pretax settlement gain ($.52 per share) under FASB 88 rules. Plan assets and liabilities at September 30, 1986 shown below reflect the effects of these actions.

Pension cost (income) for 1986 included the following components:

(Dollars in thousands)	
Service cost—benefits earned during the year	$1,359
Interest cost on projected benefit obligations	3,144
Actual investment earnings on plan assets	(8,802)
Net amortization of initial transition credit and deferral of subsequent gains under FASB 87	3,193
Curtailment gain	(220)
Settlement gain	(3,574)
Net pension cost (income)	$(4,900)

During 1985, the Company changed certain actuarial assumptions for its principal U.S. plans and other retirement arrangements, including the assumptions for interest rate and salary increases, to more closely approximate current expectations. The effect of these changes was to reduce 1985 pension expense by approximately $1,400,000. Total pension expense for 1985 and 1984 was $333,000 and $1,659,000, respectively.

The funded status of plans and the prepaid pension cost recognized at September 30, 1986 was as follows:

(Dollars in thousands)	U.S. Plans	Non-U.S. Plans
Actuarial present value of benefit obligations:		
Vested benefits	$16,400	$ 4,100
Non-vested benefits	1,200	200
Accumulated benefit obligation	17,600	4,300
Impact of future salary increases	4,400	1,900
Projected benefit obligation	22,000	6,200
Plan assets at fair value	31,400	13,500
Plan assets in excess of projected benefit obligations	9,400	7,300
Balance sheet accruals	904	
Items not yet recognized in income:		
Initial transition credit which is being amortized over approximately 14 years	(6,400)	(4,800)
Subsequent net (gains)	(22)	(1,685)
Prepaid pension cost included in other assets	$ 3,882	$ 815
At September 30, 1986:		
Discount rate for plan obligations	8%	9%
Projected compensation increase for pay related plans	6%	6%
Assumed long-term return on plan assets	9%	11%
Plan asset investments:		
Debt securities	$16,200	$ 4,000
Equity securities	14,410	9,000
Cash or equivalents	790	500
	$31,400	$13,500

As estimated by consulting actuaries for the Company's principal U.S. plans, assets available for plan benefits at September 30, 1985 ($40.5 million) exceeded the actuarial present value of accumulated plan benefits by approximately $14 million, using then current rates and assumptions. The assumed rate of return used in determining the actuarial present value of accumulated plan benefits was 9% in 1985 and 7½% in 1984.

Several of the Company's foreign pension plans do not determine the actuarial value of accumulated plan benefits as calculated and disclosed above. However, there is not a material difference between the liability for plan benefits and the total of plan assets and accruals.

The Company has an Employee Stock Ownership Plan (PAYSOP) and a Retirement Savings Plan (RSP) for certain of its employees, both of which were adopted in 1985. The Company makes contributions in shares under the provisions of each of these plans. The Company receives an equivalent Federal income tax credit as a result of its contribution to the PAYSOP. Therefore, except for administrative costs, this plan has no effect on net income. Company contributions to the RSP were $558,000 in 1986 and $392,000 in 1985.

In addition to providing pension benefits, the Company provides health care benefits for most of its U.S. employees who elect to take early retirement. These benefits are provided on a contributory basis until the employee reaches age 65. The cost to provide retiree health care benefits is recognized as claims are paid. For 1986 and 1985, these costs were not material.

THE SINGER COMPANY (DEC)

NOTES TO FINANCIAL STATEMENTS

16. Pension Plans and Other Postretirement Benefits

The Company has a number of pension plans which cover substantially all of its employees who meet eligibility requirements. Benefits under the plans are generally based on the employee's compensation during the five years before retirement. However, certain pension plans covering hourly employees provide benefits of stated amounts for each year of service. The pension plans in the United States are being funded in accordance with the requirements of the Employee Retirement Income Security Act of 1974.

Pension expense was $5.4 million, $25.1 million, and $27.9 million in 1986, 1985, and 1984, respectively. The lower 1986 expense reflects the adoption of Statement of Financial Accounting Standards No. 87, "Employers' Accounting for Pensions." The following assumptions and components were used in 1986 to develop the net pension expense (Dollar Amounts in Millions):

	1986
Assumptions:	
Discount rate	9%
Rates of increase in compensation levels	6
Expected long-term rate of return on assets	11
Components:	
Service cost—benefits earned during the period	$17.5
Interest cost on projected benefit obligation	45.6
Actual return on assets	(56.4)
Amortization of deferred plan items—net	(1.3)
Pension expense—net	$ 5.4

The following table sets forth the funded status of the plans and amounts recognized in the Company's Balance Sheet at December 31, 1986 (Amounts in Millions):

	Assets Exceed Accumulated Benefits	Accumulated Benefits Exceed Assets
Actuarial Present Value of Benefit Obligations:		
Vested benefit obligation	$288.8	$ 94.0
Accumulated benefit obligation	$282.2	$ 96.3
Projected benefit obligation	$446.6	$123.4
Plan assets at fair value*	524.4	87.6
Projected benefit obligation (in excess of) or less than plan assets	77.8	(35.8)
Unrecognized net (gain)	(19.2)	(1.0)
Unrecognized net obligation (asset) at January 1, 1986	(29.8)	8.5
Prepaid pension expense (pension liability) recognized in the Balance Sheet	$ 28.8	$ (28.3)

*Plan assets are invested in publicly traded stocks and bonds, U.S. government securities, and approximately $20 million in venture capital funds.

In the 1986 fourth quarter, the Company recorded one-time gains as a result of the curtailment of benefits and the settlement of certain pension obligations, related to a personnel reduction plan, and the spin-off of SSMC. The gains totaled $12.4 million for continuing operations and $3 million for discontinued operations.

In addition to pension benefits, the Company provides certain health care and life insurance benefits for retired employees. Substantially all of the Company's U.S. employees may become eligible for those benefits if they reach normal retirement age while working for the Company. The cost of retiree health care and life insurance benefits is recognized as expense as claims and premiums are paid. These costs totaled $10.4 million, $9.2 million, and $9.6 million in 1986, 1985, and 1984, respectively.

TALLEY INDUSTRIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Pension Plans

The Company and its subsidiaries have pension plans covering a majority of their employees. Normal retirement age is 65, but provision is made for early retirement. For subsidiaries with defined benefit plans, benefits are generally based on years of service and salary levels. Contributions to the respective defined contribution plans are based on each participant's annual pay and age.

In December, 1986, the Company adopted, retroactive to January 1, 1986, the principles of Statements of Financial Accounting Standards No. 87 and No. 88, "Employers' Accounting for Pensions" and "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits". Accordingly, the Company changed its actuarial method from the "Entry-Age Normal Cost Method" to the "Projected Unit Credit Method". The effect of the change resulting from adoption of new accounting statements had no material effect on 1986 pension expense. Pension expense in 1986, 1985 and 1984, including contributions to defined contribution plans, was $2,525,000, $2,829,000 and $2,477,000, respectively. Pension expense in 1985 and 1984 was determined in accordance with Accounting Principles Board Opinion No. 8 to include current service cost and amortization of unfunded prior service costs over 40 years.

As permitted by the new accounting standards, the Company has elected not to adopt currently the provision that would recognize a pension asset or liability in the Consolidated Balance Sheet. If such amounts were recorded on the Consolidated Balance Sheet, "Intangibles" and "Other Liabilities" would each increase $1,166,000. The reversion of surplus assets from terminated plans resulted in a net after tax gain in 1986 of $2,155,000.

For funding purposes the Company makes, as a minimum contribution to the defined benefit plans, the equivalent of the minimum required by the Employee Retirement Income Security Act of 1974. Pension cost for defined benefit plans in 1986 included the following components (in thousands):

Service cost-benefits earned during the year	$ 976
Interest cost on projected benefit obligation	1,913
Actual return on assets	(3,183)
Net amortization and deferral	1,248
Net pension cost	$ 954

The following table sets forth the aggregate funded status of defined benefit plans at December 31, 1986 (in thousands):

	Assets Exceeded Accumulated Benefits	Accumulated Benefits Exceed Assets
Fair value of plan assets	$14,863	$ 8,670
Projected benefit obligation	12,987	10,971
Projected benefit obligation (in excess of) or less than plan assets	1,876	(2,301)
Unrecognized net asset (liability)	(187)	2,224
Prepaid pension costs (pension liability)	$ 1,689	$ (77)
Accumulated benefits	$12,654	$ 9,836
Vested benefits	11,799	9,278

Assumptions used in 1986 to develop the net periodic pension cost were:

Assumed discount rate	8%
Assumed rate of compensation increase	5%
Expected rate of return on plan assets	9%

Assets of the Company's pension plans consist of marketable equity securities, guaranteed investment contracts and corporate and government debt securities.

Under terms of the Employee Stock Purchase Plan which was adopted in 1984, eligible employees working in the United States may make contributions of up to five percent of their compensation. The Company contributes an additional amount to the Plan equal to fifty percent of employee contributions. Company contributions for the years ended December 31, 1986, 1985, and 1984 totalled $789,000, $692,000 and $611,000, respectively.

Defined Contribution Plans

LIZ CLAIBORNE, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 12. Retirement and Savings Plans

The Company adopted a noncontributory, defined contribution retirement plan in January 1983. The plan covers all U.S. employees who are 21 years of age with one or more years of service and who are not covered by collective bargaining agreements. Employees qualify for benefits upon reaching the age of 65 or completing 20 years of service. Early retirees qualify provided they have reached the age of 60 and have completed 11 years of service. Vesting begins at 40% after 4 years of service. After 5 years, 45% is vested and after the 6th year, 50% is vested. From the 7th through 11th years, vesting increases by 10% each year until full vesting occurs. The Company's 1986, 1985 and 1984 retirement plan contribution expenses, which are included in selling, general and administrative expenses, were $1,439,000, $764,000 and $536,000, respectively.

The Company adopted a 401(k) savings plan as of January 1, 1985. The plan covers all U.S. employees who are 21 years of age with one or more years of service and who are not covered by collective bargaining agreements. The Company's 1986 and 1985 savings plan contribution expenses, which are included in selling, general and administrative expenses, were $395,000 and $223,000, respectively.

These plans will be amended to conform with the provisions of the Tax Reform Act of 1986.

FLEETWOOD ENTERPRISES, INC. (APR)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6. Retirement Plans

The Company has defined contribution retirement plans covering substantially all employees. There are no prior service costs associated with these plans. The Company follows the policy of funding retirement plan contributions as accrued. Contributions to these plans are summarized as follows:

Amount in thousands	
1986	$8,779
1985	8,643
1984	8,252

GEORGIA-PACIFIC CORPORATION (DEC)

NOTES TO FINANCIAL STATEMENTS

Note 5 (In Part): Retirement Plans

Defined Contribution Plan.

The Corporation also sponsors a Savings and Capital Growth Plan (Savings Plan) to provide eligible salaried employees with additional income upon retirement. The Corporation makes annual contributions to the Savings Plan equal to 3% of the first $100,000 of each participant's annual compensation, as defined. The Corporation also matches 50% of voluntary before-tax contributions up to a maximum matching contribution of 3% of a participant's compensation. At November 30, 1986, approximately 11,000 employees were eligible to participate in the Savings Plan, which had net assets of approximately $260 million.

The cost of the Savings Plan was $15 million in 1986 and $13 million in 1985. In 1984, the Corporation contributed $5 million to its former Stock Bonus Plan, which was amended and restated as the Savings Plan effective January 1, 1985. Annual contributions to the former Stock Bonus Plan were limited based on the availability of the Corporation's profits.

JWT GROUP, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Retirement Plans (In Part)

U.S. Defined Contribution Plans

The Company and several of its U.S. subsidiaries maintain defined contribution plans covering all of their eligible U.S. employees. Also, the Company and one of its subsidiaries have a supplemental retirement plan for certain key employees. The defined contribution plan expense was $15,993,000, $14,195,000 and $12,393,000 in 1986, 1985 and 1984, respectively.

The retirement plans of the Company and several of its U.S. subsidiaries include profit sharing and, in some instances, money purchase pension elements. The amounts of profit sharing contributions are determined by the boards of directors of the relevant employers ("the Employers"). The money purchase pension element of the various plans requires an annual contribution by the Employers of 3% to 5% of eligible compensation. The participants in the supplemental retirement plan accrue benefits equivalent to contributions that would be made under their regular retirement plans but for ceiling limitations imposed by the Internal Revenue Code.

The Company and several of its U.S. subsidiaries maintain matched savings plans that permit both pretax and after-tax employee contributions. Participants can contribute from 3% to 10% of their pretax compensation and receive a 50% matching employer contribution on up to 6% of this contribution. The plans also provide for after-tax employee contributions ranging from 1% to 10% with no employer matching contribution.

In addition to the foregoing, effective December 31, 1986, a subsidiary of the Company terminated two defined contribution plans originally sponsored by acquired companies. One such plan was a money purchase pension plan and the other plan was a profit sharing and a matched savings plan. Assets of these plans will be distributed to participants upon receipt of a favorable determination of plan termination by the Internal Revenue Service.

ELI LILLY AND COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Retirement Benefits (In Part)

The company has defined contribution plans that cover its eligible worldwide employees. The purpose of these defined contribution plans is generally to provide additional financial security during retirement by providing employees with an incentive to make regular savings. Company contributions to the plans are based on employee contributions or compensation. These company contributions totaled $23.8 million, $23.3 million, and $22.9 million for the years 1986, 1985, and 1984, respectively.

Supplemental Retirement Plans

McGRAW-HILL, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

10 (In Part): Retirement Plans

On January 1, 1986, the company adopted an unfunded supplemental benefits plan to provide senior management with supplemental retirement, disability and death benefits. Supplemental retirement benefits are based on final monthly earnings. Accrued pension cost for 1986 was $.9 million. The accumulated benefit obligation as of December 31, 1986 was $3.6 million including vested benefits of $3.1 million and the projected benefit obligation was $5.6 million.

STERLING DRUG INC. (DEC)

NOTES TO FINANCIAL STATEMENTS

Pension Plans (In Part)

The company also sponsors an unfunded Retirement Plan for Directors and an unfunded Supplemental Executive Retirement Plan (a non-qualified plan that provides certain officers defined pension benefits in excess of limits under federal tax law). At December 31, 1986, the projected benefit obligation for these plans totaled $4,983,000 of which $2,431,000 is the unrecognized net obligation at January 1, 1986, subject to later amortization. The remaining $2,552,000 is included in Accrued Expenses in the accompanying Consolidated Balance Sheet.

JIM WALTER CORPORATION (DEC)

NOTES TO FINANCIAL STATEMENTS

Note 10 (In Part): Pension and Profit Sharing Plans

In 1983 the Company adopted a non-qualified unfunded supplementary retirement plan for senior management. The Company has purchased cost recovery life insurance on the lives of the participants and it is the sole owner and beneficiary of such policies. The amount of coverage is designed to provide sufficient revenues to recover all costs of the plan if assumptions made as to mortality experience, policy earnings and other factors are realized. Premiums of $1,843,000,

$1,696,000 and $1,845,000 were paid in 1986, 1985 and 1984, respectively.

Multiemployer Plans

AMERON, INC. (NOV)

NOTES TO FINANCIAL STATEMENTS

9 (In Part): Pension Plans

Approximately 17% of the Company's employees are covered by union sponsored, collectively bargained, multiemployer pension plans. The Company contributed and charged to expense $965,000 in 1986, $984,000 in 1985 and $837,000 in 1984 for such plans. These contributions are determined in accordance with the provisions of negotiated labor contracts and generally are based on the number of hours worked. Information from the plans' administrators is not available to permit the Company to determine its share of unfunded vested benefits. The Company has no intention of withdrawing from any of these plans, nor is there any intention to terminate such plans.

BOBBIE BROOKS, INCORPORATED (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note E (In Part): Employees' Pension and Profit Sharing Plans and Post Retirement Benefits

Multiemployer Pension Plans: The Company makes contributions to the International Ladies' Garment Workers' Union National Retirement Fund, a multiemployer plan. The Company contributed and charged to expense $144,000 for the year ended December 31, 1986 and $275,000 for the eight months ended December 31, 1985 for this plan. These contributions are determined in accordance with provisions of negotiated labor contracts. Information as to the Company's portion of the accumulated plan benefits, plan net assets and unfunded vested benefits is not determinable. In the event of a withdrawal from the plan, the Company may be subject to payment of a withdrawal liability under the provisions of the Multiemployer Pension Plan Amendments Act of 1980. Management does not intend to take any action which would subject it to such liability.

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

NOTES TO FINANCIAL STATEMENTS

(Dollars in millions)

6 (In Part): Pensions

Multiemployer Plans

A subsidiary, Consolidation Coal Company, under a contract with the United Mine Workers of America, makes contributions based on coal production and hours worked into two multiemployer pension plans. These plans provide defined benefits to union employees. Pension cost for these plans was $52 in 1986, $55 in 1985, and $60 in 1984.

FEDERATED DEPARTMENT STORES, INC. (JAN)

NOTES TO FINANCIAL STATEMENTS

10 (In Part): Retirement Income and Deferred Compensation Plans

The company has two defined benefit plans (Pension Plans) and a defined contribution plan (Profit Sharing Plan) which cover substantially all employees who work 1,000 hours or more per year. In addition, the company has a supplementary retirement plan and makes contributions to several multi-employer defined benefit plans primarily relating to employees covered by collective bargaining agreements in the supermarket industry.

* * * * * *

Multi-Employer Plans and Other Expense

The company had pension expense of $20.1 million, $17.3 million, and $18.0 million in 1986, 1985 and 1984, respectively, primarily for contributions to multi-employer defined benefit plans as determined by various collective bargaining agreements. The relative position of the company regarding the accumulated plan benefits and plan net assets of multi-employer plans is not determinable by the company.

Plan Terminations

ATHLONE INDUSTRIES, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9 (In Part): Pension and Retirement Plans:

During the year, the Company terminated a defined benefit pension plan of a subsidiary which was replaced by a defined contribution plan. Pension liabilities associated with the terminated plan were settled by the purchase of annuity contracts and the remaining assets distributed to the Company resulting in a gain of approximately $1,270,000 which is reflected in selling, general and administrative expenses. The amount of cost recognized in 1986 for the defined contribution plan, which is based on compensation of the covered employees, was $30,000.

BECOR WESTERN INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note I (In Part): Pension and Retirement Plans

In September, 1986, the Company discontinued the portion of its existing Salaried Pension Plan covering former employees who had vested benefits under the plan. In addition, all benefits earned as of September 1, 1986 for active employees became 100% vested. Annuity contracts were purchased to cover the vested benefits for the former and active employees. Plan assets in excess of the cost of the annuities and amounts retained in the plan reverted to the Company. The Company received $24,239,000 in 1986. In addition, $3,399,000 was withdrawn in 1986 from a foreign pension plan. During 1986, the Company adopted the provisions of Statement of Financial Accounting Standards No. 88, "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits". A non-recurring pre-tax gain of $21,314,000 has been recognized, after an excise tax of 10%.

OTHER POSTRETIREMENT BENEFITS

BRENCO, INCORPORATED (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 8. Postretirement Health Care and Life Insurance Benefits

In addition to providing pension benefits, the company provides certain health care benefits to retired employees from ages 62 through 64 and life insurance benefits for all retired employees. Substantially all of the company's employees may become eligible for these benefits if they reach normal retirement age while working for the company. The cost of retiree health care benefits is recognized as expense as claims are paid and the cost of providing retiree life insurance for both retirees and present employees is recognized currently as premiums are paid. The total cost charged to income for 1986, 1985 and 1984 was $25,400, $17,800 and $9,000, respectively.

DELUXE CHECK PRINTERS, INCORPORATED (DEC)

NOTES TO FINANCIAL STATEMENTS

5. Other Post-retirement Benefits

In addition to providing retirement benefits, the Company provides certain health care and life insurance benefits for retired employees. Substantially all employees may become eligible for those benefits if they reach normal retirement age while working for the Company. Prior to July 1986, the cost of such benefits was recognized as claims were paid. However, beginning in the third quarter of 1986, the estimated cost of health care benefits is being accrued over the working lives of those employees expected to qualify for such benefits as a level percentage of payroll cost. Such costs are funded as accrued. For 1986, 1985, and 1984, health care costs were $2,256,000, $973,000, and $363,000, respectively, with the increase in 1986 expense attributable generally to the change to the accrual method. Life insurance benefits are provided through an insurance company whose premiums are based on the benefits paid during the year. The Company expenses the annual insurance premiums, which were $115,000, $104,000, and $90,000 for 1986, 1985, and 1984, respectively.

FIELDCREST CANNON, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 11: Postretirement Health Care and Life Insurance Benefits

The Company provides certain health care and life insurance benefits to retired employees. Essentially all of the Company's employees become eligible for those benefits when they reach retirement age while working for the Company. The cost of retiree health care and life insurance benefits is recognized as expense as claims are paid. Those costs, net of retiree contributions, amounted to $2.9 million in 1986, $1.2 million in 1985 and $1.2 million in 1984. Postretirement expense in 1986 was greater than in 1985 because of the acquisition of Cannon Mills Company in January 1986.

FORD MOTOR COMPANY (DEC)

NOTES TO FINANCIAL STATEMENTS

Note 2 (In Part): Employee Retirement Benefits

Postretirement Health Care and Life Insurance Benefits. The Company and certain of its subsidiaries provide selected health care and life insurance benefits for retired employees. Substantially all of the Company's U.S. and Canadian employees may become eligible for those benefits if they reach retirement age while still working for the Company. The estimated cost for postretirement life insurance benefits is accrued on an actuarially determined basis. The amounts accrued for such service life insurance benefits are not funded, but are reflected in the Company's Consolidated Balance Sheet as an accrued liability. The cost for postretirement health care benefits is based on actual expenditures for the year. In 1986 and 1985, the cost for U.S. and Canadian employees amounted to $291 million and $261 million, respectively, for postretirement health care benefits and $111 million and $99 million, respectively, for postretirement life insurance benefits.

For the Company's foreign subsidiaries, such benefits either are not provided, or may be provided by the foreign subsidiary, by the subsidiary's pension plan, or by governmental agencies. The benefits provided may be in a substantially different form than those provided in the United States. The cost of such benefits at foreign operations did not materially affect the Company's results.

INTERNATIONAL BUSINESS MACHINES CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Postretirement Benefits

The company and its U.S. subsidiaries have medical, dental and life insurance plans for retirees, the estimated costs of which are fully accrued at retirement. These costs amounted to $201 million, $12 million and $222 million in 1986, 1985 and 1984, respectively. Costs in 1986 were higher than in 1985 primarily because of amounts recorded for the increased number of employees who are retiring under the 1986 amendment to the U.S. retirement plans. This was partially offset by continued favorable investment fund performance and changes in assumptions. Costs in 1985 were lower than in 1984 primarily because significantly fewer employees retired in 1985. Favorable investment fund performance also contributed to the reduction in costs. It is the company's policy to fund accrued costs to the extent that such costs are tax deductible. This fund is held by an independent trustee.

Certain of the company's non-U.S. subsidiaries have similar plans for retirees. However, many retirees outside the U.S. are covered by government sponsored and administered programs. As a result, the costs of company sponsored programs outside the U.S. are not significant.

JOHNSON CONTROLS, INC. (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9 (In Part): Retirement Plans

In addition to providing pension benefits, the company provides certain health care and life insurance benefits for retired employees. The expense related to benefits for retirees has not been separated from the expense for active employees.

Year Ended September 30,	1986	1985
	(dollars in millions)	
Health care and life insurance expense	$40.4	$35.7
Number of covered active employees..........	19,600	16,700
Number of covered retirees	1,100	900

MINNESOTA MINING AND MANUFACTURING COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Other Postretirement Benefits

The company provides health and life insurance benefits for substantially all of the company's U.S. employees who have reached retirement age while employed by the company. The estimated cost of these benefits is actuarially determined and accrued over the employees' service periods as a level percentage of compensation for employees expected to qualify for benefits. An 8.5 percent investment rate of return (8.0 percent in 1984) is used in the calculation; other assumptions relate to inflation in medical costs and assumptions similar to those used in the determination of pension expense.

Amounts charged against income were $14 million in 1986, $18 million in 1985 and $17 million in 1984. The company deposits funds with an independent trustee as these costs are charged to income. Employees outside the U.S. are covered principally by government-sponsored plans and the cost of company-provided plans is not material.

PENNWALT CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

13. Postretirement Health Care and Life Insurance Benefits

In addition to providing pension benefits, the Company and certain of its consolidated subsidiaries provide certain health care and life insurance benefits for retired employees. Only employees located in the United States may become eligible for those benefits if they reach retirement age while working for the Company or its consolidated subsidiaries. Those benefits are provided through insurance companies whose charges are based on the benefits paid during the year. The Company recognizes the cost of providing those benefits by expensing the annual insurance charges paid during the year; the amounts charged against continuing operations were approximately $4,000,000 in 1986, $3,900,000 in 1985, and $3,200,000 in 1984.

SARA LEE CORPORATION (JUN)

NOTES TO FINANCIAL STATEMENTS

(dollars in thousands)

Postretirement Health and Life Insurance Benefits

The corporation provides postretirement health care and life insurance benefits for certain domestic and foreign employees. The cost of such health care benefits is recognized as an expense as claims are incurred, while the cost of retiree life insurance benefits is accrued or funded over the service life of the employee on an actuarially determined basis. The cost of providing such benefits was $1,560 in 1986 and $1,410 in 1985.

COMPENSATORY PLANS

In addition to pension plans (Table 3-8) and "traditional" stock option and stock purchase plans (pages 228-234), many companies disclose the existence of compensatory plans of the nature indicated in Table 3-9. *APB Opinion No. 25* states in part:

8. Plans that do not possess the four characteristics of noncompensatory plans are classified as compensatory plans. Since the major principles of Chapter 13B of *ARB No. 43* are not changed, classification as a compensatory plan does not necessarily require that compensation cost be recognized.

10. *Measuring Compensation for Services.* Compensation for services that a corporation receives as consideration for stock issued through employee stock option, purchase, and award plans should be measured by the quoted market price of the stock at the measurement date less the amount, if any, that the employee is required to pay. That is the principle in Chapter 13B of *ARB No. 43* with two modifications: (a) the meaning of fair value of stock for compensatory plans is narrowed and (b) the measurement date for plans with a variable number of shares of stock or a variable option or purchase price is different . . .

Thus a corporation recognizes compensation cost for stock issued through compensatory plans unless the employee pays an amount that is at least equal to the quoted market price of the stock at the measurement date.

12. *Accruing Compensation Cost.* Compensation cost in stock option, purchase, and award plans should be recognized as an expense of one or more periods in which an employee performs services and also as part or all of the consideration received for stock issued to the employee through a plan. The grant or award may specify the period or periods during which the employee performs services, or the period or periods may be inferred from the terms or from the past pattern of grants or awards *(ARB No 43* Chapter 13B, paragraph 14; *APB Opinion No. 12, Omnibus Opinion-1967*, paragraph 6).

14. If stock is issued in a plan before some or all of the services are performed, part of the consideration recorded for the stock issued is unearned compensation and should be shown as a separate reduction of stock-

TABLE 3-9: COMPENSATORY PLANS

	Number of Companies			
	1986	1985	1984	1983
Stock award	156	163	159	155
Savings/investment	112	100	79	71
Employee stock ownership	97	108	82	66
Incentive compensation	85	94	100	99
Profit-sharing	72	77	76	76
Deferred compensation	31	38	42	39

holders' equity. The unearned compensation should be accounted for as expense of the period or periods in which the employee performs service.

16. *Accounting for Income Tax Benefits.* An employer corporation may obtain an income tax benefit related to stock issued to an employee through a stock option, purchase, or award plan. A corporation is usually entitled to a deduction for income tax purposes of the amount that an employee reports as ordinary income, and the deduction is allowable to the corporation in the year in which the amount is includable in the gross income of the employee. Thus, a deduction for income tax purposes may differ from the related compensation expense that the corporation recognizes, and the deduction may be allowable in a period that differs from the one in which the corporation recognizes compensation expense in measuring net income.

20. This Opinion applies to all stock option, purchase, award, and bonus rights granted by an employer corporation to an individual employee after December 31, 1972 under both existing and new arrangements and to reductions of income taxes resulting from deductions as of a date after December 31, 1972 that are related to stock option, purchase, award, and bonus rights granted before as well as after the effective date of this Opinion.

Examples of compensatory plan disclosures follow.

Incentive Compensation Plans

AMP INCORPORATED AND PAMCOR, INC. (DEC)

NOTES TO COMBINED FINANCIAL STATEMENTS

8. Bonus Plans

The Company has two incentive bonus plans: Stock Plus Cash Plan and Cash (or Stock) Plan. Participants are designated by the Board of Directors. Compensation under the Stock Plus Cash Plan is related to increases in the market value of the Company's stock or, alternatively, to the Company's earnings performance. Compensation under the Cash (or Stock) Plan is related solely to the Company's earnings performance. Awards under either Plan are payable in a combination of stock and cash, except that stock payments are elective under the Cash (or Stock) Plan.

Charges to income before income taxes for current and future distributions under the Plans totaled $8,765,000 in 1986, $4,696,000 in 1985 and $2,440,000 in 1984.

Approximately 191,000 shares would be distributed in the years 1987 through 1992 for Stock Plus Cash Plan awards granted before and outstanding at December 31, 1986, based on the market price at that date. All the treasury shares are available for payment of the stock portion of the bonuses. Gains on the excess of market value over the cost of treasury shares distributed are recorded in Other Capital.

CHRYSLER CORPORATION (DEC)

NOTES TO FINANCIAL STATEMENTS

Note 8 (In Part): Incentive Compensation

Incentive compensation is awarded to officers and key employees of Chrysler who have contributed significantly to its success. The awards are authorized by a resolution adopted by the stockholders (Stockholders' Resolution). The formula in the Stockholders' Resolution, as amended in 1984, limits the provision for incentive compensation in any fiscal year to 8% of the sum of the consolidated net earnings plus the provision for incentive compensation for that year, after deducting $.67 per share (as adjusted for the February 20, 1986 three-for-two stock split) times the average number of shares of common stock outstanding during the year. For 1987 and thereafter, the amount per share and the number of shares outstanding will reflect the March 23, 1987 three-for-two stock split.

The Board of Directors has not determined the amount that will be set aside out of 1986 earnings for incentive compensation purposes, the amount that will be awarded for 1986, or the amount to be awarded to each person eligible for incentive compensation. In accordance with the formula in the Stockholders' Resolution, the consolidated statement of earnings for 1986 includes a charge of $102 million for incentive compensation. Any amount set aside that is not awarded will be carried forward and may be used to make awards in the future.

EXXON CORPORATION (DEC)

NOTES TO FINANCIAL STATEMENTS

15. Bonus Plan

The 1983 Incentive Program makes provision for grants of bonuses in respect of each of the five years beginning with 1983 which are not to exceed 3 percent of the amount by which net income in a given year exceeds 6 percent of capital invested (as defined in the plan). Bonuses may be granted to eligible employees of the corporation and of those affiliates at least 95 percent owned. Bonuses may be granted in cash, shares of the corporation's stock or earnings bonus units, which are rights entitling the grantee to receive on the settlement date, with certain limitations, an amount of cash equal to the corporation's cumulative earnings per share as reflected in its quarterly earnings statements as initially published, commencing with earnings for the first full quarter following the date of grant to and including the last full quarter preceding the date of settlement. Bonuses other than units may be paid in cash or shares of the corporation's stock in full at the time of allotment or retirement or in annual installments. Any unpaid amounts are subject to certain forfeiture provisions contained in the plan.

Grants in cash and shares of the corporation's stock are charged to earnings in the year of grant. Amounts earned under earnings bonus units are accrued as they occur. Total charges to earnings in 1984, 1985 and 1986 were $35 million, $33 million and $31 million, respectively, reflecting grants substantially less than the maximum permitted.

PALL CORPORATION (JUL)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 8: Incentive Compensation Plan

The plan provides additional compensation to officers and key employees of the Company and its subsidiaries based upon the achievement of specified management goals. The Compensation Committee of the Board of Directors establishes the goals on which the Company's officers are compensated, and management establishes the goals for other covered employees. With respect to the officers covered by the employment contracts referred to in Note 11, any incentive compensation payable to an officer under the incentive compensation arrangement described in this paragraph is reduced by the incentive compensation payable under the formula contained in his employment contract. The aggregate amounts charged to expense in connection with the plan were $2,567,000, $2,050,000 and $2,140,000 in fiscal years 1986, 1985 and 1984, respectively.

WANG LABORATORIES, INC. (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note L: Management Incentive Compensation

The Company has a Management Incentive Compensation Plan pursuant to which bonuses are paid to officers, managerial and technical employees. Bonuses are based on a formula which considers consolidated earnings before income taxes, average net worth and average bank borrowings. Additional amounts may be paid at the discretion of the Board of Directors. The amount charged to expense for management incentive compensation was $1.2 million in 1986, $1.1 million in 1985 and $5.8 million in 1984.

Stock Award Plans

ARDEN GROUP, INC. (DEC)

NOTES TO FINANCIAL STATEMENTS

10 (In Part): Retirement Plans

Arden has a noncontributory, trusteed stock bonus plan which is qualified under Section 401 of the Internal Revenue Code of 1986. All nonunion employees over 18 years of age who complete 1,000 hours of service within the year ending on the anniversary day of employment are eligible to become participating employees in the plan. Contributions to the plan for any fiscal year, as determined by the Board of Directors, are discretionary, but in no event will they exceed 15% of the annual aggregate salaries of those employees eligible for participation in the plan. Contributions may be invested in either Common or Preferred stock of the Company. Contributions to the plan are allocated among eligible participants in the proportions of their salaries to all participants. Contributions accrued for the plan in 1986, 1985 and 1984 were $332,000, $375,000 and $355,000, respectively.

BADGER METER, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6 (In Part): Restricted Stock and Stock Appreciation Rights Plans

The shareholders of the company adopted a Restricted Stock Plan (The Plan) on April 28, 1984, which provides for the award of up to an aggregate of 100,000 shares of the company's Common Stock to certain officers and key employees. The plan includes a provision requiring the company to reimburse a participant for his personal income tax liability resulting from the award. The company provides for this liability ratably throughout the restricted period. Plan participants are entitled to cash dividends and to vote their respective shares. Restrictions generally limit the sale or transfer of the shares during a restricted period, not exceeding eight years. The value of employee benefit stock is established by the market price on the date of grant.

In 1984, 32,000 shares with a market value of $276,000 were awarded to participants. In February, 1985, 5,000 shares with a market value of $63,750 were awarded, and in 1986, an additional 11,000 shares with a market value of $168,125 were awarded. The related unearned compensation will be amortized over eight years as it is earned. The unamortized unearned compensation value ($381,213 at December 31, 1986 and $274,947 at December 31, 1985) is shown as a reduction of shareholders' equity in the accompanying consolidated balance sheet. During 1986, 1985, and 1984, $77,000, $84,000, and $46,000 were charged to income, respectively.

The 48,000 shares of restricted stock were converted to Class B Common Stock at December 31, 1986 (See Note 3).

BRUNSWICK CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9 (In Part): Stock Plans and Management Compensation

Selected management employees have received shares of the Company's common stock under two restricted stock plans. Under the 1978 Restricted Stock Plan, 1,599,716 shares have been awarded. No additional shares may be awarded under this plan after December 31, 1984. After a restricted period of from one to five years, the shares awarded are transferred to the employees. At that time, the employees may receive additional shares (or cash, at the Compensation Committee's discretion) if certain increases in the book value of the Company, as defined in the Plan, have been achieved. Through December 31, 1986, the Compensation Committee has elected to distribute cash rather than additional shares upon the expiration of the restricted periods. Since the Plan's inception, cash representing the market value of 481,448 shares (at the dates of distribution) has been distributed for this purpose. The 136,000 shares remaining under this Plan at December 31, 1986 and the cash equivalent of 102,000 shares were issued and distributed on January 2, 1987.

Under the 1984 Restricted Stock Plan, 229,000 shares have been awarded, including 49,000 shares in 1986. As of December 31, 1986, an additional 771,000 shares may be awarded. After a restricted period of from one to three years, the shares awarded are transferred to the employees. At that time, the employees may also receive a cash award, if certain performance standards, as established by the Compensation Committee, have been met.

The Plans provide that, within 90 days after a change in control of the Company, a participant may elect to accelerate the restricted period on shares of common stock awarded under the Plans. A "change in control of the Company" occurs when 1) any person is or becomes a beneficial owner directly or indirectly of 30% or more of the combined voting power of the Company, 2) individuals nominated by the Board of Directors for election as directors do not constitute a majority of the Board of Directors after such election, or 3) a tender offer is made for the Company's stock, involving a control block, which is not negotiated and approved by the Board of Directors.

The Plans also provide that the Compensation Committee of the Board of Directors may at any time reduce the restricted period for restricted stock of any participant or group of participants, except that under the 1984 Plan the restricted period cannot be reduced to a period of less than one year. Charges against net earnings for the compensation element of the plans were $2.9 million, $2.1 million and $1.7 million for 1986, 1985 and 1984, respectively.

GENERAL MOTORS CORPORATION (DEC)

NOTES TO FINANCIAL STATEMENTS

Note 3 (In Part): General Motors Incentive Program

The General Motors Incentive Program consists of the General Motors Bonus Plan, The General Motors Performance Achievement Plan and the General Motors Stock Options Plans. The Program was approved by the stockholders in 1982 and will be submitted for their approval at the 1987 Annual Meeting. The program is administered by the Incentive and Compensation Committee of the Board of Directors (the Committee).

* * * * * *

Performance Achievement Plan

Under the provisions of the Performance Achievement Plan, the Committee established target awards for the initial three-year phase-in period ended in 1984, for the first five-year period ended in 1986, and for five-year periods ending in 1988 and 1990. Awards are established based on targeted relationships between Corporation earnings and worldwide industry sales during the award periods; the percentages of the target awards ultimately distributed to the participants are determined by the Committee based on actual results in relation to the established goals and individual performance. Accruals for awards under this plan were $8.9 million, $21.5 million and $33.2 million, respectively, for the three years ended December 31, 1986, 1985 and 1984.

HEWLETT-PACKARD COMPANY (OCT)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Shareholders' Equity (In Part)

Incentive compensation plans

The company has three principal stock option plans, adopted in 1974, 1979 and 1985. All plans permit options granted to qualify as "Incentive Stock Options" under the Internal Revenue Code. The option price is equal to fair market value on the date of grant. Options are vested at a rate of 25 percent one year after the date of grant, 50 percent two years after the date of grant and in full three years after the date of grant. The plans permit the granting of stock appreciation rights (SARs) to officers and certain key employees.

	Options and SARs (Thousands)	Price per share
Outstanding at October 31, 1985	7,976	$ 9-45
Granted	2,445	35-47
Exercised	(1,031)	9-44
Cancelled	(162)	15-44
Outstanding at October 31, 1986	9,228	$ 9-47

At October 31, 1986, options to purchase 4,948,000 shares were exercisable at prices ranging from $9 to $45 per share. Shares available for option grants at October 31, 1986 and 1985, were 8,993,000 and 11,394,000, respectively. Approximately 26,000 employees were considered eligible to receive stock options in fiscal 1986. There were approximately 10,000 employees holding options under one or more of the option plans as of October 31, 1986.

Under the 1985 Incentive Compensation Plan, certain key employees may be granted cash or restricted stock awards. Cash and restricted stock awards are independent of option grants and are subject to restrictions as determined appropriate by the Executive Compensation and Stock Option Committee of the Board of Directors. The majority of the shares of restricted stock outstanding at October 31, 1986, are subject to forfeiture if employment terminates prior to five years from the date of grant. During that period, ownership of the shares cannot be transferred. Restricted stock has the same dividend and voting rights as other common stock and is considered to be currently issued and outstanding. The cost of the awards, determined as the fair market value of the shares at the date of grant, is expensed over the period the restrictions lapse. Such expense amounted to $7 million and $2 million in 1986 and 1985, respectively. As of October 31, 1986 and 1985, 1,044,000 and 934,000 shares, respectively, of restricted stock were outstanding representing grants to approximately 200 employees. Approximately 4,000 employees were considered eligible to receive restricted stock in fiscal 1986.

KOPPERS COMPANY, INC. (DEC)

NOTES TO FINANCIAL STATEMENTS

6 (In Part): Employee Compensation Plans

Performance Share Plan—The Company has a Performance Share Plan for key employees that provides for an award of performance shares (up to an aggregate maximum of 500,000 shares), each equivalent to one share of the Company's common stock and cash. Distribution of the common stock plus cash equal to the fair market value of the common stock will be made at the end of designated periods if specified earnings are attained.

At present, there are 146,400 performance shares outstanding. On the basis of profit performance, no charges have been made to operating expense for the years 1986, 1985 and 1984.

SQUIBB CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Stock Option, Restricted Stock and Performance Unit Plans (In Part)

The Board of Directors of the Corporation approved, subject to shareholder approval, the 1986 Option, Restricted Stock and Performance Unit Plan. Under the terms of the plan, 4,000,000 shares of the Corporation's common stock may be issued for options granted and for payment of performance units awarded. Options may be granted for a period of not more than ten years and one month and generally become exercisable in either two or four equal annual installments commencing one year after grant. At December 31, 1986, options to purchase 3,283,000 shares of common stock were available for future grants under this plan.

The 1986 plan also provides that 750,000 shares of the Corporation's common stock may be granted to key employees, subject to restrictions as to continuous employment except in the case of death. Under the plan, 1,000 shares, with a value of $109,440 were granted during 1986 and 749,000 shares remain available for grant.

Under the 1982, 1978 and 1974 Option and Performance Unit Plans, options were granted on a qualified or nonqualified basis for periods of up to ten years. Under the 1982 plan, options to purchase 224,037 shares of common stock were available for future grants. No further options can be granted under the 1978 and 1974 plans.

* * * * * *

Performance unit awards granted under the 1986, 1982 and 1978 plans are payable in varying amounts at the conclusion of the award cycle, which must be a minimum of three years, if certain cumulative growth objectives (which may include earnings per share or pretax income) of the Corporation or its subsidiaries are met. No further performance unit awards can be granted under the 1978 plan.

Each year, a charge to income is made to cover a pro-rata portion of the anticipated payout due at the end of the award cycle based on cumulative growth objectives realized in each year and preceding years. In 1986, 1985 and 1984, $3,769,000, $1,910,000 and $1,369,000, respectively, were charged to income.

Performance unit changes during the three years ended December 31, 1986 for the above plans were:

	Number of units	Unit base value From	To
Balance at January 1, 1984	131,441	$ 31.69	$ 46.50
Awarded	32,307	53.88	—
Terminated	(12)	31.69	—
Matured	(33,957)	32.00	36.63
Balance at December 31, 1984	129,779	31.69	53.88
Awarded	28,824	81.07	—
Terminated	—	—	—
Matured	(39,311)	31.69	—
Balance at December 31, 1985	119,292	46.00	81.07
Awarded	17,970	109.44	—
Terminated	(1,123)	53.88	81.07
Matured	(26,154)	46.00	—
Balance at December 31, 1986	109,985	$ 46.50	$109.44

At December 31, 1986, a total of 6,674,384 shares of unissued common stock was reserved for issuance under the stock option, restricted stock and performance unit plans, and 10,000 shares of common stock held in treasury were reserved for issuance under options granted (other than under such plans) at an exercise price of $28.94 per share. During 1985, an option to purchase 2,500 shares of common stock at $28.94 per share was exercised.

Profit Sharing Plans

CONCORD FABRICS INC. (AUG)

NOTES TO FINANCIAL STATEMENTS

Note F: Profit-Sharing Plan

The Company's noncontributory profit-sharing plan, approved by the Treasury Department, for the benefit of eligible full time employees, provides for a minimum annual contribution to a trust fund based on percentages of pre-tax profits (as defined); the Board of Directors may increase such minimum annual contribution at its sole discretion but all contributions are limited to the maximum amount deductible for federal income tax purposes. Contributions of $276,000, $5,400 and $416,000 have been authorized for the years ended August 31, 1986, September 1, 1985 and September 2, 1984, respectively.

DUPLEX PRODUCTS INC. (OCT)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Profit Sharing and Employee Stock Ownership Plans

The Employees' Savings and Profit Sharing Plan provides for contributions from both the Company and eligible employees. Company contributions are voluntary and at the discretion of the Board of Directors. Any annual contribution by the Company cannot exceed 15% of earnings before deducting the contribution and Federal income taxes. The provisions for profit sharing contributions amounted to $1,300,000 in 1986, $1,600,000 in 1985 and $1,100,000 in 1984.

Effective January 1, 1983, the Company established an Employee Stock Ownership Plan (ESOP) which provides that

Company contributions may be in the form of cash or shares of Company stock. The provision for the plan contribution amounted to $244,000 in 1986, $233,000 in 1985 and $211,000 in 1984.

GENERAL MILLS, INC. (MAY)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 13: Profit-Sharing Plans

We have profit-sharing plans to provide incentives to key individuals who have the greatest potential to contribute to current earnings and successful future operations. These plans were approved by the Board of Directors upon recommendation of the Compensation Committee. The awards under these plans depend on profit performance in relation to pre-established goals. The plans are administered by the Compensation Committee, which consists of directors who are not members of our management. Profit-sharing expense, including performance unit accruals, was $9.4 million in fiscal 1986, $2.9 million in fiscal 1985 and $6.8 million in fiscal 1984.

LABARGE, INC. (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

10. Employee Benefit Plans

The Company has a contributory profit-sharing plan for employees meeting certain service requirements. The Company amended this profit-sharing plan in 1985, with the amended plan being a profit-sharing and thrift plan which qualifies under Section 401(k) of the Internal Revenue Code. The amended plan allows eligible employees to contribute up to 6% of their compensation, with the Company matching 50% of the first $25 per month and 25% of the excess. During 1986 and 1985, Company matching contributions were $40,570 and $118,000, respectively. At the discretion of the Board of Directors, the Company may also make contributions dependent on profits each year for the benefit of all eligible employees under the amended plan. There were no contributions for the year ended June 30, 1986 and the six months ended June 30, 1985 other than Company matching discussed above. There were no contributions made for 1984. Total expense for the plan was $150,000 in 1983.

Savings or Investment Plans

AMERICAN BUILDING MAINTENANCE INDUSTRIES, INC. (OCT)

NOTES TO FINANCIAL STATEMENTS

5 (In Part): Employee Benefit Plans

b) Profit Sharing and Employee Savings Plan

The Company and its subsidiaries had discretionary noncontributory profit sharing plans which were consolidated under a master plan effective May 1, 1985 and the amended plan was further modified to include an employee savings plan with employer participation in accordance with the provisions of 401(k) of the Internal Revenue Code. The revised plan allows participants to make pretax contributions with the Company matching certain percentages of employee contributions depending on the participant's length of service. The plan generally covers all nonmanual employees not covered under collective bargaining agreements. In addition to employee and Company matching contributions under the 401(k) plan, the Board of Directors may elect to make an additional contribution. All amounts contributed to the plan are deposited in a trust fund with a national bank and administered by independent trustees.

The Company did not make any contribution to the profit sharing plan for the fiscal years 1986, 1985 and 1984. The Company's matching contributions required by the employee savings plan for 1986 and 1985 were approximately $387,000 and $175,000, respectively.

DEERE & COMPANY (OCT)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Employee Stock Purchase and Savings Plans

The John Deere Stock Purchase Plan for Salaried Employees allows participating North American employees to authorize payroll deductions of one to six percent of their earnings. The company makes contributions to the Plan, in cash or company shares, in an amount equal to a percent, based upon the company's profitability for the prior year, applied to the participating employees' payroll deductions. For payroll periods ending after June 30, 1984 and before January 1, 1987, the contribution percentage is not to be less than 25 percent of employees' payroll deductions. Since July 1, 1983, company contributions have been equal to 25 percent of employees' payroll deductions. The payroll deductions and company contributions are used to purchase company shares for the accounts of participating employees. During 1986, 1985 and 1984, the company contributions, all in cash, amounted to $2.4 million, $2.8 million and $5.1 million, respectively. At October 31, 1986, 4,539 of 11,938 eligible employees were participating in the Plan.

The John Deere Savings and Investment Plan for Salaried Employees became effective on July 1, 1984. Under the Plan, participating United States employees may authorize payroll deductions of one to ten percent of their earnings to be allocated among a Deere stock fund, an indexed equity fund and a guaranteed interest fund. The company makes contributions to the Plan in an amount equal to a percent, based upon the company's profitability for the prior year, applied to the participating employees' payroll deductions up to a maximum of six percent of the employees' earnings. For payroll periods ending before January 1, 1987, the contribution percent is not to be less than 30 percent. Since July 1, 1984, company contributions have been equal to 30 percent of employees' eligible payroll deductions. The payroll deductions and contributions are considered tax deferred under sections 401(a) and 401(k) of the Internal Revenue Code. During 1986, 1985 and 1984, the company contributions amounted to $4.9 million, $4.5 million and $1.4 million, respectively. At October 31, 1986, 7,164 of 11,402 eligible employees were participating in the Plan.

FMC CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 14. Employees' Thrift and Stock Purchase Plan

The FMC Employees' Thrift and Stock Purchase Plan (Thrift Plan) is a qualified salary-reduction plan under Section 401(k) of the Internal Revenue Code in which all salaried employees of the company may participate. Under the Thrift Plan, participants may elect to have up to 15 percent of their compensation contributed to the plan. The employee's contribution, up to 5 percent of compensation, is matched by the company 35 percent to 60 percent, depending on profits. The participant's interest in the company's contributions vests gradually during the first five years of active service and immediately thereafter. The employee-elected contributions may be invested in company stock or a guaranteed income fund as the participant elects. All matching contributions by the company are invested in the company's stock. Charges against income for FMC's matching contributions, net of refunds from forfeitures upon termination of participation, were $10.3 million in 1986, $10.4 million in 1985 and $8.9 million in 1984.

HARTMARX CORPORATION (NOV)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Savings—Investment Plan

The Company offers an employee savings investment plan under which eligible participants can invest from 1% to 16% of earnings among several investment alternatives, including a company stock fund. An employer contribution equal to one-fourth of the first 6% of the employees' contribution is invested in common stock of the Company. The Company's annual contributions, net of forfeiture credits, were $1.1 million in 1986, $1.1 million in 1985 and $.7 million in 1984. Participation in the savings investment plan is required to earn retirement benefits under the Company's principal plan. At November 30, 1986, the assets of the fund had a market value of approximately $47 million, of which about $34 million was invested in 1,195,434 shares of the Company's common stock.

JOSTENS, INC. (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Benefit Plans (In Part)

The Company's security savings profit sharing plan, which covers substantially all non-union employees, provides for a matching contribution by the Company on amounts, limited to 6% of compensation, contributed by the employees. The Company's contribution for the years ended June 30, 1986, 1985 and 1984 was $1,589,000, $985,000 and $1,401,000, respectively, representing 50% of eligible employee contributions in 1986 and 1984 and 33⅓% in 1985.

Employee Stock Ownership Plans

KERR GLASS MANUFACTURING CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 9 (In Part): Common Stock and Stock Options

On March 19, 1985, the Company sold 550,000 shares of its Common Stock, representing approximately 15.5% of the shares outstanding after such sale, to the Kerr Glass Manufacturing Corporation Employee Incentive Stock Ownership Plan Trust ("ESOP Trust"), which was formed for the benefit of the salaried employees of the Company. The purchase price was $10.25 per share or an aggregate of $5,637,500 in cash. The closing price of a share of the Company's Common Stock on the New York Stock Exchange on the date of the ESOP Trust purchase was $11.00. The Company borrowed $5,637,500 from a bank, which was loaned to the ESOP Trust for the purpose of purchasing the shares from the Company. The bank loan and the Company's loan to the ESOP Trust have similar terms and each is repayable in 8 years and bears a fixed interest rate of 11.84% per annum. The ESOP Trust will obtain the funds to repay its loan primarily through tax deductible contributions made by the Company to the ESOP Trust. The Company will fund such contributions primarily through the reduction of compensation and benefits which it would otherwise have provided to its salaried employees. Total ESOP Trust contribution expense was $940,000 and $763,000 in 1986 and 1985, respectively. For financial statement purposes, the bank loan is reflected as a liability and the Company's loan to the ESOP Trust is reflected as a reduction in other stockholders' equity.

TASTY BAKING COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

12. Employee Stock Ownership Plan

In February 1986, the company's Board of Directors approved the Tasty Baking Company Employee Stock Ownership Plan (ESOP) which is a noncontributory plan established to acquire shares of the company's common stock for the benefit of all eligible employees.

During 1986, the ESOP arranged financing with a bank and purchased 203,594 shares of the company's common stock at a cost of $3,818,415. The loan is to be repaid over a five year period at an effective interest rate of 8.25%. The company has guaranteed the repayment of the loan and will make contributions to the ESOP sufficient to pay the principal and interest each month.

Contributions made by the company during 1986 and charged to income were $537,114. The outstanding loan balance as of December 27, 1986 is $3,456,543. The company's obligation related to the ESOP has been reflected in the Consolidated Balance Sheets in accordance with the requirements of the AICPA Statement of Position 76-3.

Deferred Compensation Plans

SPENCER COMPANIES, INC. (MAY)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

11. Deferred Compensation

The Company has consulting agreements with two of its officers expiring May 31, 1989. The agreement provides for part-time consulting services, at the request of the Board of Directors, for fees of $90,000 per year. In addition, these employment agreements provide, among other things, that during each of the ten years from and after the termination of consulting services because of retirement, death or disability, each officer is to be paid deferred compensation equal to fifty percent of the average annual cash compensation paid to them during the last three full fiscal years of the Company in which they performed services as employees. Payments under the Company's retirement plan are to be deducted from such payments. Deferred compensation expense was $192,784 in 1986, $67,206 in 1985, and $73,888 in 1984 respectively.

WARNER COMMUNICATIONS INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

12 (In Part): Stock Option and Incentive Compensation Plans

WCI has deferred compensation and formal and informal bonus plans for certain of its key employees. Approximately $51,400,000, $39,800,000 and $28,300,000, relating principally to key employees of WCI's core businesses, were expensed under such arrangements in 1986, 1985 and 1984, respectively.

Contractual obligations to employees in respect of deferred compensation at December 31, 1986 amounted to approximately $80,000,000, of which approximately $63,000,000 is payable after one year. WCI maintains investment accounts in respect of certain of its deferred compensation obligations. The net asset amount of such investments at December 31, 1986 was approximately $54,000,000, of which approximately $41,000,000 is included in WCI's balance sheet under the caption, "Investments, other."

Phantom Stock Plan

HERCULES INCORPORATED (DEC)

NOTES TO FINANCIAL STATEMENTS

(Dollars in thousands)

3 (In part): Incentive Compensation Plans

(c) Phantom Stock Plan:

The Phantom Stock Plan, adopted in 1985, provides for the award of "phantom units," representing shares of company common stock, to key employes. The units vest and are payable at retirement or at the close of the vesting period (which cannot exceed 5 years) specified at the time of the award. The benefits at vesting include the full value of the representative shares, cash dividend equivalents on the representative shares, and interest calculated on accumulated cash equivalents during the vesting period.

Recipients of awards may, at any time during the vesting period, convert all or any portion of their units to cash interest-bearing equivalents at the then market price of company common stock.

During 1986, 10,400 units were granted, 3,030 were issued as a result of restricted stock exchanges and 27,530 units were converted to cash equivalents. The charge to income was $675 in 1986 and $181 in 1985. There were 10,205 units outstanding at December 31, 1986.

VEBA

STANADYNE, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6 (In Part): Employee Benefit Plans

During 1985, the Company established a Voluntary Employees' Beneficiary Association (VEBA). The VEBA is a trust created to provide for payment of certain employee benefits. Tax-deductible contributions included in prepaid expenses in the accompanying Consolidated Balance Sheet amounted to $1,600,000 in 1986 and $8,500,000 in 1985.

DEPRECIATION EXPENSE

Paragraph 5 of *APB Opinion No. 12* stipulates that both the amount of depreciation expense and method or methods of depreciation should be disclosed in the financial statements or in notes thereto. Paragraph 5, Chapter 9C of *ARB No. 43* defines depreciation accounting (the process of allocating the cost of productive facilities over the expected useful lives of the facilities) as "a system of accounting which aims to distribute the cost or other basic value of tangible capital assets, less salvage (if any), over the estimated useful life of the unit (which may be a group of assets) in a systematic and rational manner. It is a process of allocation, not of valuation." If the depreciation methods used for tax purposes and for financial statement reporting differ, *APB Opinion No. 11* requires that the income tax expense shown in a company's financial statements reflect the tax effect of such a difference.

Table 3-10 summarizes the methods of depreciation used to allocate the cost of productive facilities. Examples of depreciation expense disclosures follow.

TABLE 3-10: DEPRECIATION METHODS

	Number of Companies			
	1986	1985	1984	1983
Straight-line*	561	563	567	564
Declining balance	49	53	54	57
Sum-of-the-years digits	14	16	15	17
Accelerated method—not specified	77	73	76	74
Unit of production	48	54	60	65
Other	12	12	13	12

Straight Line Method

HOMASOTE COMPANY

Consolidated Statements of Changes in Financial Position

	1986	1985	1984
Sources of Working Capital:			
From operations:			
Net earnings	$1,316,009	$1,355,373	$1,104,195
Items which do not use (provide) working capital:			
Depreciation of plant and equipment	1,188,898	1,257,214	1,291,488
Gain on sale of equipment	(51,566)	(34,171)	(4,447)
Deferred income taxes	(51,000)	348,000	(5,000)
Working capital provided by operations	2,402,341	2,926,416	2,386,236

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Depreciation: 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; renewals and improvements are capitalized. The cost of assets retired or otherwise disposed of and the accumulated depreciation thereon are removed from the accounts with any gain or loss realized upon sale or disposal charged or credited to operations.

Note 3 (In Part): Property, Plant and Equipment

Estimated useful lives and depreciation methods are as follows:

	Estimated Useful Lives	Predominate Methods in Use
Buildings and additions	10–50 years	Straight line
Machinery and equipment	5–20 years	Sum-of-the-years digits
Office equipment	10 years	Sum-of-the-years digits
Automotive equipment	3–5 years	Declining balance

WM. WRIGLEY JR. COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Depreciation

Depreciation is provided over the estimated useful lives of the respective assets (buildings and building equipment-15 to 50 years; machinery and equipment-3 to 20 years). The depreciation methods and amounts in thousands of dollars by year were:

	1986	1985	1984
Straight-line	$ 7,022	6,541	6,128
Accelerated	11,694	10,703	9,761

MEDIA GENERAL, INC. (DEC)

	1984	1985	1986
	(in thousands)		
Costs and expenses:			
Production costs	$323,956	$341,088	372,609
Selling, distribution and administrative	132,139	147,249	156,952
Depreciation	21,093	28,675	36,504
Interest	6,303	11,424	13,026
Special charge	0	0	30,849
Total costs and expenses	483,491	528,436	609,940

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Depreciation. Plant and equipment are depreciated over their estimated useful lives, primarily by use of the straight-line method. With respect to the Fairfax County, Virginia, cable television system, depreciation is calculated based on the estimated cost and subscribers at completion of the system, adjusted to reflect current subscriber levels. Depreciation deductions are computed by accelerated methods for income tax purposes.

Declining-Balance Method

APPLE COMPUTER, INC. (SEP)

Consolidated Statements of Changes in Financial Position

	1986	1985	1984
		(In thousands)	
Working capital was provided by:			
Operations:			
Net income	$153,963	$ 61,223	$ 64,055
Charges to operations not affecting working capital:			
Depreciation and amortization	51,075	41,841	37,963
Deferred income taxes (noncurrent)	47,241	21,228	20,453
Net book value of property, plant and equipment retirements	9,488	12,744	—
Total working capital provided by operations	261,767	137,036	122,471

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Summary of Accounting Policies (In Part)

Property, Plant, and Equipment

Property, plant, and equipment is stated at cost. Depreciation and amortization is computed principally by use of declining balance methods over the estimated useful lives of the assets.

LIZ CLAIBORNE, INC. (DEC)

Consolidated Statements of Changes in Financial Position

	1986	1985	1984
Sources of Working Capital:			
Operations—			
Net income	$86,194	$60,580	$41,938
Add: Items not requiring the outlay of working capital—			
Depreciation and amortization	4,423	3,129	2,115
Deferred income taxes	2,006	1,769	1,327
Equity in losses of joint venture	608	—	—
Working capital provided by operations	93,231	65,478	45,380

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (In Part): Significant Accounting Policies

Property and Equipment

Property and equipment is stated at cost. Buildings and building improvements are primarily depreciated using the double declining balance method based on their estimated useful lives. Machinery, equipment and furniture and fixtures are depreciated using the straight-line method over the estimated useful life of seven years. Leasehold improvements are amortized over the shorter of the lease term or the estimated useful life of the assets.

PUBLIX SUPER MARKETS, INC. (DEC)

Statements of Changes in Financial Position

	1986	1985	1984
		(in thousands)	
Sources of working capital:			
Net earnings	$ 84,308	71,827	75,522
Add items which do not use working capital:			
Depreciation and amortization	67,416	60,008	51,761
Contribution to employee stock ownership trust	9,600	6,200	5,900
Deferred income taxes	5,636	7,799	2,391
Working capital provided by operations	166,960	145,834	135,574

NOTES TO FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

d. Property, Plant and Equipment and Depreciation

Maintenance and repairs are charged to expense as incurred. Expenditures for renewals and betterments generally are capitalized. The gain or loss on traded items is applied to the asset accounts and that on items otherwise disposed of is reflected in income. Depreciation is computed for financial statement purposes predominantly by the declining-balance method using the following principal rates:

Buildings and improvements	3.75% to 5%
Furniture, fixtures and equipment	20%
Automotive equipment	25% to 67%
Leasehold improvements	5% to 20%

Sum-Of-The-Years-Digits Method

GENERAL ELECTRIC COMPANY

Statement of Changes in Financial Position

	1986	1985	1984
	(In millions)		
Funds provided from operations			
Net earnings	$2,492	$2,277	$2,239
Adjustments for items not representing current fund usage:			
Depreciation, depletion and amortization	1,460	1,249	1,103
Earnings retained by nonconsolidated financial services affiliates	(506)	(411)	(330)
Income tax timing differences	(158)	128	(206)
All other operating items	77	12	11
Funds provided from operations	3,365	3,255	2,817

NOTES TO FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (In Part)

Depreciation, depletion and amortization. The cost of most manufacturing plant and equipment, other than that acquired in the purchase of RCA Corporation (RCA) in 1986, is depreciated using an accelerated method based primarily on a sum-of-the-years digits formula. Plant and equipment of RCA operations continues to be depreciated on a straight-line basis. If manufacturing plant and equipment is subject to abnormal economic conditions or obsolescence, additional depreciation is provided. Mining properties, which were sold in 1984 and 1985, were depreciated, depleted or amortized mainly by the unit-of-production method. Mining exploration costs were charged directly to expense until development of a specific mineral deposit was likely to be economically feasible. After such determination, all related development costs were capitalized and subsequently amortized over the productive life of the property, commencing with the start-up of production.

RAYTHEON COMPANY (DEC)

Statement of Changes in Financial Position

	1986	1985	1984
	(In thousands)		
Resources provided			
Income from continuing operations	$393,205	$375,905	$340,094
Items not affecting working capital			
Depreciation and amortization of property, plant and equipment	237,927	209,629	173,630
Working capital provided from continuing operations	631,132	585,534	513,724

NOTES TO FINANCIAL STATEMENTS

Note A (In Part): Accounting Policies

Property, Plant and Equipment

Property, plant and equipment are stated at cost. Betterments and major renewals are capitalized and included in property, plant and equipment accounts while expenditures for maintenance and repairs and minor renewals are charged to expense. When assets are retired or otherwise disposed of, the assets and related allowances for depreciation and amortization are eliminated from the accounts and any resulting gain or loss is reflected in income.

Provisions for depreciation are computed generally on the sum-of-the-years-digits method, except for certain operations which use the straight-line or declining-balance method. Depreciation provisions are based on estimated useful lives: buildings—20 to 45 years; machinery and equipment including production tooling—3 to 18 years; equipment leased to others—5 to 10 years. Leasehold improvements are amortized over the lesser of the life of the lease or the estimated useful life of the improvement.

Unit of Production Method

ASARCO INCORPORATED (DEC)

	1986	1985	1984
	(in thousands)		
Sales products	$1,034,953	$1,143,068	$1,294,476
Sales of services	21,585	23,853	30,653
Total sales of products and services	1,056,538	1,166,921	1,325,129
Cost of products and services	947,453	1,059,135	1,242,725
Income from products and services	109,085	107,786	82,404
Other income:			
Income from rights offering by M.I.M. Holdings Limited	8,999	—	—
Income from sale of subsidiary capital stock	3,136	—	—
Miscellaneous	13,295	13,768	8,682
Total other income	25,430	13,768	8,682
Other deductions:			
Selling, administrative and other expense	35,110	40,000	41,541
Bad debts expense	4,248	868	421
Depreciation and depletion expense	53,030	57,243	64,147
Exploration expense	4,250	6,141	10,231
Research expense	3,979	6,034	6,738
Interest expense	41,063	46,991	55,371
Unusual items	—	4,500	254,000
Total other deductions	141,680	161,777	432,449
Earnings (Loss) before equity in results of nonconsolidated associated companies	(7,165)	(40,223)	(341,363)

NOTES TO FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Property: Assets are valued at cost or less. Betterments, renewals, costs of bringing new mineral properties into production, and the costs of major development programs at existing mines are capitalized. Maintenance, repairs, development costs to maintain production at existing mines, and gains or losses on assets retired or sold are reflected in earnings as incurred. Plant assets are depreciated over their estimated useful lives, generally by the unit-of-production method. Mine asset depreciation and depletion are computed generally on the unit-of-production method using proven and probable ore reserves.

UNION CAMP CORPORATION (DEC)

	1986	1985	1984
		(in thousands)	
Net sales	$2,045,215	$1,865,871	$1,973,781
Costs and other charges:			
Cost of products sold	1,340,174	1,269,301	1,278,666
Delivery, selling and administrative expenses	297,360	275,744	284,677
Depreciation and cost of timber harvested	166,384	152,064	125,909
Income from Operations	241,297	168,762	284,529

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

($ in thousands)

1 (In Part): Significant Accounting Policies

Property and Depreciation

Plant and equipment is recorded at cost, less accumulated depreciation. Upon sale or retirement, the asset cost and related depreciation are removed from the balance sheet and the resulting gain or loss is included in income.

Depreciation is principally calculated on a straight-line basis with lives for buildings from 15 to 33 years and for machinery and equipment from 3 to 16 years. For major expansion projects, the Company uses the units-of-production method until design level production is reasonably sustained. Accelerated depreciation methods are used for tax purposes.

The cost of timber harvested is charged to income as timber is cut. The charge to income is the product of the volume of timber cut multiplied by annually developed unit cost rates which are based on the relationship of timber cost to the estimated volume of recoverable timber.

INTERNATIONAL PAPER COMPANY (DEC)

	1986	1985	1984
		(In millions)	
Costs and Expenses			
Cost of products sold	$3,991	$3,477	$3,582
Distribution expense	302	253	262
Selling and administrative expenses	355	298	303
Depreciation	326	267	249
Taxes other than payroll and income taxes	69	71	65
	5,043	4,366	4,461

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Plants, Properties and Equipment

Plants, properties and equipment are stated at cost, less accumulated depreciation.

For financial reporting purposes, the Company uses the unit-of-production method for depreciating its major pulp and paper mills and certain wood products facilities, and the straight-line method for other plants and equipment.

Annual straight-line depreciation rates for financial reporting purposes are as follows: buildings 2½ percent to 8 percent; machinery and equipment 5 percent to 33 percent; woods equipment 10 percent to 16 percent. For tax purposes, depreciation is computed utilizing accelerated methods.

Start-up costs on major projects are capitalized and charged to earnings over a five-year period. These costs are a integral part of the process of bringing a facility into commercial production and therefore benefit future periods.

At December 31, 1986 and 1985, unamortized start-up costs were $65 million and $71 million, respectively.

Interest costs are capitalized during the construction of certain long-term assets. The capitalized interest is recorded as part of the asset to which it is related and is depreciated over the asset's estimated useful life. The Company incurred interest costs of $143 million in 1986, $105 million in 1985 and $100 million in 1984; of these amounts $22 million, $14 million and $19 million, respectively, have been capitalized.

Production—Variable Method

WHEELING-PITTSBURGH STEEL CORPORATION (DEC)

	1986	1985	1984
		(In Thousands)	
Cost and expenses:			
Cost of products sold	$ 762,175	$730,592	$ 967,487
Selling, administrative and general expenses	48,650	52,916	41,189
Depreciation	48,804	45,209	48,729
Interest and expense on long-term debt	6,159	21,361	61,330
Restructuring charges	327,100	141,165	—
	1,192,888	991,243	1,118,735

NOTES TO FINANCIAL STATEMENTS

Accounting Policies (In Part)

Property, Plant and Equipment

Depreciation is computed on the modified units of production method for financial statement purposes and accelerated methods for income tax purposes. Interest cost is capitalized for qualifying assets during the assets' acquisition period. Capitalized interest cost is amortized on the same basis as the related depreciation.

Maintenance and repairs are charged to income. Renewals and betterments made through replacements are capitalized. Profit or loss on property replaced is credited or charged to income.

Note G (In Part): Property, Plant and Equipment

The Corporation utilizes the modified units of production method of depreciation which recognizes that the depreciation of steelmaking machinery is related to the physical wear of the equipment as well as a time factor. The modified units of production method provides for straight line depreciation charges modified (adjusted) by the level of production activity. On an annual basis, adjustments may not exceed a range of 60% (minimum) to 110% (maximum) of related straight line depreciation. The adjustments are based on the ratio of actual production to a predetermined norm. Eighty-five percent of capacity is considered the norm for the Corporation's primary steelmaking facilities; eighty percent of capacity is considered the norm for finishing facilities. No adjustment is made when the production level is equal to norm. In 1986 depreciation under the modified units of production method exceeded straight line depreciation by $1.5 million or 3.2%. For 1985 and 1984 aggregate straight-line depreciation exceeded that recorded under the modified units of production method by $10.1 million or 18.3%, $7.0 million or 12.6%, respectively.

Depletion

JAMES RIVER CORPORATION OF VIRGINIA (APR)

Consolidated Statement of Changes in Financial Position

	1986	1985	1984
	(in thousands)		
Sources of working capital:			
Operations:			
Net income	$ 95,288	$101,351	$ 97,995
Charges (credits) to income not affecting working capital:			
Depreciation and cost of timber harvested	81,739	66,432	53,064
Deferred income taxes	53,062	55,650	46,012
Amortization and other	10,151	(5,002)	(3,791)
Working capital from operations	240,240	218,431	193,280

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

D. Property, Plant and Equipment:

Property, plant and equipment is stated at cost. Depreciation is computed using the straight-line method for financial reporting purposes based on management's estimate of useful lives (generally 20 to 45 years for buildings and 12 to 20 years for machinery and equipment). Timber and timberlands are stated at cost less accumulated cost of timber harvested. Cost of timber harvested is recorded as timber is cut and at rates which are determined annually based on the relationship of unamortized timber costs to the estimated volume of recoverable timber.

DIAMOND SHAMROCK CORPORATION (DEC)

	1986	1985	1984
	(in millions)		
Costs and Expenses			
Cost of products sold and operating expenses	$1,961.2	$2,379.2	$2,504.9
Exploration costs, including dry holes	75.2	102.9	82.4
Depreciation, depletion and amortization	424.5	350.7	406.6
Selling and administrative	113.2	94.1	97.5
Taxes other than income taxes	65.8	78.1	102.5
Interest	131.2	118.9	148.5
Special charge		681.8	
	2,771.1	3,805.7	3,342.4

SIGNIFICANT ACCOUNTING POLICIES

Depreciation, Depletion and Amortization

Properties and equipment are depreciated generally on the straight-line basis over their estimated useful lifes. Coal, oil, gas and other raw material resources are depleted on a unit-of-production basis generally over estimated aggregate recoverable reserves. Intangible assets are amortized on a straight-line basis over their legal or estimated useful lives, not to exceed 40 years.

INCOME TAXES

PRESENTATION OF INCOME TAXES

APB Opinion No. 11 states in part:

60. In reporting the results of operations the components of income tax expense for the period should be disclosed, for example:

a. Taxes estimated to be payable
b. Tax effects of timing differences
c. Tax effects of operating losses

These amounts should be allocated to (a) income before extraordinary items and (b) extraordinary items and may be presented as separate items in the income statement or, alternatively, as combined amounts with disclosure of the components parenthetically or in a note to the financial statements.

61. When the tax benefit of an operating loss carry forward is realized in full or in part in a subsequent period, and has not been previously recognized in the loss period, the tax benefit should be reported as an extraordinary item in the results of operations of the period in which realized.

63. Certain other disclosures should be made in addition to those set forth in paragraphs 56–62:

a. Amounts of any operating loss carryforwards not recognized in the loss period, together with expiration dates (indicating separately amounts which, upon recognition, would be credited to deferred tax accounts);

TABLE 3-11: FEDERAL INCOME TAX EXPENSE

	1986	1985	1984	1983
Description Terms				
Income taxes	520	520	506	500
Federal income taxes	59	57	67	82
United States (U.S.) income taxes	11	14	14	10
	590	**591**	**587**	**592**
Other or no current year amount	10	9	13	8
Total Companies	**600**	**600**	**600**	**600**

b. Significant amounts of any other unused deductions or credits, together with expiration dates; and

c. Reasons for significant variations in the customary relationships between income tax expense and pretax accounting income, if they are not otherwise apparent from the financial statements or from the nature of the entity's business.

The Board recommends that the nature of significant differences between pretax accounting income and taxable income be disclosed.

Table 3-11 summarizes the descriptive captions used by the survey companies to identify income tax expense. Table 3-12 shows the nature of frequently disclosed timing differences giving rise to deferred taxes. Examples of income tax expense presentations and disclosures follow.

Expense Provision

ACME-CLEVELAND CORPORATION (SEP)

	1986	1985	1984
Earnings from Continuing Operations Before Income Taxes	$ 171,878	$9,115,954	$3,544,125
Income taxes	1,997,000	4,460,000	2,258,000
Earnings (Loss) From Continuing Operations	(1,825,122)	4,655,954	1,286,125

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note A (In Part): Accounting Policies and Practices

Income Taxes—Income taxes are provided on earnings at the appropriate statutory rates applicable to such earnings. Deferred income taxes are provided on items recognized in different periods for financial reporting purposes than for income tax purposes. Investment tax credits are recorded using the flow-through method.

Deferred U.S. income taxes have not been provided on undistributed earnings of foreign subsidiaries of approximately $16,099,000 at September 30, 1986. In the event earnings of foreign subsidiaries are remitted, foreign tax credits may be available to offset U.S. taxes on future remittances.

TABLE 3-12: TIMING DIFFERENCES—REASONS

	Number of Companies			
	1986	1985	1984	1983
Depreciation	488	489	488	496
Pensions	110	69	81	76
Other employee benefits	112	115	108	98
Discontinued operations	98	93	87	77
Installment sales	88	92	96	86
Inventory valuation	86	81	90	97
Unremitted earnings	70	101	116	127
Long-term contracts	67	80	78	71
Interest and taxes during construction	51	66	72	83
Leases	27	37	49	44
Intangible drilling costs	26	33	39	45
Warranties	16	23	29	25

Note E: Income Taxes

The components of earnings (loss) before income taxes from continuing operations were:

	(In thousands)		
	1986	1985	1984
Domestic	$(2,828)	$5,343	$ 889
Foreign	3,000	3,773	2,655
	$ 172	$9,116	$3,544

Income taxes for continuing operations, included in the statement of consolidated operations are as follows:

	(In thousands)		
	1986	1985	1984
Federal			
Current	$ 114	$2,075	$ 808
Deferred	0	0	0
	114	2,075	808
Foreign			
Current	1,851	2,077	1,345
Deferred	(45)	115	136
	1,806	2,192	1,481
State and local	77	193	(31)
	$1,997	$4,460	$2,258

At September 30, 1986, the Corporation has available for federal income tax purposes a net operating loss carryforward of $8,670,000 which expires in 1998 through 2001, investment tax credit carryforwards of $1,678,000 which expire in 1998 through 2001, foreign tax credit carryforwards of $606,000 which expire in 1987 through 1989, and a capital loss carryforward of $1,397,000 expiring in 1990. For financial statement purposes, the Corporation has domestic net operating loss and investment tax credit carryforwards of $28,500,000 and $1,678,000, respectively, that expire in 1998 through 2001, foreign tax credit carryforwards of $606,000 which expire in 1987 through 1989, and a capital loss carryforward of $1,397,000 expiring in 1990. The difference between book and tax net operating loss carryforwards is due primarily to the nondeductiblity of restructuring and inventory reserves. In addition to the federal carryforwards, the Corporation has available net operating loss carryforwards in West Germany of $840,000 expiring in 1987.

The Tax Reform Act of 1986 ("the Act") enacted on October 22, 1986 repealed the Investment Tax Credit as of January 1, 1986. The Financial Accounting Standards Board requires the Corporation to report the effects of the retroactive provision of the Act entirely within the period that includes the date the Act was enacted. Until that date, financial statements must be prepared on the basis of prior law. Accordingly, the investment tax credit carryforward as of September 30, 1986, includes $386,000 for credit earned between December 31, 1985 and September 30, 1986. Due to the Corporation's loss carryforward position, the effects of the retroactive provisions of the Act will not result in a charge to earnings during the Corporation's first quarter of fiscal 1987. In addition, as a result of the Act, transition rules require that investment tax credit carryforwards are to be reduced for credits utilized in fiscal years ending after July 1, 1987. The amount of investment credit allowable as a result of carryforwards utilized in 1987 will be reduced by approximately 8%; for carryforward amounts utilized in 1988 and beyond, the credit will be reduced by 35%. A reconcilation of the statutory federal income tax rate and the effective rate for continuing operations follows:

	1986	1985	1984
Statutory federal income tax rate........	46.0%	46.0%	46.0%
Effect of:			
Investment tax credit net of recapture	28.6	(1.2)	(1.0)
Foreign income taxes..................	247.8	5.0	7.3
State income taxes....................	45.0	1.1	(.5)
Minimum tax...........................	24.0	0	0
Difference between tax and book basis on disposition of equity interest....	(148.4)	(6.3)	(14.1)
Goodwill................................	212.3	5.0	8.7
Tax-exempt interest on municipal securities...............................	(19.8)	(.3)	(.5)
Increase in cash surrender value of officers' life insurance..............	13.3	.4	.1
Losses on minority equity investments	157.4	2.0	17.2
Possessions corporation tax credit....	(92.8)	(2.8)	0
Loss for which no current benefit is available.............................	646.1	0	0
Other items.............................	2.4	0	.5
	1,161.9%	48.9%	63.7%

The components of deferred income taxes from continuing operations are summarized as follows:

	(In thousands)		
	1986	1985	1984
Accelerated depreciation for tax purposes.................................	$665	$(834)	$1,177
Elimination of deferred taxes due to loss carryforwards...................	(1,369)	1,998	(3,004)
Receivable, inventory and valuation allowance, warranty, and other items deducted for tax returns in periods different than for books.............	588	(935)	2,126
Capitalized leases........................	58	27	0
Income from associated companies	13	9	5
Other......................................	0	(150)	(168)
	$(45)	$115	$136

COMPUGRAPHIC CORPORATION (DEC)

	1986	1985	1984
	(in thousands)		
Income before federal and state taxes	$5,208	$28,454	$34,305
Provision for income taxes (Notes 1 and 9).....................................	1,823	6,657	9,915
Net income...............................	3,385	21,797	24,390

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Significant Accounting Policies

Income Taxes

Income taxes are provided in accordance with the comprehensive income tax allocation method. This method recognizes the tax effects of all income and expense transactions included in each year's consolidated statement of income regardless of the year the transactions are reported for tax purposes. Differences in the timing of recognition of income and expense for tax purposes are reflected in the deferred tax account in the balance sheet. The "provision for income taxes" is reduced by the amount of investment, research and development, and other tax credits generated each year, and by the tax effect of not providing for U.S. federal income taxes on income generated by the Company's Irish subsidiary, which is expected to be reinvested, and on that portion of Foreign Sales Corporation (FSC) income in 1986 and 1985, or the former Domestic International Sales Corporation (DISC) income in prior years, which is not subject to U.S. federal income taxes.

9. Income Taxes

The differences between the statutory U.S. federal income tax rate of 46 percent in 1986, 1985, and 1984 and the Company's effective tax rate were as follows:

(Dollars in thousands)	1986	1985	1984
Income (loss) before federal and state income taxes			
Domestic...........................	$(3,675)	$16,781	$22,557
Foreign.............................	8,883	11,673	11,748
Total.................................	$5,208	$28,454	$34,305
Statutory federal income tax provision..................................	$2,396	$13,089	$15,780
Taxes not provided on portion of DISC income......................	—	—	(838)
Investment tax credit, net of recapture..................................	400	(1,975)	(1,602)
Research and development credit..	—	(1,800)	(1,400)
Utilization of capital loss carryforward..................................	(362)	—	—
Provision for state income taxes, net of federal income tax benefit	266	362	762
Taxes not provided on foreign operations and FSC income...........	(1,031)	(5,447)	(4,022)
Other, net...........................	154	2,428	1,235
Provision for income taxes.........	$1,823	$ 6,647	$ 9,915
Effective income tax rate...........	35.0%	23.4%	28.9%

A summary of the current and deferred provision (credit) for income taxes follows:

(Dollars in thousands)	1986	1985	1984
Current payable (refundable)			
Federal	$(3,069)	$ 720	$(3,948)
Foreign	733	8	183
State	—	73	—
Total	$(2,336)	$ 801	$(3,765)
Deferred			
Federal	$3,893	$5,258	$12,269
State	266	598	1,411
Total	$4,159	$5,856	$13,680

Deferred income taxes are provided for timing differences between income for financial reporting and tax reporting. Tax effects of the principal timing differences are as follows:

(Dollars in thousands)	1986	1985	1984
Lease transactions, Compugraphic Financial Corporation	$(3,026)	$4,783	$ 7,371
Other lease transactions	3,326	188	6,049
Excess of tax over book depreciation	1,401	1,440	802
Domestic International Sales Corporation (DISC) income	(72)	(72)	16
Expenses for financial reporting purposes in excess of amounts allowable for tax	(32)	(512)	(2,215)
Other, net	2,562	29	1,657
Deferred provision for income taxes.	$4,159	$5,856	$13,680

No U.S. federal income taxes have been provided for that portion of DISC income not subject to federal income taxes. The Tax Reform Act of 1984 permanently exempted from federal income tax accumulated DISC income ($24,400,000 through 1984) that had not been distributed as of January 1, 1985. In addition, effective with fiscal year 1985, the Company has not been providing federal income taxes on that portion of FSC income not subject to federal income tax. The Company's Irish manufacturing subsidiary operates under an exemption from Irish income tax. The exemption expires in 1990. The Company does not provide deferred federal income taxes on undistributed earnings of its Irish subsidiary (34,900,000 cumulatively through 1986) to the extent it intends to reinvest these earnings.

HARRIS CORPORATION (JUN)

	1986	1985	1984
	(In thousands)		
Income before income taxes	$60,716	$99,922	$102,184
Income taxes	1,107	19,635	21,774
Net Income	59,609	80,287	80,410

NOTES TO FINANCIAL STATEMENTS

Significant Accounting Policies (In Part)

Income Taxes—Investment tax credits are accounted for by the flow-through method. Deferred taxes are provided for timing differences arising primarily from completed-contract accounting for long-term contracts, depreciation, leases and installment sales.

Income Taxes

The provisions for income taxes are summarized as follows:

(In thousands)	1986	1985	1985
Current:			
United States	$(8,861)	$20,417	$(28,225)
International	6,697	3,004	5,884
State and local	5,097	7,570	(2,044)
	2,933	30,991	(24,385)
Deferred:			
United States	488	(9,791)	38,264
International	(1,830)	21	(624)
State and local	(484)	(1,586)	8,519
	(1,826)	(11,356)	46,159
	$1,107	$19,635	$21,774

The components of deferred income tax expense are as follows:

(In thousands)	1986	1985	1984
Completed contracts	$5,917	$ (3,102)	$40,530
DISC earnings	(182)	(17,874)	(7,586)
Depreciation	3,984	14,595	9,108
Accruals not currently deductible for tax purposes	(8,909)	(10,363)	2,324
Leases	(6,725)	(2,597)	1,753
Capitalized interest and taxes	2,595	3,189	4,447
Installment sales	(6,409)	26,367	(5,180)
Unrealized foreign exchange gains.	1,019	(3,396)	2,971
Contributions	(1,378)	(3,004)	—
Tax credit carryovers	9,582	(10,047)	—
All other net	(1,320)	(5,124)	(2,208)
	$(1,826)	$(11,356)	$46,159

A reconciliation of the effective income tax rate and the statutory United States income tax rate follows:

	1986	1985	1984
Effective income tax rate	1.8%	19.7%	21.3%
Investment tax credits	13.7	10.4	8.7
Research and experimentation tax credits	1.9	4.4	8.5
Tax benefits related to export sales	12.1	5.1	—
Tax exempt foreign earnings	0.8	3.4	3.3
Equity income	9.6	4.0	3.0
Capital gains	5.5	—	—
Other items	4.7	2.3	4.6
State taxes	(4.1)	(3.3)	(3.4)
Statutory U.S. income tax rate	46.0%	46.0%	46.0%

United States income taxes have not been provided on $80,200,000 of undistributed earnings of international subsidiaries because of the Corporation's intention to reinvest these earnings.

The Tax Reform Act of 1984 exempted from taxation certain income earned by DISC export sales subsidiaries. The related excess tax accrual of $4,100,000 provided in prior years was recorded as a reduction of income tax expense in the first quarter of 1985.

Current income tax liabilities include net deferred taxes of $55,500,000 at June 30, 1986 and $72,200,000 at June 30, 1985. Future changes in deferred tax liabilities are not determinable principally because of the uncertainty of the dates on which existing and future long-term contracts will be completed.

In 1984, the Corporation paid $23,700,000, which included $7,900,000 of interest expense, in connection with a U.S. income tax audit. The additional tax and interest was provided for in prior years and accordingly the payment was recorded as a reduction of accrued and deferred income taxes.

Pretax income of foreign subsidiaries was $14,200,000 in 1986, $14,000,000 in 1985, and $17,700,000 in 1984.

STALEY CONTINENTAL INC. (SEP)

	1986	1985	1984
	(in thousands)		
Earnings before income taxes	$36,818	$20,358	$76,892
Income taxes			
Current and deferred	20,167	7,366	35,569
Investment tax credits	(5,754)	(8,706)	(3,838)
Total income taxes (credits)	14,413	(1,340)	31,731
Earnings before share of equity companies' net earnings	22,405	21,698	45,161

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Income Taxes

Income tax provisions are based on earnings reported for financial statement purposes, adjusted for transactions that do not enter into the computation of income taxes payable. Deferred taxes are provided for certain items which are reported for income tax purposes either in advance of or subsequent to the period in which such items are recognized for financial reporting purposes. No provision is made for United States taxes on portions of the undistributed earnings of foreign subsidiaries that have been or are intended to be permanently reinvested. Investment tax credits are recognized under the flow-through method in the year in which the credits arise.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Income Taxes

The provisions (credits) for income taxes are summarized as follows:

(in thousands)	1986	1985	1984
Current			
Federal	$ 2,529	$ 6,595	$ 4,178
State	739	2,593	3,329
Foreign	452	606	638
	3,720	9,794	8,145
Deferred	16,447	(2,428)	27,424
Investment tax credits	(5,754)	(8,706)	(3,838)
Continuing operations	14,413	(1,340)	31,731
Discontinued operations	—	(9,098)	(13,137)
	$14,413	$(10,438)	$18,594

The Tax Reform Act of 1986, which was signed into law during October, included provisions eliminating the investment tax credit retroactive to January 1, 1986. As a result of a pronouncement issued by the Financial Accounting Standards Board (FASB), which is supported by the Securities and Exchange Commission, the Company was not allowed to recognize any effect of the new tax law in its 1986 results. Although the Company believes it should not have recognized the favorable effect of investment tax credits which will not be available to the Company at the time its 1986 tax return is filed, it has followed the FASB pronouncement. Accordingly, net earnings for 1986 included the favorable effects of $2.4 million or $.08 per share of investment tax credits which will never be recognized and which will be reversed against net earnings in the first quarter of fiscal 1987.

Investment tax credits for 1986, 1985 and 1984 included $.7 million, $1.0 million and $.4 million, respectively, arising from contributing these same amounts to the Company's Payroll Based Tax Credit Stock Ownership Plan. Corresponding costs were included in selling and administrative expenses and, therefore, those transactions had no effect on net earnings.

In addition to the above provisions for 1984, $1.9 million of deferred tax credits related to equity companies have been recorded. Other deferred income tax provisions result from the following:

(in thousands)	1986	1985	1984
Depreciation and amortization policies	$31,448	$30,516	$39,174
Investment credit and other tax carryforwards	(3,033)	(32,283)	(13,712)
Hedging transactions	150	(652)	7,423
DISC operations	(3,928)	(1,218)	(3,180)
Property and equipment disposals	1,578	(4,106)	—
Acquisition adjustments	8,521	4,002	—
Restructure reserve	(10,243)	—	—
Employee benefit plans	(4,665)	—	—
Other—net	(3,381)	1,313	(2,281)
Continuing operations	16,447	(2,428)	27,424
Discontinued operations	—	(12,076)	(12,800)
	$16,447	$(14,504)	$14,624

During 1984, the Company reversed $3.2 million of deferred taxes previously provided on earnings of its Domestic International Sales Corporation (DISC). The Tax Reform Act of 1984 removed the liability for such taxes.

The differences between the statutory and effective federal income tax rates applicable to continuing operations are as follows:

	1986	1985	1984
Statutory tax rate	46.0%	46.0%	46.0%
Investment tax credits	(15.6)	(42.8)	(5.0)
Acquisition adjustments	—	(18.7)	—
Reversal of deferred taxes on DISC earnings	—	—	(4.1)
State taxes, net of federal benefit	6.0	9.0	2.3
Other—net	2.8	(.1)	2.1
Effective tax rate	39.2%	(6.6)%	41.3%

At September 30, 1986, consolidated retained earnings included undistributed earnings of foreign subsidiaries and affiliates totaling $22 million which have been indefinitely reinvested and for which no provision has been made for United States income taxes.

WESTVACO CORPORATION (OCT)

	1986	1985	1984
	(in thousands)		
Income before taxes	$158,896	$162,225	$191,974
Income taxes	50,800	57,600	62,000
Net income	108,096	104,625	129,974

NOTES TO FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (In Part)

Income taxes: For income tax purposes, the company reports certain income and expense items in different periods from which they are reported for financial accounting purposes. Provision is made for the income taxes related to these differences. Investment, energy, and research and development tax credits are taken into income as a reduction of the provision for income taxes in the year in which they become available. On October 22, 1986, the Tax Reform Act of 1986 was signed into law by the President. For additional information, see Note C.

C. Income Taxes

Income before provision for income taxes consisted of:

In thousands	1986	1985	1984
Domestic	$139,358	$141,136	$179,060
Foreign	19,538	21,089	12,914
	$158,896	$162,225	$191,974

The provision for income taxes is composed of:

In thousands	1986	1985	1984
Current:			
Federal	$ 811	$39,032	$48,542
Investment, energy, and R&D tax credits	(22,299)	(19,374)	(18,258)
State and other	1,486	10,245	10,234
Foreign	6,505	9,715	6,757
Deferred:			
Federal	55,952	17,156	12,565
State and other	8,243	955	2,293
Foreign	102	(129)	(133)
	$50,800	$57,600	$62,000

The 1986 provision for deferred taxes includes $48,015,000 (1985—$29,105,000, 1984—$23,541,000) due to the use of accelerated depreciation and $3,026,000 (1985—$6,129,000, 1984—$4,078,000) due to the expensing of capitalized interest for income tax purposes. As a result of the Tax Reform Act of 1986 which was enacted in October, the company increased its tax provision by $5.2 million, to reflect the loss of certain investment tax credits and the reduction in the depreciation basis of some assets. This reduced net income by $.12 per share. Income tax expense has been reduced to give effect to the audit resolution of open items and tax legislative reform in 1986 and 1984, respectively, relating to the company's DISC. This reduced the tax provision by $2.9 million and $12 million for 1986 and 1984, and increased net income by $.07 and $.29 per share, respectively. Provision has not been made for income taxes which would become payable upon remittance of $88 million of the October 31, 1986 undistributed earnings of certain foreign subsidiaries representing that portion of such earnings which the company considers to have been indefinitely reinvested in the subsidiaries.

The differences (expressed as a percentage of pretax income) between the U.S. statutory federal income tax rate and the effective income tax rate as reflected in the accompanying consolidated statement of income are:

	1986	1985	1984
Statutory federal income tax rate	46.0%	46.0%	46.0%
State and local taxes	3.3	3.7	3.5
Investment, energy, and R&D tax credits	(14.0)	(11.9)	(9.5)
Reduction in depreciation basis	4.5	.5	—
Foreign income at other than U.S. rates	(.6)	2.0	.5
Release of DISC accrued taxes	(1.8)	—	(6.3)
Capital gains differential	(2.9)	(3.7)	(1.8)
Other items—net	(2.5)	(1.1)	(.1)
Effective tax rate	32.0%	35.5%	32.3%

Credit Provision

BROWN & SHARPE MANUFACTURING COMPANY (DEC)

	1986	1985	1984
Income (loss) from continuing operations before taxes and extraordinary item	$(1,583,000)	$7,635,000	$10,970,000
Income tax provision (benefit)	(337,000)	1,300,000	1,423,000
Income (loss) from continuing operations before extraordinary item	(1,246,000)	6,335,000	9,547,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Significant Accounting Policies

Income Taxes

Certain income and expense items are recorded on a different basis for financial accounting than for income tax purposes. Deferred taxes are provided in the financial statements for significant timing differences. Investment tax credits are accounted for by the "flow-through" method. Federal income taxes are not provided on the unremitted earnings of foreign subsidiaries since it has been the practice and is the intention of the Company to continue to reinvest these earnings in the business outside the United States. The amount of unremitted foreign earnings at December 27, 1986 was approximately $47,100,000.

4. Income Taxes

Income (loss) from continuing operations before taxes consisted of the following:

	1986	1985	1984
Domestic	$(2,019,000)	$1,156,000	$ 823,000
Foreign	436,000	6,479,000	10,147,000
Income (loss) from continuing operations before taxes	$(1,583,000)	$7,635,000	$10,970,000

The following table reconciles the income tax provision (benefit) on continuing operations computed at the U.S. statutory rate to that in the financial statements:

	1986	1985	1984
Taxes computed at 46% of income (loss) from continuing operations before taxes....	$(728,000)	$3,512,000	$5,046,000
Differentials arising from:			
Items at capital gains rates...	—	—	(1,147,000)
Lower tax on foreign operations	(302,000)	(805,000)	(1,357,000)
Non-taxable foreign translation gain	—	(830,000)	—
Elimination of previously provided DISC deferred taxes (benefit)	—	(377,000)	(378,000)
Investment tax, research and development and PAYSOP tax credits..................	—	(293,000)	—
United Kingdom stock relief ..	—	—	(151,000)
Permanent difference between U.K. tax and financial reporting basis of investment liquidated at a tax loss	—	—	(660,000)
Other, principally capital losses not currently utilizable	693,000	138,000	70,000
Income tax provision (benefit) on continuing operations ...	$(337,000)	$1,300,000	$1,423,000

The income tax provision (benefit) on continuing operations consisted of the following:

	1986	1985	1984
Current:			
Federal......................	$(325,000)	$ —	$ —
Foreign......................	(12,000)	615,000	1,761,000
	(337,000)	615,000	1,761,000
Deferred:			
Federal......................	—	—	—
Foreign......................	—	685,000	(342,000)
	—	685,000	(342,000)
State	—	—	4,000
Income tax provision (benefit) on continuing operations ..	$(337,000)	$1,300,000	$1,423,000

	1986	1985	1984
Deferred taxes resulted from the following:			
Foreign income subject to future tax assessments	$ —	$685,000	$ —
Other........................	—	—	(342,000)
Deferred tax provision (benefit)	$ —	$685,000	$(342,000)

For income tax reporting purposes, the Company had net operating loss carryforwards of approximately $12,400,000 in the U.S. and $1,400,000 in the U.K. and tax credit carryforward of approximately $3,100,000 in the U.S. at December 27, 1986. The majority of the U.S. tax loss carryforward expires in 1997 and 1998 and the majority of the U.S. tax credit carryforward expires from 1994 to 1997. There is no time limit for the carryforward at United Kingdom losses. For financial statement purposes, the Company had net operating loss carryforwards of approximately $6,700,000 at December 27, 1986.

HECLA MINING COMPANY (DEC)

	1986	1985	1984
Income (loss) before income taxes and extraordinary credit	$(23,356)	$(8,669)	$16,529
Income tax provision (benefit) (Note 5)	(2,024)	249	8,900
Interest (loss) from continuing operations before extraordinary credit....	(21,232)	(8,918)	7,629

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5. Income Taxes

Major components of the Company's income tax provision are (in thousands):

	1986	1985	1984
Currently payable:			
Federal................................	—	—	$3,696
State	$ 152	$249	533
Total current	152	249	4,229
Deferred:			
Benefit of reversal of previously established deferred taxes	(2,176)	—	—
Development costs deducted for income tax purposes, deferred for financial statement purposes	—	—	716
Amortization of development costs expensed for tax purposes in prior years...............................	—	—	(285)
Restoration of investment tax credits	—	—	570
Provision for minimum tax...........	—	—	(272)
Loss on disposal of property.........	—	—	15
Other..................................	—	—	310
Total deferred provision (benefit)	(2,176)	—	1,054
Tax effect of net operating loss carryovers	—	—	3,617
	$(2,024)	$249	$8,900

The annual tax provision is different from the amount which would be provided by applying the statutory federal income tax rate to the Company's pretax income (loss) from continuing operations. The reasons for the difference are as follows (in thousands):

	1986	%	1985	%	1984	%
Computed "statutory" provision (benefit)	$(10,698)	(46)%	$(3,988)	(46)%	$7,603	46%
Effect of nonutilization of net operating losses	8,522	36	3,988	46	—	—
Effect of percentage depletion	—	—	—	—	(4,581)	(28)
Provision for minimum taxes	—	—	—	—	3,444	21
Investment tax credits	—	—	—	—	(400)	(2)
Effect of nondeductible merger costs	—	—	—	—	2,554	15
State income taxes, net of federal tax benefit	152	1	249	3	280	2
	$(2,024)	(9)%	$ 249	3%	$8,900	54%

For financial statements, Hecla used net operating loss carryovers of $7,900,000 in 1984 to offset otherwise taxable income. The current federal tax provision in 1984 included approximately $3,444,000 for preference taxes that became payable when the Company used its tax basis net operating losses.

At December 31, 1986, the Company has tax basis net operating loss carryovers available to offset future regular taxable income, and investment tax credit carryovers available to offset future taxes payable. These carryovers expire as follows (in thousands):

	Net Operating Losses	Investment Tax Credits
1990		$ 530
1991		243
1992		10
1993		2
1994	$ 2,664	2
1995		216
1996	12,335	30
1997	7,418	2,279
1998		769
1999		525
2000	14,959	340
2001	15,862	
	$53,238	$4,946

For financial statement purposes, the Company has unused net operating loss carryovers of approximately $27,118,000, and investment tax credit carryovers of approximately $2,735,000.

On October 22, 1986, the existing federal income tax law was substantially revised by the passage of the Tax Reform Act of 1986. Some of the changes included in the new tax legislation that will significantly affect the Company are reduction of the maximum corporate tax rate from 46% to 34%, the institution of a more comprehensive Alternative Minimum Tax, and the repeal of the investment tax credit retroactive to January 1, 1986. The new tax legislation also reduces investment tax credit carryovers from years prior to 1986 by 17.5% beginning in 1987 and 35% for tax years beginning in 1988 and thereafter. In the Company's case, while existing net operating loss carryovers will offset regular taxable income, they will not be available to offset Alternative Minimum Taxable Income.

No Provision

AMERICAN MOTORS CORPORATION (DEC)

	1986	1985	1984
		(in thousands)	
Earnings (Loss) Before Taxes on Income and Extraordinary Item	$(91,319)	$(125,263)	$15,469
Taxes on income	—	—	4,500
Earnings (Loss) Before Extraordinary Item	(91,319)	(125,263)	10,969

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note P: Taxes on Income

At December 31, 1986, the Company has unused U.S. and foreign operating loss carryforwards of approximately $1,004,000,000 to offset future taxable income. The Company also has approximately $40,900,000 of investment tax credit carryforwards expiring at various dates through 2000 available to offset future tax liabilities. At December 31, 1986, the Company has a possible future tax liability relating to timing differences of $173,286,000 which represents the difference between earnings as reported in the financial statements and earnings for income tax purposes. The financial statements at December 31, 1986 do not reflect the potential tax benefits of the operating loss carryforwards nor possible future tax liability related to the timing differences.

Taxes on income in 1984 consist of U.S. and foreign income taxes of $400,000 and $4,100,000, respectively. The taxes provided are offset by the utilization of U.S. and foreign operating loss carryforwards reflected as an extraordinary item. The difference between taxes provided and the tax resulting from the application of the U.S. statutory rate to pretax earnings is primarily attributable to foreign tax deductions and undistributed earnings of subsidiaries.

Earnings (loss) before extraordinary item include earnings (loss) from foreign operations of $(37,168,000), $(29,443,000) and $9,213,000 in 1986, 1985 and 1984, respectively.

U.S. income taxes have not been provided on approximately $29,390,000 of earnings permanently reinvested in subsidiaries.

THE WURLITZER COMPANY (MAR)

	1986	1985	1984
Earnings (Loss) From Continuing Operations Before Income Taxes and Extraordinary Credit....	$(8,416,000)	$(5,685,000)	$1,266,000
Provision (Credit) for Income Taxes	—	(661,000)	543,000
Earnings (Loss) From Continuing Operations Before Extraordinary Credit	(8,416,000)	(5,024,000)	723,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Income Taxes

Deferred income taxes are provided on timing differences between financial and taxable income. Investment tax credits are applied against current tax provisions using the flow-through method. The Company provides for estimated income taxes payable upon distribution of earnings of foreign subsidiaries.

4. Income Taxes

The components of the 1985 and 1984 provision (credit) for income taxes are summarized as follows:

	1985	1984
Current provision:		
Federal..	$ —	$ 2,000
State	—	—
Foreign..	1,000	—
Total	1,000	2,000
Provision in lieu of income taxes	—	76,000
Deferred provision (credit):		
Federal..	(662,000)	465,000
Foreign..	—	—
Total	(662,000)	465,000
Total provision (credit) for income taxes......	$(661,000)	$543,000

Deferred income tax credits of $662,000 during 1985 resulted from the tax effect of operating losses recognized. Deferred income tax charges of $465,000 recorded during 1985 resulted from the restoration of net deferred tax credits which had been reversed in prior periods to recognize the tax effect of domestic operating losses in those periods.

Foreign operations earnings and losses before taxes and extraordinary credits are losses of $143,000 for 1986, $544,000 for 1985, and earnings of $293,000 for 1984.

At March 31, 1986, the Company has domestic and foreign net operating loss carryforwards of approximately $21.1 million and $.1 million, respectively, most of which is available through 1998 to offset future domestic taxable income, and 1987 to offset future foreign taxable income. The Company also has minor amounts of investment tax credits and other items available for use in future years. For financial reporting purposes the Company has a net operating loss carryforward of approximately $22.5 million at March 31, 1986.

INVESTMENT CREDIT

The Tax Reform Act of 1986, enacted in October 1986, repealed the investment credit for property placed in service after December 31, 1985. Prior to the Tax Reform Act of 1986, 90% of the survey companies disclosing an investment credit used the flow through method of accounting. Examples of disclosures relating to the repeal of the investment credit follow.

CBI INDUSTRIES, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Thousands of dollars)

11 (In Part): Income Taxes

Statements of income—Income (loss) before income taxes consisted of:

	1986	1985	1984
U.S. income (loss)................	$(11,540)	$(129,096)	$(34,275)
Non-U.S. income..................	40,800	49,204	82,802
Total income (loss) before income taxes..................	$29,260	$ (79,892)	$48,527

The provision for (recovery of) income taxes consisted of:

	1986	1985	1984
Current U.S. taxes	$ (352)	$ (365)	$ 585
Deferred U.S. taxes................	(4,281)	(55,068)	(11,269)
Investment tax credits, net.........	(2,097)	(598)	(989)
Non-U.S. taxes	19,782	23,472	25,717
Total provision for (recovery of) income taxes..................	$13,052	$(32,559)	$14,044

Investment tax credits result from the purchase of property and equipment. These tax credits are deferred and amortized to income over the estimated useful lives of the related property. Accordingly, the repeal of the investment tax credit as of January 1, 1986 is not expected to have a significant effect on the results of operations in future years. At December 31, 1986, CBI had investment tax credits of $5,313 which it has been unable to utilize against its U.S. income tax liability. As a result of the Tax Reform Act of 1986, the amount of such credits carried forward will be reduced by 17½% on January 1, 1987 and an additional 17½% on January 1, 1988, resulting in a decrease in investment tax credits that can be amortized to income in the future.

THE COCA-COLA COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

10 (In Part): Income Taxes

The components of income before income taxes for both continuing and discontinued operations consist of the following (in thousands):

Year Ended December 31,	1986	1985	1984
United States	$ 693,829	$ 519,008	$ 433,715
Foreign	817,451	617,293	610,773
	$1,511,280	$1,136,301	$1,044,488

A reconciliation of the statutory U.S. federal rate and effective rates is as follows:

Year Ended December 31,	1986	1985	1984
Statutory rate	46.0%	46.0%	46.0%
State income taxes—net of federal benefit	1.1	1.0	1.1
Provision for disinvestment —South Africa	1.4	—	—
Earnings in jurisdictions taxed at lower rates (principally Puerto Rico)	(4.1)	(5.7)	(3.6)
Investment tax credits	(1.6)	(3.2)	(3.1)
Gain on sale of stock by Coca-Cola Enterprises Inc.	(4.0)	—	—
Equity method earnings	(1.2)	(1.9)	(1.5)
Other—net	.6	.1	.8
	38.2%	36.3%	39.7%
Investment tax credits included in determination of above rates (in millions):	$24.0	$35.0	$32.0

The United States Tax Reform Act of 1986 repealed the investment tax credit for property placed in service after December 31, 1985, unless a binding contract to purchase or construct qualified property was in effect on that date. In accordance with generally accepted accounting principles, the Company reversed in the fourth quarter of 1986, $8 million of investment tax credits previously recorded during the year.

DEERE & COMPANY (OCT)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Income Taxes (In Part)

Investment tax credits relating to property additions have been accounted for on the "flow-through" method, which reduces income tax expense in the year in which the assets giving rise to the credits are placed in service. The Tax Reform Act of 1986, which was passed in the fourth quarter of 1986, repealed the investment tax credit for property placed in service after January 1, 1986. Accordingly, the company reversed in the fourth quarter of 1986 previously recognized 1986 investment tax credits of $4.9 million. Investment tax credits were $3.8 million, $7.3 million and $4.8 million in 1986, 1985 and 1984, respectively. Deere & Company has reimbursed its unconsolidated leasing subsidiary for investment tax credits generated by that subsidiary. For the years ended October 31, 1986, 1985 and 1984, investment tax credits generated by the leasing subsidiary and reimbursed by Deere & Company amounted to $1.3 million, $14.1 million and $13.5 million, respectively.

PITNEY BOWES INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

10 (In Part): Taxes on Income

Income from continuing operations before taxes and equity in net income of finance subsidiaries, and tax provisions were as follows:

Years ended December 31 (in thousands)	1986	1985	1984
Income before taxes:			
U.S.	$153,122	$133,405	$165,257
Outside the U.S.	48,537	29,620	23,055
Total	$201,659	$163,025	$188,312
Tax provisions U.S. Federal:			
Currently payable	$ 51,381	$ 48,891	$ 54,967
Investment tax credit	(3,414)	(14,076)	(10,337)
Deferred	11,831	8,012	17,696
	59,798	42,827	62,326
U.S. state and local:			
Currently payable	12,014	9,108	8,312
Deferred	230	1,843	4,267
	12,244	10,951	12,579
Outside the U.S.:			
Currently payable	13,140	14,717	6,967
Deferred	8,161	2,886	4,775
	21,301	17,603	11,742
Total	$ 93,343	$ 71,381	$ 86,647

The Tax Reform Act of 1986, signed into law in the U.S. in October 1986, rescinded the investment tax credit effective January 1, 1986. As a result, the company charged income for $5.9 million in the fourth quarter of 1986 to reverse the effect of investment tax credits recorded in earlier quarters of 1986 and not allowable under transition rules of the tax law.

UNITED STATES SURGICAL CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note E (In Part): Income Taxes

In October 1986, the Tax Reform Act of 1986 was signed into law. The future reductions in corporate income tax rates from 46% to 34% and extension of the research credit for three years at a reduced rate of 20% will benefit the Company. However, the Company estimates that the benefits will be more than offset by repeal of the investment tax credit, a 35% reduction in value of investment tax credit carryforwards (which for income tax purposes amounted to $11,776,000 at December 31, 1986), the effective reduction, because of lower rates, in the value of net operating loss carryforwards (which for income tax purposes amounted to $21,168,000 at December 31, 1986), and the introduction of an alternative minimum tax.

Repeal of the investment tax credit retroactive to the beginning of 1986 was the primary cause of an adjustment in the fourth quarter of 1986 to the projected income tax rate. The tax adjustment reduced income before extraordinary item by $.10 per share and had the effect of increasing the utilization in 1986 of net operating loss carryforwards that otherwise would have been available in subsequent years, increasing the extraordinary tax benefit in 1986 by $.10 per share.

TAXES ON UNDISTRIBUTED EARNINGS

APB Opinion No. 23 stipulates that income taxes should be accrued for undistributed earnings of subsidiaries and corporate joint ventures included in consolidated earnings and that such accruals should be accounted for as timing differences. If there is evidence that the undistributed earnings of a subsidiary or corporate joint venture will not be transferred to the investor, income taxes should not be accrued, but disclosures should be made as to the reasons for not accruing taxes (earnings will be reinvested or remitted in the form of a tax-free liquidation) and as to the cumulative amount of undistributed earnings. With regard to the undistributed earnings of other investees which are included in consolidated earnings, *APB Opinion No. 24* stipulates that income taxes should be accrued and treated as a timing difference.

An *AICPA Accounting Interpretation of Opinion No. 23*, published in the March 1973 issue of *The Journal of Accountancy*, discusses disclosure of untaxed undistributed earnings of subsidiaries. The interpretation states in part:

> Care should be exercised in drafting the footnote required by paragraph 14b of *APB Opinion No. 23* so that readers may be fully apprised of tax implications of unremitted earnings of subsidiaries. The following is illustrative.
>
> "It is the policy of the Company to accrue appropriate U.S. and foreign income taxes on earnings of subsidiary companies which are intended to be remitted to the parent company in the near future. Unremitted earnings of subsidiaries which have been, or are intended to be, permanently reinvested (disclosure of purpose), exclusive of those amounts which if remitted in the near future would result in little or no such tax by operation of relevant statutes currently in effect, aggregate $ at December 31, 1972."

Table 3-13 shows the extent to which the survey companies accrued taxes on undistributed earnings.

TABLE 3-13: TAXES ON UNDISTRIBUTED EARNINGS

	1986	1985	1984	1983
Taxes accrued on all undistributed earnings..........	28	25	16	26
Taxes accrued on a portion of undistributed earnings.	116	128	136	158
Taxes not accrued on undistributed earnings..........	196	217	247	229
No mention of undistributed earnings	260	230	201	187
Total Companies..................	**600**	**600**	**600**	**600**

Taxes Accrued On All Undistributed Earnings

HALLIBURTON COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

11 (In Part): Income Taxes

The provision (benefit) for income taxes for 1986, 1985 and 1984 are summarized as follows:

	1986	1985	1984
	(In thousands)		
Current income taxes			
Federal taxes	$(87,830)	$ 17,595	$ 74,295
Foreign taxes	39,894	104,072	142,592
State taxes	(7,790)	6,138	9,680
Total	(55,726)	127,805	226,567
Deferred income taxes			
Federal taxes	23,730	(12,603)	16,826
Foreign and state taxes	(5,446)	(1,368)	(3,389)
Total	18,284	(13,971)	13,437
Total provision (benefit) for income taxes..............................	$(37,442)	$113,834	$240,004

The provision (benefit) for deferred taxes which result from timing differences between financial and tax reporting are summarized as follows:

	1986	1985	1984
	(In thousands)		
Undistributed earnings of foreign subsidiaries and a domestic international sales corporation	$ 6,288	$ (1,274)	$(31,554)
Accrual for potential liability for prior years' Federal income taxes	—	—	17,055
Benefit for accrual of interest relating to prior years' Federal income taxes..............................	(5,964)	(9,282)	(6,820)
Uncompleted engineering/construction contracts	(11,516)	(30,543)	12,504
Special write-downs	(3,940)	(50,542)	—
Excess of tax over book depreciation................................	15,372	41,322	17,224
Other items, net	18,026	36,348	5,028
Total deferred tax provision (benefit)................................	$18,284	$(13,971)	$ 13,437

* * * * * *

Undistributed earnings of consolidated foreign subsidiaries amounted to approximately $664,000,000 at December 31, 1986. Deferred income taxes using the U.S. statutory rate (net of available foreign tax credits) have been provided on substantially all such earnings.

APPLE COMPUTER, INC. (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Summary of Accounting Policies (In Part)

Income Taxes

The provision for income taxes takes into consideration all income and expenses for the current year, regardless of when such items are recognized for tax reporting purposes. Furthermore, federal and state income taxes are provided on earnings of foreign subsidiaries each year, assuming the eventual remittance of such earnings back to the parent company. Investment tax credits are recognized on the flow-through method as a reduction of income tax expense in the year the assets are placed in service.

Income Taxes (In Part)

The provision for income taxes consists of the following:

	(In thousands) 1986	1985	1984
Federal:			
Current	$ 63,925	$62,110	$27,682
Deferred (prepaid)	60,181	(18,755)	6,537
	124,106	43,355	34,219
State:			
Current	17,271	9,899	6,835
Deferred (prepaid)	5,613	(2,109)	671
	22,884	7,790	7,506
Foreign:			
Current	9,972	9,209	4,850
Deferred (prepaid)	(1,207)	(1,532)	(1,445)
	8,765	7,677	3,405
Provision for income taxes	$155,755	$58,822	$45,130

The federal provision for income taxes reflects U.S. income tax law in effect on September 26, 1986. The effect of the Tax Reform Act of 1986 on the consolidated financial statements would be immaterial. The foreign provision for income taxes is based on foreign pretax earnings of approximately $136 million in 1986, $59 million in 1985, and $63 million in 1984.

Deferred (prepaid) income taxes result from timing differences between years in the recognition of certain revenue and expense items for financial and tax reporting purposes. The sources of timing differences and the related tax effects are as follows:

	(In thousands) 1986	1985	1984
Warranty, bad debt, and other expenses not currently deductible	$ (3,367)	$(26,846)	$ (5,225)
Income reported on installment method for tax reporting purposes	5,365	4,315	4,754
Inventory valuation differences	20,497	(15,536)	(14,333)
Income of Domestic International Sales Corporation (DISC)	269	927	(4,107)
Income of foreign subsidiaries not taxable in current year	46,390	20,980	26,014
Financial statement depreciation not currently deductible	(3,385)	(5,317)	(3,540)
State income taxes deductible in succeeding years	(123)	(6,134)	—
Other individually immaterial items	(1,059)	5,215	2,200
Total deferred (prepaid) taxes	$64,587	$(22,396)	$ 5,763

Taxes Accrued on Portion of Undistributed Earnings

CHAMPION SPARK PLUG COMPANY (DEC)

NOTES TO FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (In Part)

Income Taxes

Deferred federal and foreign income taxes are provided for those items of income and expense which are recognized in different periods for financial reporting purposes than for income tax reporting purposes. In addition, deferred federal income taxes are provided for the portion of undistributed earnings of subsidiaries which is not considered to be permanently invested. Foreign and investment tax credits are accounted for as a reduction of the provision for federal and foreign income taxes in the year in which the credits arise.

Taxation (In Part)

Following is a summary of the amounts recorded for federal and foreign income taxes:

(In millions)	1986	1985	1984
Earnings (loss) before federal and foreign income taxes:			
Domestic	$(32.8)	$18.4	$32.2
Foreign	23.0	12.2	16.1
	$ (9.8)	$30.6	$48.3
Income tax expense (benefit):			
Current:			
Federal	$ (1.0)	$ (4.2)	$12.6
Foreign	9.2	3.7	3.3
Deferred:			
Federal	(3.7)	14.2	1.8
Foreign	2.1	.5	1.2
	$ 6.6	$14.2	$18.9

The federal and foreign income tax expense differs from the "expected" income tax expense (benefit) for those years computed by applying the United States statutory rate of 46% as follows:

(In millions)	1986	1985	1984
Tax expense (benefit) at United States statutory rate of 46%	$(4.5)	$14.1	$22.2
Increase (decrease) in tax resulting from:			
Investment and other tax credits	(1.1)	(2.4)	(1.5)
Tax provided on undistributed earnings of foreign subsidiaries	7.8	—	—
Differences between United States and foreign tax rates	(2.5)	(1.3)	(1.2)
Foreign currency rate fluctuations on inventories sold	1.1	.5	1.5
Net loss from foreign currency translation	.9	1.1	.5
Net losses of foreign subsidiaries without recognition of tax benefit	2.1	1.2	.9
Foreign dividends paid	(.3)	(.8)	(.9)
Partial settlement of prior years' tax examination	1.0	—	—
Miscellaneous items, net	2.1	1.8	(2.6)
Federal and foreign income tax expense	$ 6.6	$14.2	$18.9

During 1986, the Company provided $7.8 million of deferred federal income taxes relating to a portion of undistributed earnings of foreign subsidiaries no longer considered permanently invested. The Company's share of its foreign subsidiaries' unremitted earnings for which no United States income tax has been provided totaled $72 million at December 31, 1986, $7 million of which was unavailable for distribution because of various local statutory restrictions. Appropriate income taxes have been provided on dividends which have been declared, but not remitted. The Company considers the balance of accumulated earnings permanently invested and unavailable for distribution.

PACIFIC RESOURCES, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (In Part): Significant Accounting Policies

Income Taxes. Deferred income taxes are provided for revenues and expenses recognized in different periods for tax and financial statement purposes. Deferred U.S. income taxes are not provided on the portion of earnings of foreign subsidiaries which are intended to be indefinitely reinvested outside the U.S. Investment tax credits are accounted for using the flow-through method, except for investment tax credits related to the utility plant which are deferred and amortized over the estimated composite life of the plant in accordance with Hawaii regulatory authority.

Note 11. Income Taxes

Income Tax Expense (Credit) (In Thousands)	1986	1985	1984
Current:			
Federal	$ 5,092	$ 479	$ —
State	1,263	108	—
Foreign	(6,607)	993	1,837
Total	(252)	1,580	1,837
Deferred federal and state:			
Accelerated tax depreciation	4,456	9,127	8,201
Provision for inventory valuation	(5,368)	—	—
Interest rate swap agreements	1,690	—	—
Investment tax credit carryforward	8,000	(1,991)	(1,077)
U.S. operating loss carryforward	7,300	5,240	(11,606)
Undistributed foreign earnings	6,640	—	—
Losses of unconsolidated affiliate	—	(931)	1,594
Deferred investment tax credits	(66)	69	54
Other—accruals	857	(894)	665
Total	23,509	10,620	(2,169)
Total	$23,257	$12,200	$ (332)

U.S. operating loss and investment tax credit carryforwards in 1985 and 1984 were recognized for financial reporting purposes as offsets to domestic deferred income taxes expected to reverse during the carryforward periods. In 1986 and 1985, these deferred income tax offsets were reinstated as the tax benefits of these carryforwards were realized. During 1986, foreign income taxes accrued in prior years of $6.6 million were reversed because of a favorable ruling from foreign tax authorities. Total tax expense (credit) differed from the amounts computed by applying the federal income tax rate to income before income taxes as follows:

(In Thousands)	1986	1985	1984
Expected federal income taxes	$23,478	$15,519	$ 417
Deferred investment tax credits	(66)	69	54
State income tax, net of federal income tax effect	1,469	906	(218)
Foreign income reinvested	(2,365)	(1,752)	(3,169)
Equity in loss of affiliate	—	—	2,962
Investment tax credit carryforwards	—	(1,991)	(1,077)
Other—net	741	(551)	699
Total	$23,257	$12,200	$ (332)

Foreign income included in income before income taxes amounted to $5.2 million in 1986, $6.3 million in 1985, and $15.2 million in 1984. In 1986, the company provided deferred income taxes of $6.6 million on the earnings of the foreign subsidiaries which are expected to be repatriated in the foreseeable future. Earnings of foreign subsidiaries which are intended to be indefinitely reinvested, and for which no income taxes have been provided, aggregated $40 million at December 31, 1986.

THE BF GOODRICH COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in millions)

Note A (In Part): Significant Accounting Policies

Income Taxes: Since it is Goodrich's intention to reinvest the undistributed earnings of its foreign subsidiaries, no provision is made for federal income taxes on these earnings. At December 31, 1986 the cumulative amount of undistributed earnings of foreign subsidiaries on which Goodrich has not provided deferred federal income taxes was $142.5.

Deferred federal income taxes are provided on Goodrich's share of the undistributed earnings of foreign affiliates accounted for on the equity method. Undistributed earnings of foreign affiliates included in income retained in the business amounted to $19.5 as of December 31, 1986.

Deferred income taxes are also provided on timing differences in reporting depreciation and certain other transactions for financial reporting and income tax purposes. Investment tax credits are accounted for by the flow-through method.

No Accrual for Taxes

DATA GENERAL CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (In Part): Accounting Policies

Income Taxes. The provision for income taxes recognizes the tax effects of all income and expense transactions in each year's income statement regardless of the year the transactions are reported for tax purposes. The company does not provide U.S. Federal income taxes on undistributed earnings of foreign subsidiaries as such earnings are intended to be permanently reinvested in those operations.

Investment tax credits are accounted for under the "flow-through" method and are recognized in the year in which the related property is placed in service.

Note 10 (In Part): Income Taxes

Income before income taxes, equity in net loss of unconsolidated affiliate, and extraordinary items was:

	Year Ended		
In thousands	Sept. 27, 1986	Sept. 28, 1985	Sept. 29, 1984
Domestic	$ (8,612)	$ 8,070	$ 70,288
Foreign	22,730	27,156	39,313
	$14,118	$35,226	$109,601

The provisions for income taxes, excluding the reversal of deferred taxes on DISC income:

	Year Ended		
In thousands	Sept. 27, 1986	Sept. 28, 1985	Sept. 29, 1984
Currently payable:			
Federal	$33,999	$19,936	$13,462
Foreign	12,764	12,783	11,017
State	6,598	3,966	6,180
Total currently payable	53,361	36,685	30,659
Deferred:			
Federal	(38,729)	(24,685)	9,564
Foreign	(4,089)	2,163	1,731
State	(5,598)	(3,242)	415
Total deferred	(48,416)	(25,764)	11,710
	$ 4,945	$10,921	$42,369

Deferred tax expense results from timing differences in the recognition of revenues and expenses for tax and financial reporting purposes. The sources of these timing differences were as follows:

	Year Ended		
In thousands	Sept. 27, 1986	Sept. 28, 1985	Sept. 29, 1984
Undistributed earnings of DISC and foreign subsidiaries	—	$(18,578)	$ 5,717
Intercompany profit in inventory	$ 1,679	(10,143)	(6,393)
Installment sales	(1,812)	(4,791)	9,981
Deferred service and other income	(17,052)	10,127	7,276
Depreciation	(4,836)	(922)	(3,650)
Operating expenses	(6,246)	(9,300)	(3,711)
Inventory	(6,098)	(10,725)	(6,244)
Foreign exchange	(2,598)	9,599	1,813
Stock option plans	(11,164)	8,815	3,806
Other	(289)	154	3,115
	$(48,416)	$(25,764)	$11,710

* * * * * *

Effective with the beginning of fiscal 1986, the company discontinued providing deferred taxes on the undistributed earnings of its foreign subsidiaries because management believes that substantially all future earnings of the subsidiaries will be permanently reinvested. Accumulated undistributed earnings of foreign subsidiaries on which U.S. Federal income taxes have not been provided were approximately $124.5 million at fiscal year-end 1986, including $3.9 million of cumulative net translation gains included in stockholders' equity.

PACCAR INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(thousands of dollars)

Note J (In Part): Income Taxes

United States income taxes are not provided on undistributed earnings of the Company's foreign subsidiaries because of the intent to continue to partially finance foreign expansion and operating requirements by reinvestment. The amount of undistributed earnings which are considered to be indefinitely reinvested is approximately $96,700 at December 31, 1986. While the amount of any federal income taxes on these reinvested earnings, if distributed in the future, is not presently determinable, it is anticipated that such taxes would be reduced by utilization of tax credits and deductions.

WANG LABORATORIES, INC. (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note A (In Part): Significant Accounting Policies

Income Taxes—The provision for income taxes includes amounts currently payable and deferred income taxes arising primarily from different tax and financial statement accounting for certain lease arrangements, spare parts, and from the use of more accelerated depreciation methods for tax purposes. Investment credits are accounted for by the flow-through method. The Company does not provide U.S. Federal income taxes on the undistributed earnings of its foreign subsidiaries since it intends to permanently reinvest these earnings in the growth of the business outside the United States.

Note J (In Part): Income Taxes

Distribution of retained earnings of foreign subsidiaries ($317.0 million) on which income taxes have not been provided would result in federal income taxes, net of foreign tax credits, of $89.0 million at June 30, 1986.

LONG-TERM CONTRACTS

Accounting and disclosure requirements for long term contracts are discussed in *ARB No. 45*, Chapter 11 of *ARB No. 43* and AICPA *Statement of Position 81-1*.

Table 3-14 shows that usually, the percentage of completion method or a modification of this method, the unit of delivery method, is used to recognize revenue on long-term contracts. Examples of disclosures for long-term contracts follow.

ADDSCO INDUSTRIES, INC. (JUN)

	1986	1985	1984
Contract Revenues	$61,826,217	$21,675,991	$18,585,804
Cost and Expenses			
Costs of contracts completed	59,557,838	19,682,561	21,078,935
General and administrative	7,012,338	6,141,593	7,325,545
Interest expense	56,916	32,457	285,164
Total Costs and Expenses	66,627,092	25,856,611	28,689,644
Loss from Operations	(4,800,875)	(4,180,620)	(10,103,840)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (In Part)

Revenue and Cost Recognition:

Revenues from contracts are recognized on the completed-contract method. The typical new construction contract is completed in approximately eighteen months and the typical repair and reconditioning contract is completed in approximately three months. The completed-contract method was selected because the inherent hazards relating to contract conditions may cause forecasts to be doubtful. A contract is considered complete when all costs, except insignificant items, have been incurred and the ship, barge, or vessel under construction or being repaired is operating according to specifications or has been accepted by the customer.

Contract costs include all direct material and labor costs and those indirect costs related to contract performance such as indirect labor, supplies, tools, repairs and depreciation costs. General and administrative costs are charged to expense as incurred. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined.

Costs in excess of amounts billed are classified as current assets under costs in excess of billings on uncompleted contracts.

Costs and Billings on Uncompleted Contracts

	June 30, 1986	June 30, 1985
Costs incurred on uncompleted contracts	$13,080,763	$5,625,135
Billings on uncompleted contracts	1,157,662	2,940,604
Costs in excess of billings on uncompleted contracts	$11,923,101	$2,684,531

TABLE 3-14: METHOD OF ACCOUNTING FOR LONG-TERM CONTRACTS

	1986	1985	1984	1983
Percentage-of-completion	105	101	98	97
Completed contract	9	9	9	10
Not determinable	4	3	2	2
Referring to long-term contracts	**118**	**113**	**109**	**109**
Not referring to such contracts	482	487	491	491
Total Companies	**600**	**600**	**600**	**600**

ARVIN INDUSTRIES, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (In Part): Significant Accounting Policies

Contract Revenue Recognition: Sales and earnings are recognized upon shipment of the products except for contracts to perform certain laboratory research and testing services.

Sales under short-term and long-term service contracts for both government and industry are recorded on the percentage of completion method. Under this approach, sales and gross margin are recognized as the work is performed, based on the ratio that incurred costs bear to estimated total costs to complete. Provisions for anticipated losses are made in the period in which they first become determinable.

Unbilled charges on service contracts are included as a part of accounts receivable and represent accrued fees and costs on contracts incurred to date, including allocated technical, general and administrative overhead, reduced by amounts identifiable with revenue recognized.

COMBUSTION ENGINEERING, INC. (DEC)

NOTES TO FINANCIAL STATEMENTS

1 (In Part): Accounting Policies and Supplementary Information

Long-term Contracts

Profits on long-term contracts are recognized on the percentage-of-completion method. Percentage-of-completion is measured principally by the percentage of costs incurred and accrued to date versus the estimated total costs for each contract. No profits are recorded on contracts for equipment manufactured in the Company's plants prior to billing the customer and, in most cases, prior to shipment of the equipment. Contracts typically extend over a period of several months to four or more years.

Provisions for estimated losses, if any, on uncompleted contracts are made in the period in which such losses are determined. Changes in contract performance and estimated profitability, including those arising from contract penalty provisions and final contract settlements, may result in revisions to cost and income and are recognized in the period in which the revisions are determined. Profit incentives are included in income when their realization is reasonably assured.

FLUOR CORPORATION (OCT)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Major Accounting Policies (In Part)

Engineering and Construction Contracts

The company recognizes revenues on engineering and construction contracts on the percentage-of-completion method, primarily based on contract costs incurred to date compared with total estimated contract costs, and on manhours incurred to date compared with total estimated manhours for the construction of certain power plants. Contracts are segmented between engineering and construction efforts and, accordingly, gross margin related to each activity is recognized as those separate services are rendered. Changes to total estimated contract costs or manhours and losses, if any, are recognized in the period they are determined. Revenues recognized in excess of amounts billed are classified as current assets under contract work in progress. It is anticipated that the incurred costs associated with contract work in progress at October 31, 1986, will be billed and collected in 1987. Amounts received from clients in excess of revenues recognized to date are classified as current liabilities under advance billings on contracts.

GENERAL MOTORS CORPORATION (DEC)

NOTES TO FINANCIAL STATEMENTS

Note 1 (In Part): Significant Accounting Policies

Revenue Recognition

Sales are generally recorded by the Corporation when products are shipped to independent dealers. Provisions for normal dealer sales incentives and returns and allowances are made at the time of sale. Costs related to special sales incentive programs are recognized as sales deductions when these incentive programs are announced.

Certain sales under long-term contracts, primarily in the defense business, are recorded using the percentage-of-completion method of accounting. Under this method, sales are recorded equivalent to costs incurred plus a portion of the profit expected to be realized on the contract, determined based on the ratio of costs incurred to estimated total costs at completion. Profits expected to be realized on contracts are based on the Corporation's estimates of total sales value and cost at completion. These estimates are reviewed and revised periodically throughout the lives of the contracts, and adjustments to profits resulting from such revisions are recorded in the accounting period in which the revisions are made. Estimated losses on contracts are recorded in the period in which they are first identified.

HARNISCHFEGER INDUSTRIES, INC. (OCT)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (In Part): Significant Accounting Policies

Revenue Recognition. Revenues for long-term contracts are generally recorded using the percentage-of-completion method for financial reporting and the completed contract method for income tax purposes. Such contracts, which constitute approximately 29% of consolidated revenues, generally include paper machinery, engineering services, automated material handling systems and certain overhead traveling cranes. Sales of other products and services are recorded as products are shipped or services are rendered.

M/A-COM, INC. (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Revenue Recognition

Revenue is recognized generally when a product is shipped and services are performed. Long-term contracts are accounted for using the percentage-of-completion method, whereby revenue and gross margin are recognized throughout the performance period of the contract. The effect of changes in estimates of total contract costs are recorded currently. If estimates of cost indicate a loss, provision is made currently for the total loss anticipated.

Unbilled revenue under customer contracts represents revenue earned under the percentage-of-completion method but not yet billable under the terms of the contract. These amounts are billable based on the terms of the contract which include shipment of the product, achievement of milestones or completion of the contract.

McDONNELL DOUGLAS CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Summary of Accounting Policies (In Part)

Long-Term Contracts. In accordance with industry practice, accounts relating to long-term Government contracts and commercial aircraft programs are classified as current assets or liabilities in the statement of financial position, even though a substantial portion is not expected to be realized within one year.

Adjustments of costs and earnings may be made during and after completion of such long-term contracts; therefore, earnings recorded in the current year may include adjustments applicable to sales recorded in prior years.

Government Contracts. Government contracts are primarily accounted for on a percentage-of-completion method wherein sales are recorded at their estimated contract price as the work is performed. Under this method, all costs (including general and administrative expenses) are charged to Costs and Expenses as incurred and the recorded sales values (equal to incurred costs plus estimated earnings) are carried in the account, Government contracts in process. At the time the item is completed and accepted by the customer, the sales value of the item less any liquidation of progress payments, is transferred to accounts receivable.

Certain contracts contain incentive provisions which provide increased or decreased earnings based upon performance in relation to established targets. Incentives based upon cost performance are recorded currently and other incentives are recorded when the amounts can reasonably be determined.

Title to certain items, included in the captions of Materials and Progress payments to subcontractors, is vested in the U.S. Government by reason of progress payment provisions of related contracts.

Government Contracts

Contractual authority to supply additional items, or to change the work scope of a contract, prior to reaching final agreement on price is a frequent and normal occurrence in procurements by the U.S. Government, as the contracts contain standard provisions for assuring that the contractor will receive an equitable price in the unusual event a mutually satisfactory price cannot be subsequently negotiated with the Contracting Officer.

Included in Accounts receivable was $126.6 million at December 31, 1986 and $152.0 million at December 31, 1985 representing the estimated sales price for items delivered and other work performed, which was not billable because documents necessary to invoice under the contract had not been received or the documents were at provisional amounts pending final negotiation. Approximately $42.0 million of the 1986 amount is expected to be collected after one year. Accounts receivable at December 31, 1986 also included $25.9 million of costs for which payment is being withheld pending settlement of related contract disputes. Negotiations to arrive at satisfactory resolutions of these disputes are continuing and agreements are expected to be reached which will permit collection of all material amounts.

In addition, a material portion of the Government contracts in process account similarly represented work performed before the pricing, negotiation and contract documentation cycle had been completed, but the aggregate amount thereof was not identifiable as such in the accounting records.

No material amounts were included in Receivables or Government contracts in process for which appropriated funds were not available.

THE SINGER COMPANY (DEC)

NOTES TO FINANCIAL STATEMENTS

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

Revenue Recognition

Sales under long-term contracts and programs are generally accounted for on the percentage of completion method (principally on either a delivered unit or cost-incurred basis). Profits expected to be realized on contracts and programs are based on estimates of total sales value and costs at completion. These estimates are reviewed and revised periodically throughout the lives of contracts and adjustments are made where appropriate. Any anticipated losses on contracts or programs are charged to earnings when identified. Claimed costs in excess of agreed contract price related to customer-caused delays and/or specification and design changes are recognized in contract value if it is probable that the claim will result in additional revenue and the amount can be reasonably estimated. Revenue under long-term contracts and programs was approximately 70 percent, 66 percent, and 63 percent of revenues for 1986, 1985, and 1984, respectively.

All other sales are recorded as products and services are delivered.

UNIVERSAL VOLTRONICS CORP. (JUN)

NOTES TO FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Revenue Recognition:

Sales, other than revenues from major long-term contracts are recorded as products are shipped or when commercial customers accept title to partially completed units. Long-term contract revenues and revenues relating to customer contracts where the customer has accepted title to partially completed units are recognized under the percentage-of-completion method.

Percentage-of-completion accounting is applied to all contracts where (i) production takes more than three months, (ii) the customer has agreed to make substantial progress payments based upon achieved milestones and (iii) the aggregate contract sales price exceeds $100,000. In applying the percentage-of-completion method, earnings on contracts with a production term exceeding one year are based on the ratio of costs incurred to date on the contract to total estimated contract costs after providing for all known and anticipated costs. Costs include material, direct labor, and engineering and manufacturing overhead. In applying the percentage-of-completion method to all other contracts, earnings are recognized in proportion to actual labor costs incurred as compared with total estimated labor costs expected to be incurred in the entire contract. Selling, general and administrative expenses are charged to income as incurred. When the current contract estimate indicates a loss, provision is made for the total anticipated loss.

Costs and estimated earnings in excess of progress billings on uncompleted contracts will be billed within the next twelve months; the excess of billings over costs and estimated earnings on uncompleted contracts are expected to be earned within the next twelve months.

DISCONTINUED OPERATIONS

Paragraph 8 of *APB Opinion No. 30* states:

Discontinued Operations of a Segment of a Business. For purposes of this Opinion, the term *discontinued operations* refers to the operations of a segment of a business as defined in paragraph 13 that has been sold, abandoned, spun off, or otherwise disposed of or, although still operating, is the subject of a formal plan for disposal (see paragraph 14). The Board concludes that the results of continuing operations should be reported separately from discontinued operations and that any gain or loss from disposal of a segment of a business (determined in accordance with paragraphs 15 and 16) should be reported in conjunction with the related results of discontinued operations and not as an extraordinary item. Accordingly, operations of a segment that has been or will be discontinued should be reported separately as a component of income before extraordinary items and the cumulative effect of accounting changes (if applicable) in the following manner:

Income from continuing operations before income taxes	$xxx	
Provision for income taxes	xxx	
Income from continuing operations		$xxx
Discontinued operations (Note—):		
Income (loss) from operations of discontinued Division X (less applicable income taxes of $—)	$xxx	
Loss on disposal of Division X, including provision of $— for operating losses during phaseout period (less applicable income taxes of $—)	xxx	xxx
Net income		$xxx

Amounts of income taxes applicable to the results of discontinued operations and the gain or loss from disposal of the segment should be disclosed on the face of the income statement or in related notes. Revenues applicable to the discontinued operations should be separately disclosed in the related notes.

An *AICPA Accounting Interpretation* published in the November 1973 issue of the *Journal of Accountancy* provides illustrations of transactions which should and should not be accounted for as a business segment disposal. These examples are reprinted in Section I 13 of *FASB Accounting Standards—Current Text*.

In 1986, 102 survey companies discontinued the operations of a business segment. Examples of discontinued operations accounted for as a disposal of a business segment follow.

Disposal of Segments

AMPCO-PITTSBURGH CORPORATION (DEC)

	1986	1985	1984
Income (loss) from continuing operations before income taxes	$ (1,673,158)	$9,648,056	$12,855,731
Provision (benefit) for income taxes	100,000	2,034,000	(1,670,000)
Income (loss) from continuing operations	(1,773,158)	7,614,056	14,525,731
Discontinued operations:			
Loss from operations, net of income tax benefit of $200,000 in 1986, $455,000 in 1985 and $2,656,000 in 1984	(9,562,146)	(4,179,733)	(3,870,282)
Provision for loss on disposal, net of income tax benefit of $375,000 in 1986 and $1,625,000 in 1984	(34,959,000)	—	(4,900,000)
	(44,521,146)	(4,179,733)	(8,770,282)
Net income (loss)	(46,294,304)	3,434,323	5,755,449

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3 (In Part): Dispositions and Discontinued Operations

In December, 1986 the Corporation initiated the following actions:

Sale of assets of its Greenville Steel Car Company ("Greenville") subsidiary for $8,000,000 in cash and a 7% interest bearing note in the amount of $6,075,120 due in December, 1989 thus terminating the Corporation's railroad freight cars business segment.

Discontinuation of the Colona Division ("Colona") (steel products segment) which manufactured steel and composite thread protectors used principally for oil and natural gas pipe.

A plan for disposal of its farm equipment business, Taylor Implement ("Farm"), (engineered equipment segment).

Permanent closing of the Lansing, Illinois, ingot mold manufacturing plant of Vulcan, Inc. (steel products segment).

Net sales of discontinued businesses were approximately $24,726,000, $57,554,000 and $53,333,000 for 1986, 1985 and 1984, respectively. The net sales and related costs and expenses of the discontinued businesses were excluded from the determination of the Corporation's income (loss) from continuing operations for the periods presented.

The 1986 provision for loss on discontinuance of $34,959,000 includes a provision for disposal of assets, losses from operations until final disposition, the accrual of pensions, employee benefit and severance costs, and other anticipated expenses. The anticipated losses on discontinuance resulted in a limited tax benefit in that the Corporation is in a loss carryforward position. In addition, the Corporation recorded a provision for loss on disposal and plant closing costs for the Lansing plant of $2,417,000. Assets held for sale are included in property, plant and equipment at estimated net realizable value.

In December, 1984 the Corporation discontinued the Janney Cylinder ("Janney") business it had previously obtained as part of the Pittsburgh Forgings acquisition in 1979. The Janney loss from operations in 1984 was $1,000,113 and a loss on disposal of the Janney assets and closing costs in the amount of $4,900,000 after tax was recorded. In 1986, an additional provision of $1,200,000 was recorded. Janney's sales were approximately $7,230,000 in 1984.

CONCORD FABRICS INC. (AUG)

	1986	1985	1984
Earnings from continuing operations before income taxes	$4,451,285	$671,923	$6,207,049
Income tax provision	2,241,000	266,000	3,014,000
Earnings from continuing operations	2,210,285	405,923	3,193,049
Discontinued operations:			
(Loss) from operations (net of income tax benefit)	(332,558)	(329,701)	(44,287)
(Loss) on disposal (net of income tax benefit)	(1,415,000)		
Net Earnings	462,727	76,222	3,148,762

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note O: Discontinued Operation

The Company has decided to dispose of Eastern, its computer software subsidiary. In this connection, the statement of operations for the year ended August 31, 1986, includes a $1,415,000 provision (net of $1,205,000 deferred tax benefit) for the estimated loss on disposal of this discontinued operation.

The operating loss of the discontinued subsidiary comprised the following:

	Year Ended		
	August 31, 1986	September 1, 1985	September 2, 1984*
Net sales	$7,593,187	$6,988,231	$1,285,159
Cost of sales and expenses	8,209,745	7,597,932	1,366,446
(Loss) before income tax benefit	(616,558)	(609,701)	(81,287)
Income tax benefit	284,000	280,000	37,000
(Loss) from discontinued operation	$ (332,558)	$ (329,701)	$ (44,287)

*From effective date of acquisition on June 1, 1984.

DI GIORGIO CORPORATION (DEC)

	1986	1985	1984
	(in thousands)		
Earnings From Continuing Operations Before Income Taxes	$23,641	$19,933	$ 8,156
Provision For Income Taxes	11,700	9,618	2,807
Earnings From Continuing Operations	11,941	10,315	5,349
Discontinued Operations (Note 2)			
Earnings (loss) from operations, before income taxes	(10,758)	1,567	(14,231)
Income tax provision (benefit)	(5,466)	732	(7,497)
Earnings (loss) from operations, net of income taxes	(5,292)	835	(6,734)
Gain (loss) on disposals	11,739	—	(6,565)
Income tax provision (benefit)	4,055	—	(3,055)
Gain (loss) on disposal, net of income taxes	7,684	—	(3,510)
Earnings (loss) from discontinued operations	2,392	835	(10,244)
Net Earnings (Loss) For The Year	14,333	11,150	(4,895)

Note 2: Discontinued Operations

In the second quarter of 1986, the Company sold the business and most operating assets of the LAD Drug Division, a distributor of pharmaceutical products. Net sales of this division were $104,105,000, $156,895,000 and $125,707,000 for 1986, 1985 and 1984, respectively. Net proceeds from the disposal totaled $42,700,000 in 1986. The gain on disposal, net of income taxes, was $7,684,000. The 1986 loss from discontinued operations, net of income taxes was $5,292,000.

In the third quarter of 1984, the Company sold its regional airline, Sun Aire, and sold the business and operating assets of its Klamath Lumber division, which operated a sawmill in Klamath Falls, Oregon. In the fourth quarter of 1984, the Company sold its citrus juice processing subsidiary, Treesweet Products. Effective December 31, 1984, the Company reached agreement in principle to sell the inventory of Allied Distributing, a distributor of personal care and consumer electrical products, and signed a letter of intent for the sale of Travel Accessories, a subsidiary which manufactured automotive accessories. The dispositions of Allied Distributing and Travel Accessories, which were accounted for as discontinued operations in 1984, were completed in 1985. Net sales of these five businesses were $174,837,000 in 1984. The proceeds from these dispositions amounted to approximately $10 million in cash and approximately $42 million in notes receivable. The 1986 loss included approximately $4,400,000 of additional charges during 1986 related to certain 1984 discontinued operations.

In connection with these dispositions in 1984, the Company provided for anticipated losses on timber contracts with the United States Forest Service held by the Klamath Lumber division and for estimated losses during the phase-out periods of Allied Distributing and Travel Accessories. In 1985, the Company obtained relief from the United States Forest Service on a substantial portion of the timber contract obligations but incurred approximately $1 million in additional costs related to obtaining this relief and the resolution of other matters related to the disposition of the Klamath Lumber division. Additionally, the Company incurred approximately

$770,000 and $370,000 of additional costs related to the phase-out of Allied Distributing and Travel Accessories, respectively. Also in 1985, the Company realized a pre-tax gain of approximately $2,275,000 related to the sale of certain preferred stock received in the disposition of an operation discontinued and sold in 1981. The net after-tax effect of these transactions in 1985 was not material.

The Consolidated Statements of Earnings have been restated for all years presented to report the results of discontinued operations separately from continuing operations. Where considered appropriate, income-related notes have been restated to exclude amounts for discontinued operations; balance sheets and related notes have not been restated.

DYNAMICS CORPORATION OF AMERICA (DEC)

	1986	1985	1984
	(in thousands)		
Income from continuing operations	$2,197	$17,591	$10,840
Discontinued operations:			
Operating losses, net of income tax benefits of $954, $1,830 and $631—Note 5	(962)	(1,919)	(638)
Provision for disposition, including $1,963 for operating losses during the phase-out period, net of income tax benefits of $1,393—Note 5	(1,415)		
Loss from farm equipment operations	(2,377)	(1,919)	(638)
Equity in income (loss) from discontinued operations of CTS Corporation	639	135	(1,993)
Loss from discontinued operations	(1,738)	(1,784)	(2,631)
Income before extraordinary credit	459	15,807	8,209

Note 5: Discontinued Operations—Farm Equipment

On December 31, 1986, the Company sold substantially all of the assets and business of its farm equipment operations to Farmhand, Inc., a farm and other equipment manufacturer. The net assets sold, amounting to $2,973,000, were exchanged for a 33.3% stock interest in Farmhand.

Other assets consist of the Company's investment in Farmhand, accounted for under the equity method, and real estate previously occupied by the farm equipment operations having a net book value of $858,000, which the Company intends to sell.

The net sales of the discontinued operations for the years ending December 31, 1986, 1985 and 1984 were $8,629,000, $9,070,000, and $16,942,000, respectively.

ELCOR CORPORATION (JUN)

	1986	1985	1984
Income (Loss) From Continuing Operations Before Federal Income Taxes	$7,526,911	$ (7,419,795)	$3,316,055
Provision for Federal income taxes	3,509,000	—	1,499,000
Income (Loss) From Continuing Operations	4,017,911	(7,419,795)	1,817,055
Discontinued Operations			
Operating loss, net of applicable tax benefits of $1,159,000 in 1986 and $448,000 in 1984	(1,379,907)	(4,258,184)	(544,134)
Gain (loss) on disposal, net of applicable taxes of $186,000 in 1986	219,120	(2,000,000)	—
Loss From Discontinued Operations	(1,160,787)	(6,258,184)	(544,134)
Income (loss) before extraordinary item	2,857,124	(13,677,979)	1,272,921

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Discontinued Operations

During the fourth quarter of fiscal 1986, the Company adopted a formal plan to discontinue operations of the Engineering and Construction business segment. Accordingly, the 1985 and 1984 Consolidated Statement of Operations and Statement of Changes in Financial Position have been restated to report the Engineering and Construction segment as a discontinued operation. Revenues included in discontinued operations for the years ended June 30, 1986, 1985, and 1984, were $23,332,000, $66,225,000, and $95,688,000, respectively.

Effective June 30, 1986, the Company sold the capital stock of the Engineering and Construction segment's principal operating subsidiary, The Pro-Quip Corporation, to subsidiary management. Sales proceeds consisted of $650,000 cash, a $395,000 note payable over 3 years, a $1,000,000 note, and a $500,000 earn-out. The $1,000,000 note and the $500,000 earn-out are carried at nominal value in the June 30, 1986, consolidated balance sheet. A $405,000 pretax gain has been recognized on the transaction, and additional gains will be reported as proceeds from the $1,000,000 note and the earn-out are collected.

Effective June 30, 1985, the Engineering and Construction segment's other principal operation, The Ortloff Corporation's Midland Division, was closed. A $2,000,000 charge to operations was recorded in fiscal 1985 to provide for estimated closing costs and losses on disposal of the related assets. The estimated realizable value of such assets is included in Other Assets in the consolidated balance sheets.

GENERAL DYNAMICS CORPORATION (DEC)

	1986	1985	1984
	(in millions)		
Earnings from Continuing Operations Before Income Taxes	$197.6	$635.6	$614.6
Provision for income taxes	260.2	274.5	270.8
Earnings (Loss) from Continuing Operations	(62.6)	361.1	343.8
Discontinued Operations:			
Earnings from operations, net of income taxes of $3.9, $19.9 and $31.1 in 1986, 1985 and 1984, respectively	10.1	27.2	37.9
Estimated loss on disposition, net of income tax benefits of $4.3	—	(5.0)	—
Earnings from Discontinued Operations	10.1	22.2	37.9
Net Earnings (Loss)	(52.5)	383.3	381.7

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in millions)

D. Discontinued Operations

In July 1985, the Corporation announced that the Quincy Shipbuilding Division (Quincy) would be closed following the completion of the Maritime Prepositioning Ship construction program. The last of five ships was delivered in May 1986.

In February 1987, the Corporation announced it had signed a definitive agreement for the sale of DatagraphiX, Inc., a wholly owned subsidiary which manufactures computer output microfilm and high-speed non-impact page printers. The Corporation does not anticipate the resulting gain on the sale to be significant.

The operating results of Quincy and DatagraphiX have been segregated and are shown separately in the Consolidated Statement of Earnings. Combined net sales of these operations were $319.4 in 1986, $458.3 in 1985 and $547.7 in 1984. Disposition of these operations is anticipated to be completed in 1987.

THE STOP & SHOP COMPANIES, INC. (JAN)

	1987	1986	1985
	(in thousands)		
Earnings from continuing operations before income taxes	$88,125	$56,776	$96,668
Federal and state income taxes	43,725	21,400	43,839
Earnings from continuing operations	44,400	35,376	52,829
Discontinued operations			
(Loss) earnings from discontinued operations, net of applicable income taxes	(4,700)	(5,076)	2,016
(Loss) on disposal of discontinued operations, net of applicable income taxes	(1,300)	—	—
(Loss) earnings from discontinued operations	(6,000)	(5,076)	2,016
Net Earnings	38,400	30,300	54,845

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Discontinued Operations

During the second quarter of 1986, the Medi Mart Drug Store and Charles B. Perkins divisions were disposed of through sale. The net book value of assets sold was $42,200,000 and the sale generated a profit of $10,900,000 after income taxes of $6,431,000.

During the fourth quarter of 1986, the Company decided to phase out and dispose of its Almys Stores, Inc. subsidiary. Accordingly, the Company recorded a loss of $12,200,000, net of income tax benefits of $9,372,000, primarily to write down the assets to their net realizable values and to provide for operating losses through the closing date.

The divisions and subsidiary noted above have historically comprised the Company's other general merchandise segment and accordingly have been reported as discontinued operations and previously issued consolidated financial statements have been restated to segregate the operations of these divisions. Assets net of liabilities of Almys have been separately presented in the January 31, 1987 consolidated balance sheet at an estimated net realizable value of $30,134,000.

Selected information relating to discontinued operations is in the following schedule.

(In thousands)	1986	1985	1984
Retail sales	$161,424	$259,568	$171,370
Percentage of total sales	4%	7%	5%
(Loss) earnings of discontinued operations	$ (8,769)	$ (9,228)	$ 3,683
Less income tax (benefit) expense	(4,069)	(4,152)	1,667
	$ (4,700)	$ (5,076)	$ 2,016
Gain (loss) on disposal of discontinued operations:			
Medi Mart Drug Store and Charles B. Perkins divisions	$ 17,331		
Almys Department Stores	(21,572)		
	(4,241)		
Less income tax (benefit)	(2,941)		
	$ (1,300)		

Adjustment of Amounts Reported in Prior Periods

BMC INDUSTRIES, INC. (DEC)

	1986	1985	1984
	(in thousands)		
Earnings from Continuing Operations before Income Taxes and Extraordinary Gain	$2,642	$1,864	$1,947
Income Taxes	4,150	1,928	380
Earnings (Loss) from Continuing Operations before Extraordinary Gain	(1,508)	(64)	1,567
Discontinued Operations			
Earnings (Loss) from operations (less applicable income tax effect of $0, $372, and $(446))	—	(12,169)	4,532
Provision for loss on disposal (no income tax effect)	(5,000)	(60,000)	(3,650)
Earnings (Loss) from Discontinued Operations	(5,000)	(72,169)	882
Earnings (Loss) before Extraordinary Gain	(6,508)	(72,233)	2,449

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands)

3. Discontinued Operations

In 1984, the Company decided to phase out and dispose of its contact lens operation and BH Electronics, a marine electronics and pulse transformer manufacturer. Results of operations for 1984 include a charge of $2,400, primarily to reduce the carrying value of the assets of the contact lens operation to their estimated net realizable values and to accrue for operating losses through the anticipated phase-out period. 1984 results also include a charge of $900, primarily to reduce the carrying value of BH Electronics' assets to their estimated net realizable values. In April 1985, the Company sold the pulse transformer division of BH Electronics for its net book value of $1,352.

In 1985, the Company announced its intention to sell all but one of its nine Interconics operations, three of its Optical Products operations (in addition to the contact lens operation mentioned above) and its Advanced Controls operation.

In 1985, the Company estimated a loss on the disposal of the discontinued operations of $60,000, which included a provision of approximately $8,000 for operating losses through the anticipated disposal periods. Actual operating losses exceeded the estimate by approximately $10,000, and the loss on the disposal of discontinued operations is expected to be approximately $5,000 less than the original estimate. Accordingly, the accompanying Consolidated Statement of Operations for 1986 includes an additional provision for loss on disposal of $5,000.

TABLE 3-15: CHARGES OR CREDITS SHOWN AFTER INCOME TAX CAPTION

	Number of Companies			
	1986	1985	1984	1983
Equity in earnings or losses of investees	51	56	58	66
Minority interest	42	41	45	50
Cumulative effect of accounting change	12	8	8	6
Other	—	1	6	4

CHARGES OR CREDITS SHOWN AFTER INCOME TAX CAPTION

Table 3-15 indicates the nature of charges or credits, other than extraordinary items, positioned on an income statement after the caption for income taxes applicable to income from continuing operation. Examples of charges or credits shown after the caption for income taxes applicable to income from continuing operations follow.

THE FIRESTONE TIRE & RUBBER COMPANY (OCT)

	1986	1985	1984
	(in millions)		
Income (loss) before extraordinary credits and cumulative effect of accounting charge	$19	$(6)	$ 89
Extraordinary credits	—	9	13
Cumulative effect of change in pension reversion accounting	66	—	—
Net income	85	3	102

NOTES TO FINANCIAL STATEMENTS

(Dollars in millions)

Pension Plans (In Part)

In the first quarter of 1986, a gain of $66 after income taxes ($125 before income taxes) was recognized as the cumulative effect of the change in accounting for pension reversion gains. The acceleration of recognition of income for deferred pension reversion gains was required under the provisions of SFAS No. 88. In October 1986, a nonparticipating annuity was purchased with assets of the Company's domestic Synthetic Rubber & Latex Plan to settle a portion of that plan's benefit obligations. This resulted in an increase in net income of $3 ($5 before income taxes). No excess assets were reverted to the Company as a result of the transaction.

THE INTERLAKE CORPORATION (DEC)

	1986	1985	1984
	(in thousands)		
Income From Continuing Operations Before Taxes on Income and Minority Interest	$60,740	$51,652	$53,220
Provision for Income Taxes	27,343	20,461	24,595
	33,397	31,191	28,625
Minority Interest in Net Income of Subsidiaries	2,677	2,412	3,204
Income From Continuing Operations	30,720	28,779	25,421

THE NEW YORK TIMES COMPANY (DEC)

	1986	1985	1984
	(in thousands)		
Income before income taxes and equity in earnings of associated companies	$236,081	$193,472	$172,623
Income taxes	123,414	98,541	86,068
Income before equity in earnings of associated companies	112,667	94,931	86,555
Equity in earnings of associated companies	19,560	21,387	13,614
Net Income	132,227	116,318	100,169

TABLE 3-16: EXTRAORDINARY ITEMS

	1986	1985	1984	1983
Nature				
Debt extinguishments	54	15	22	40
Operating loss carryforwards	50	48	46	37
Pension plan terminations	5	5	10	9
Litigation settlements	4	7	2	2
Other	14	6	12	7
Total Extraordinary Items	**127**	**81**	**92**	**95**
Number of Companies				
Presenting extraordinary items	107	72	74	84
Not presenting extraordinary items	493	528	526	516
Total Companies	**600**	**600**	**600**	**600**

EXTRAORDINARY ITEMS

APB Opinion No. 30 defines extraordinary items as "events and transactions that are distinguished by their unusual nature and by the infrequency of their occurrence," and states that an event or transaction "should be presumed to be an ordinary and usual activity of the reporting entity, the effects of which should be included in income from operations, unless the evidence clearly supports its classification as an extraordinary item as defined in this Opinion." *Opinion No. 30*, along with its *Accounting Interpretation* published in the November 1973 issue of the *Journal of Accountancy* illustrates events and transactions which should and should not be classified as extraordinary items. These examples are reprinted in Section I 17 of *FASB Accounting Standards—Current Text*. FASB *Statement of Financial Accounting Standards No. 4* specified that material debt extinguishment gains and losses be classified as extraordinary items.

Table 3-16 shows the nature of items classified as extraordinary by the survey companies. 43 of the debt extinguishments classified as extraordinary were charges. Examples of extraordinary items follow.

Tax Loss Carryovers

BECTON, DICKINSON AND COMPANY (SEP)

(Thousands of dollars) except per share amounts	1986	1985	1984
Income Before Income Taxes and Extraordinary Credit	$172,761	$130,969	$92,908
Income tax provision—Note J	60,848	42,967	29,505
Income Before Extraordinary Credit	111,913	88,002	63,403
Extraordinary credit—utilization of tax loss carryforwards—Note J	10,017	—	—
Net Income	121,930	88,002	63,403

Note J (In Part): Income Taxes

The provision (credit) for income taxes consists of the following:

	1986	1985	1984
Current			
Domestic			
Federal	$17,117,000	$ 930,000	$(12,903,000)
State and local, including Puerto Rico and Virgin Islands	6,152,000	4,912,000	4,579,000
Foreign	20,398,000	12,665,000	16,118,000
	43,667,000	18,507,000	7,794,000
Deferred			
Domestic	15,219,000	23,293,000	21,342,000
Foreign	1,962,000	1,167,000	369,000
	17,181,000	24,460,000	21,711,000
Income Taxes	$60,848,000	$42,967,000	$29,505,000

* * * * * *

In 1986, the Company utilized approximately $21,500,000 of foreign net operating loss carryforwards and has reflected the related tax benefit of $10,017,000 as an extraordinary credit in the accompanying consolidated statement of income. Approximately $17,000,000 is available to offset foreign taxable income in future years, of which $2,000,000 expires in the years 1989 to 1992, while the balance can be carried over indefinitely.

MUNSINGWEAR, INC. (DEC)

	1986	1985	1984
	(in thousands)		
Earnings before income taxes, extraordinary items and cumulative effect of a change in accounting principle	$4,665	$2,705	$ 552
Income tax expense	1,790	365	457
Earnings before extraordinary items and cumulative effect of a change in accounting principle	2,875	2,340	95
Extraordinary items:			
Exchange of common stock for trademark rights less income taxes of $1,146			2,850
Recognition of tax loss carryforward benefit	776	529	1,048
Cumulative effect on prior years of a change in accounting principle relating to pensions less income taxes of $156		151	
Net earnings	$3,651	$3,020	$3,993

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

L (In Part): Income Taxes

The components of the income tax provision are as follows for the years ended:

	January 3, 1987	December 31, 1985	December 31, 1984
		(In thousands)	
Current:			
Federal		$(203)	$ 45
State and local	$ 170	117	198
Foreign	884	78	312
Utilization of income tax net operating loss carryforward	776	529	1,048
	$1,790	$521	$1,603
Before extraordinary gain and cumulative effect of a change in accounting principle	$1,790	$365	$ 457
Cumulative effect of a change in accounting principle		156	
Extraordinary gain			1,146
	$1,790	$521	$1,603

CURTISS-WRIGHT CORPORATION (DEC)

	1986	1985	1984
	(In thousands)		
Earnings (loss) before income taxes and extraordinary credit	$31,548	$(37,374)	$11,882
Provision for income taxes	10,246	4,987	9,996
Earnings (loss) before extraordinary credit	21,302	(42,361)	1,886
Extraordinary credit—tax benefit from utilization of capital loss carryforward	1,445		
Net Earnings (Loss)	22,747	(42,361)	1,886

NOTES TO FINANCIAL STATEMENTS

4 (In Part): Income Taxes

Earnings (loss) before income taxes and extraordinary credit for domestic and foreign operations are:

(In thousands)	1986	1985	1984
Domestic	$27,579	$(40,127)	$ 9,625
Foreign	3,969	2,753	2,257
Total	$31,548	$(37,374)	$11,882

The components of the provision for income taxes are as follows:

(In thousands)	1986	1985	1984
Provision for current federal income taxes	$ 9,092	$ 3,652	$ 5,127
Investment tax credit	(180)	(1,361)	(658)
Federal income taxes currently payable	8,912	2,291	4,469
Foreign income taxes currently payable	1,773	1,280	1,099
Deferred federal and foreign income taxes	(1,884)	3,694	4,428
Extraordinary credit—tax benefit from utilization of capital loss carryforward	1,445		
Capital loss (carryback)		(2,278)	
Total provision for income taxes	$10,246	$ 4,987	$ 9,996

Tax Benefits Related To Spin-Off

THE SINGER COMPANY (DEC)

	1986	1985	1984
	(in millions)		
Income before extraordinary credits and cumulative effect of change in method of accounting	$91.8	$82.3	$53.3
Extraordinary credits	18.0	—	11.8
Cumulative effect of change in method of accounting	(27.2)	—	—
Net income	$82.6	$82.3	$65.1

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5. Extraordinary Credits

In 1986, the Company recorded an extraordinary credit of

$18 million representing the utilization of tax benefits related to the spin-off of SSMC and previously sold sewing and related products operations. The benefits attributable to the spin-off arose primarily through the recognition of losses for tax purposes that were recognized for financial reporting purposes in prior accounting periods for which no tax benefit was recorded. In addition, the tax effects of certain timing differences related to the spin-off of SSMC were accounted for as a direct credit to retained earnings.

During 1984, the Company utilized $11.8 million of previously unrecognized tax benefits primarily related to charges incurred under a 1979 restructuring provision and to losses on previously disposed operations.

Extinguishment of Debt

FEDERAL-MOGUL CORPORATION (DEC)

	1986	1985	1984
	(Thousands of dollars)		
Earnings Before Extraordinary Loss	$5,088	$51,973	$48,385
Extraordinary loss on extinguishment of debt (net of $1,452 tax benefit)—Note F	1,482	0	0
Net Earnings	3,606	51,973	48,385

Note F (In Part): Debt

Long-term debt at December 31, exclusive of current maturities, consists of the following obligations:

(Thousands of Dollars)	1986	1985	1984
7½% sinking fund debentures due 1998	$ 5,293	$ 5,293	$ 5,293
8⅜% notes due 1993	100,000	0	0
12½% notes due 1990	0	50,000	50,000
13% sinking fund debentures due 2005	30,369	50,000	50,000
Capital lease obligations	10,439	9,998	10,154
Other notes	14,890	9,464	10,307
	$160,991	$124,755	$125,754

* * * * * *

The 13% debentures require annual sinking fund payments of not less than $3,333,333 nor more than $8,333,333 commencing in 1991. In August 1986, $19,631,000 of the debentures were purchased at a premium of 13%. The premium paid, together with the unamortized issuance costs relating to the purchased 13% debentures and 12½% notes, resulted in a net extraordinary loss of $1,482,000 or $.12 per share. Under certain conditions the remaining debentures may be redeemed at a premium (currently 8.45%) until 1999 and at par thereafter.

THE BLACK & DECKER CORPORATION (SEP)

	1986	1985	1984
	(thousands of dollars)		
Earnings (Loss) Before Extraordinary Item	$27,543	$(158,425)	$95,404
Extraordinary item:			
Loss on early extinguishment of debt	(21,239)	—	—
Net Earnings (Loss)	6,304	(158,425)	95,404

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Thousands of dollars except per share data)

15. Extraordinary Item

During 1986, the Corporation recorded extraordinary charges of $21,239 ($.38 per share) for costs related to the early retirement of certain long-term debt. Because of the Corporation's current net operating loss position, no tax benefits were applicable to these transactions.

HARSCO CORPORATION (DEC)

	1986	1985	1984
	(in thousands)		
Income before extraordinary charge ...	$49,613	$60,458	$47,550
Extraordinary charge—premium on early extinguishment of debt (net of income tax benefit of $3,083)	(3,212)	—	—
Net income	46,401	60,458	47,550

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6 (In Part): Long-Term Debt

Long-term debt consists of the following:

(In thousands)	1986	1985
Sinking fund debentures:		
12¼%, repurchased prior to scheduled maturity	$ —	$ 50,000
9⅞%, payable $2,375 annually through 1999, balance due 2000	32,811	32,811
5½%, payable $1,125 annually through 1991, balance due 1992	9,309	9,885
Industrial development bonds, payable in varying amounts to 2013 with interest up to 10½%	21,301	24,489
Other	3,881	8,711
	67,302	125,896
Less current maturities	4,275	7,246
	$63,027	$118,650

In 1986, the Company extinguished its 12¼% debentures prior to scheduled maturity, resulting in an extraordinary charge, net of income tax benefits, of $3,212,000. The funds for these extinguishments were obtained from general corporate funds and special funds legally available for call of the debentures.

LOWE'S COMPANIES, INC. (JAN)

	1987	1986	1985
	(In thousands)		
Earnings before extraordinary item....	$55,104	$59,714	$61,443
Extraordinary item:			
Debt retirement net of taxes of $2,798 (Note 5)...................	(2,885)	—	—
Net earnings	52,219	59,714	61,443

Note 5 (In Part): Long-Term Debt

The Company, in a public offering on April 1, 1985, issued $75 million of 11.5% unsecured notes at a discount of .426%. The discount and issuance costs are being amortized over the life of the indebtedness. In January 1987, the Company accelerated the retirement of $30 million of this debt and, as a result, incurred $5.7 million of early retirement costs which reduced Fiscal 1986 earnings by 7 cents per share. These early retirement costs are shown net of related income tax effects as an extraordinary item in the accompanying consolidated statement of current and retained earnings for Fiscal 1986. The remaining notes may be redeemed in whole or in part, without penalty, by the Company at any time after April 1, 1992 at the principal amount and accrued interest to the date fixed for redemption. The notes are governed by an indenture which, among other things, places certain restrictions on the issuance or guarantee of additional indebtedness.

OAK INDUSTRIES INC. (DEC)

	1986	1985	1984
	(in thousands)		
Income (Loss) Before Extraordinary Items.......................	$34,665	$(37,576)	$(149,250)
Extraordinary Items:			
Gain on the extinguishment of long-term debt, less applicable income taxes of $250 (Note 4)	8,964	—	—
Tax benefit from utilization of net operating losses.........	16,614	—	—
Total Extraordinary Items.........	25,578	—	—
Net Income (Loss).................	60,243	(37,576)	(149,250)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4 (In Part): Indebtedness

In February 1986, the Company offered to exchange its $230,000,000 of outstanding publicly held debt securities for up to $160,000,000 in cash and shares of common stock, in conjunction with the sale of the Materials Segment to Allied-Signal, (see Note 10). The debt exchange was completed on May 9, 1986. A net gain of $8,964,000, after state income taxes of $250,000 (there were no applicable federal income taxes) was recognized on the extinguishment of 85.6% of the Company's outstanding public debt.

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

	1987	1986	1985
	(In millions)		
Income before extraordinary charge...............	$530	$397	$435
Extraordinary charge on debt restructure, net of income taxes of $49	52	—	—
Net income	478	397	435

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Changes in Long-Term Debt (In Part)

The Company purchased and retired $562 million of its high interest rate debt during the year in order to take advantage of the dramatic decline in interest rates. In addition, the Company called $274 million sinking fund debentures for redemption on March 3, 1987. The after tax premium for the debt restructure program of $52 million is included as an extraordinary charge in the statement of income.

Assets Sold To Comply With FCC Regulations

CAPITAL CITIES/ABC, INC. (DEC)

	1986	1985	1984
	(in thousands)		
Income before extraordinary items.............................	$181,943	$142,222	$135,193
Extraordinary items, net of taxes	265,746	—	7,585
Net income	447,689	142,222	142,778

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5. Extraordinary Items

1986

In transactions related to the acquisition of ABC, in order to comply with certain regulations of the Federal Communications Commission, on January 2, 1986 and January 3, 1986, the Company sold the following properties: television stations in New Haven, Buffalo and Tampa; radio stations in Paterson, Los Angeles and Buffalo, and all of its cable television systems. The proceeds of these sales (net of taxes currently payable) were $625,678,000 and resulted in an extraordinary gain of $279,996,000 (net of income taxes of $156,800,000).

During the third quarter of 1986, the Company and its subsidiary, The Kansas City Star Company (the Star), settled all but four of the approximately 285 actions brought against them by the Star's independent contract carriers concerning its newspaper delivery routes and distribution system. The settlement will allow the Star to convert virtually all of its newspaper delivery routes from those operated by independent contract carriers to routes operated by independent delivery agents. The Settlement resulted in an extraordinary charge of $14,250,000 (net of income taxes of $14,252,000).

1984

In 1984, the Company sold its investment in St. Regis Corporation, which resulted in an extraordinary gain of $7,585,000, net of applicable taxes.

Litigation Settlement

DRAVO CORPORATION (DEC)

	1986	1985	1984
		(In thousands)	
Income (loss) before extraordinary	$(13,309)	$3,240	$(20,110)
Extraordinary item, net of provision for income taxes of $23,408 (Note 4)	27,479	—	—
Net income (loss)	14,170	3,240	(20,110)

Note 4: Extraordinary Item

On October 4, 1985, Carbon County Coal Company, a partnership formed to mine and market coal from reserves located in Hanna, Wyoming, was awarded $181 million in damages as a result of the breach of a long-term supply contract by its principal customer. On September 5, 1986, after appeals to the United States Court of Appeals for the Seventh Circuit, payment of this award and accrued interest thereon was received by Carbon County, of which Dravo's share of the proceeds was $96.8 million.

Costs which were applied against this award included the write-off of Dravo's investment in the joint venture, recognition of previously deferred mine idling expenses and provisions for anticipated future expenses. The result was a $27.5-million net gain after providing for federal income taxes of $23.4 million.

Results of operations from this partnership in 1986 were not material. In 1985 and 1984, the partnership generated results of $776 thousand and $5.5 million, respectively, which appear in the Consolidated Statement of Income under the caption "Equity in Earnings of Unconsolidated Affiliates."

Write Off Of Impaired Assets

SQUIBB CORPORATION

	1986	1985	1984
		(in thousands)	
Income before Extraordinary Item	$464,305	$226,599	$197,172
Extraordinary item	(68,014)	—	—
Net Income	396,291	226,599	197,172

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Extraordinary Item

During 1986, the Corporation determined that its operations in certain countries were adversely affected because of an escalating war, social upheaval, the weakening economies of the oil producing nations and growing political instability. In addition, many of these governments imposed severe restrictions on pharmaceutical price increases, including price freezes, prohibited the sale of certain pharmaceutical products and placed increasingly stringent controls on additional investments and the ability to obtain foreign exchange for remittances.

The Corporation identified certain assets and operations, where, because of the above, it was probable that their carrying values would not be realized. Accordingly, the Corporation wrote off such assets and operations to reflect their permanent impairment and recorded an extraordinary loss of $68,014,000 (with no tax benefit), or $1.26 per share. Future results related to such assets or operations will be recognized based on actual cash flows.

EARNINGS PER SHARE

APB Opinion No. 15 states in part:

12. The Board believes that the significance attached by investors and others to earnings per share data, together with the importance of evaluating the data in conjunction with the financial statements, requires that such data be presented prominently in the financial statements. The Board has therefore concluded that earnings per share or net loss per share data should be shown on the face of the income statement. The extent of the data to be presented and the captions used will vary with the complexity of the company's capital structure....

Examples of earnings per share presentations follow.

Simple Capital Structure

HOMASOTE COMPANY (DEC)

	1986	1985	1984
Net earnings	$ 1,316,009	$ 1,355,373	$ 1,104,195
Retained earnings at beginning of year	12,787,544	11,963,690	11,372,058
Less cash dividends paid ($.96, $.87 and $.70 per share in 1986, 1985 and 1984, respectively)	(529,138)	(531,519)	(512,563)
Retained earnings at end of year	$13,574,415	$12,787,544	$11,963,690
Earnings per share of common stock	$ 2.37	$ 2.18	$ 1.68
Weighted average number of common shares outstanding	555,289	622,852	657,006

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Earnings Per Share: Earnings per share are computed based on the weighted average number of shares outstanding during each year.

TABLE 3-17: EARNINGS PER SHARE—1986

	Additional shares issuable for Debt	Preferred Stock	Options	Warrants
Included in primary per share calculation..........	22	32	205	32
Included in fully diluted per share calculation..........	52	35	26	—
No dilution....................	43	35	154	14
Not disclosed.................	28	16	148	9
No additional shares issuable	455	482	67	545
Total Companies..................	**600**	**600**	**600**	**600**

MOSINEE PAPER CORPORATION (DEC)

(In thousands except share data)	1986	1985	1984
Net income	$ 4,678	$ 8,912	$ 8,852
Net income per share of common stock outstanding	$ .60	$ 1.15	$ 1.14
Weighted average share outstanding...............	7,700,047	7,716,168	7,725,530

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Income Per Share—Consolidated net income per share is based on the weighted average number of common shares outstanding during each year and have been adjusted where appropriate for stock dividends, stock splits and The Sorg Paper Company preferred stock dividend requirements. The exercise of outstanding stock options would not result in a material dilution of net income per share.

Complex Capital Structure

ARVIN INDUSTRIES, INC. (DEC)

(In thousands except per share amounts)	1986	1985	1984
Net Earnings..............................	$41,207	$35,872	$30,226
Earnings per common share:			
Primary................................	$2.46	$2.21	$1.94
Fully diluted...........................	2.43	2.16	1.87
Average common shares outstanding:			
Primary................................	16,669	16,084	15,314
Fully diluted...........................	16,986	16,597	16,178

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (In Part) Significant Accounting Policies

Earnings Per Share: Primary earnings per share are based on the weighted average number of common and common equivalent shares outstanding during the year, after deducting preferred dividends. Fully diluted earnings per share further assume that the preferred shares were converted at the beginning of the year and no preferred dividends were paid.

LEAR SIEGLER, INC. (JUN)

(In thousands of dollars except per share amounts)	1986	1985	1984
Net Earnings............................	$55,510	$100,735	$85,145
Earnings per common share	$ 3.02	$ 5.51	$ 4.96
Earnings per common share—assuming full dilution...............	$ 2.97	$ 5.37	$ 4.80

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Earnings per Common Share: Earnings per common share are computed by dividing net earnings, less preferred dividend requirements, by the weighted average number of common shares outstanding. Dilutive common stock equivalents are not material and therefore are not included in the computation of primary earnings per common share. The weighted average number of common shares outstanding during 1986, 1985 and 1984 was 18,198,000, 18,203,000 and 17,034,000, respectively.

Earnings per common share assuming full dilution are computed by dividing net earnings by the weighted average number of common shares outstanding and the dilutive effect of outstanding convertible preferred stock. For purposes of the computation, all preferred stock outstanding during each period is considered to be converted at the beginning of each period. The weighted average number of common shares outstanding for 1986, 1985 and 1984 assuming full dilution was 18,686,000, 18,775,000 and 17,723,000, respectively.

MACK TRUCKS, INC. (DEC)

in thousands except per share amounts	1986	1985	1984
Net Income (Loss)......................	$(30,569)	$(59,216)	$74,953
Earnings (Loss) Per Common and Common Equivalent Share—Note 18..................................			
Income (loss) before extraordinary item..............................	$ (1.18)	$ (2.09)	$ 1.96
Extraordinary item (tax benefits)..	.12	.02	.33
Net Income (Loss)..................	$ (1.06)	$ (2.07)	$ 2.29
Earnings (Loss) Per Common Share—Assuming Full Dilution			
Income (loss) before extraordinary item..............................	$ (1.18)	$ (2.09)	$ 1.93
Extraordinary item (tax benefits)..	.12	.02	.31
Net Income (Loss)..................	$ (1.06)	$ (2.07)	$ 2.24

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

18. Earnings (Loss) Per Common Share

The computations of primary earnings (loss) per common and common equivalent share are based on the weighted average number of common and common equivalent shares outstanding during the periods after recognition of preferred dividend requirements. The computation of earnings per common share—assuming full dilution for 1984 assumes the conversion of the Series A convertible preferred stock and the resultant increased availability of earnings caused by the add—back of preferred stock dividends.

If the 1986 and 1985 losses per common share were calculated assuming the inclusion of common equivalent shares and/or assuming conversion of the Series A preferred stock, the results would have been antidilutive for both years. Information supporting the computations of earnings (loss) per common share for the years ended December 31, is as follows:

Number of Shares Used	1986	1985	1984
		in thousands	
Primary:			
Common stock outstanding at December 31	29,423	29,491	30,374
Common stock equivalents and weighting effect	126	565	619
Weighted average shares for primary earnings (loss) per common share computation	29,549	30,056	30,993
Assuming Full Dilution:			
Common stock outstanding at December 31	29,423	29,491	30,374
Common stock equivalents and weighting effect	126	565	619
Dilutive effect of assumed conversion of Series A preferred stock	—	—	2,056
Weighted average shares for earnings (loss) per common share—assuming full dilution computation	29,549	30,056	33,049

Earnings (Loss) Used	1986	1985	1984
		in thousands	
Primary:			
Income (loss) before extraordinary item	$(34,104)	$(59,783)	$64,582
Less accumulated preferred dividends	857	2,999	3,846
Income (loss) before extraordinary item	(34,961)	(62,782)	60,736
Extraordinary item	3,535	567	10,371
Net income (loss) available to common shareholders	$(31,426)	$(62,215)	$71,107
Assuming Full Dilution:			
Income (loss) before extraordinary item after preferred dividend requirements	$(34,961)	$(62,782)	$60,736
Dividends on Series A Cumulative Convertible Preferred stock	—	—	3,083
Income (loss) before extraordinary item	(34,961)	(62,782)	63,819
Extraordinary item	3,535	567	10,371
Net income (loss) available to common shareholders	$(31,426)	$(62,215)	$74,190

MOHASCO CORPORATION (DEC)

(In thousands except per share data)	1986	1985	1984
Net earnings	$15,835	17,057	17,557
Net earnings per share of common stock:			
Assuming no dilution	$ 1.72	1.74	1.73
Assuming full dilution	1.67	1.69	1.68

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Earnings Per Share

Net earnings per common share assuming no dilution was computed by dividing net earnings, reduced by the amount of preferred stock dividends, by the weighted average number of common shares outstanding after giving effect to the three-for-two stock split in September 1986. Net earnings per common share assuming full dilution was computed on the assumption that the 5% convertible debentures (note 5) were converted at $32.33 per share and the stock option grants (note 8) were exercised at the beginning of the year. Net earnings used for the computation of net earnings per common share assuming full dilution was reduced by the amount of preferred stock dividends and increased for the after-tax equivalent of interest expense on the 5% convertible debentures. Net earnings per common share assuming dilution from only the exercise of stock option grants is not presented as such computation does not result in material dilution. The number of shares used for these computations was as follows:

	1986	1985	1984
Average number of common shares:			
Assuming no dilution	9,195,536	9,754,730	10,098,399
Assuming full dilution	9,709,794	10,285,839	10,657,823

SEALED POWER CORPORATION (DEC)

(In thousands except per share amounts)	1986	1985	1984
Net Income	$28,500	$29,900	$41,300
Net Income Per Share of Common Stock (Note 2):			
Primary	$ 2.32	$ 2.44	$ 3.38
Fully diluted	$ 2.25	$ 2.38	$ 3.38

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. (In Part): Capital Stock

Primary and fully diluted earnings per share were calculated using the following number of weighted average common shares outstanding:

	1986	1985	1984
Primary	12,269,329	12,244,903	12,222,499
Fully diluted	13,483,388	13,109,630	12,222,499

Primary earnings per common share in 1986 and 1985, and both primary and fully diluted earnings per common share in 1984, were computed by dividing net income by the weighted average number of common shares outstanding.

Fully diluted earnings per common share in 1986 and 1985 were computed based on the assumptions that the stock options were exercised and the convertible debentures had been converted into common stock at the date of their issuance. Net income was adjusted for the resultant reduction in interest costs, net of tax. The dilutive effect of the stock options was determined using the "treasury stock" method.

UNITED TECHNOLOGIES CORPORATION (DEC)

(In thousands of dollars except per share amounts)	1986	1985	1984
Net Income	$72,727	$312,724	$645,015
Preferred Stock Dividend Requirement	$40,032	$ 53,365	$ 53,366
Earnings Applicable to Common Stock	$32,695	$259,359	$591,649
Per Share of Common Stock:			
Primary:			
Income from continuing operations	$.07	$4.76	$4.97
Discontinued operations	.20	(2.64)	(.07)
Net Income	$ 27	$2.12	$4.90
Fully Diluted:			
Income from continuing operations	$.36*	$4.58	$4.76
Discontinued operations	.18	(2.33)	(.06)
Net Income	$.54*	$2.25**	$4.70

*In the third quarter of 1986 substantially all the shares of the $2.55 Preferred Stock were converted into Common Stock. In accordance with the provisions of APB No. 15, the fully diluted earnings per share have been calculated as though such conversions had taken place at the beginning of 1986, which has the effect of increasing fully diluted earnings per share over the comparable primary amount. See Note 3 of Notes to Financial Statements.

**The fully diluted net income per share for 1985 is higher than the comparable primary earnings per share amount because of the required inclusion of securities which are dilutive to earnings per share on income from continuing operations but anti-dilutive to earnings per share on net income.

NOTES TO FINANCIAL STATEMENTS

Note 1 (In Part): Summary of Accounting Principles

Earnings per share computations are based on the average number of shares of Common Stock outstanding during the year. Fully diluted earnings per share reflect the maximum dilution of per share earnings which would have occurred if all of the dilutive convertible securities of the Corporation had been converted on the dates of issue. Such earnings reflect the elimination of dividends on Convertible Preferred Stock. See Note 3.

Note 3. Supplementary and Fully Diluted Earnings per Share

In the third quarter of 1986 substantially all the shares of the $2.55 Preferred Stock were converted into Common Stock. Had the conversion of these securities taken place on January 1, 1986, the primary earnings per share for 1986 would have been $.36 based on income from continuing operations and $.54 based on net income. In accordance with the provisions of Accounting Principles Board Opinion No. 15, the fully diluted earnings per share included in the Consolidated Statement of Income have been calculated as though such conversions had taken place at the beginning of 1986, which has the effect of increasing fully diluted earnings per share over the comparable primary amount.

The fully diluted net income per share for 1985 is higher than the comparable primary earnings per share amount because of the required inclusion of securities which are dilutive to earnings per share on income from continuing operations but antidilutive to earnings per share on net income.

SOCIAL AWARENESS EXPENDITURES

Certain survey companies disclosed contributions to charitable organizations, grants to community related activities, expenditures to aid minority groups or enterprises, and other forms of social awareness or responsibility. Such disclosures of social awareness or responsibility are almost always made in the annual report narrative which is not part of the financial statements; accordingly, no attempt was made to tabulate these disclosures. Examples of such disclosures follow.

BORDEN, INC. (DEC)

SOCIAL RESPONSIBILITY

Borden's sense of social responsibility was reflected in 1986 through continued progress in equal employment opportunity, minority vendor purchases, and support of health and welfare, educational and cultural institutions.

To increase female and minority representation in the workforce, Borden has affirmative action hiring and promotion goals in place at each location. Data compiled in 1986 show that female representation within Borden has grown to its highest level ever, both overall and in the top four job categories of officials and managers, professionals, sales workers and technicians. Overall minority representation was 25.3%. More than half of minority employees held positions within the top four job categories, which exceeds the national average.

The Company's ongoing commitment to encourage minority enterprise achieved major gains in 1986. The number of minority-owned companies supplying Borden with goods and services increased by 33% to more than 1,000 vendors. Total purchases from these vendors jumped 43% to $50 million, from $35 million the prior year. Tax payments made through minority banks were up 6% from $47 million to $50 million. Borden increased its use of minority-owned media to create a greater awareness of its minority vendor program and also hosted several special trade shows aimed at linking minority vendors with Borden buyers.

The Borden Foundation, a conduit for charitable contributions, distributed 46% of its 1986 grant awards to health and welfare organizations, including United Fund drives in 117 Company locations. Grants to education comprised 32% of the Foundation's budget; among these awards, Borden continued to support the Independent College Funds of America, Inc. and the United Negro College Fund, Inc., which together represent 639 institutions of higher learning. The Borden Matching Gifts Program marked a 15% increase in the number of organizations and a 23% increase in the value of gifts made by employees in the areas of health, higher education, and the cultural and performing arts.

CAMPBELL SOUP COMPANY (JUL)

CORPORATE CITIZENSHIP

For decades Campbell has recognized an obligation to help improve the quality of the life in the communities where it operates and in society as a whole. The past fiscal year was no exception.

For the year the company and the Campbell Soup Fund, a non-profit corporation fully funded by the company, contributed $3.4 million to some 500 health, educational, cultural, civic and charitable activities nationwide. Of that amount, $2.3 million went to charitable and other non-profit organizations, and $1.1 million was in support of education.

Over the past five fiscal years, contributions to charitable and non-profit, and educational institutions have totaled more than $15 million.

One of the largest recipients of support from Campbell was the Coriell Institute, a world-renowned, Camden-based biomedical research institute to which Campbell has pledged $400,000.

Children have always been of particular interest to Campbell. In 1986 the company spent more than $125,000 to fund various summer job, recreation and education programs involving thousands of youngsters in our hometown of Camden. During the past 12 years, the company has directed more than one million dollars to its summer program in Camden.

For the fifth consecutive year, Campbell sponsored a program for Midwestern migrate farmworkers and their children, including day care for tots and a college scholarship program for migrant children.

Other support was provided for Scouting programs, Boys and Girls clubs, and YM/YWCA activities. Grants were made to national organizations concerned with improving television for children and to others that encourage economic education in primary and secondary schools.

Interest in education was manifested not only by support for a statewide commission that is studying the business efficiency of the public schools in New Jersey, but also by ensuring that local public and parochial grade schools had an opportunity to learn about classical music. One innovative program brought together inner-city and suburban youngsters for a summer creativity camp that offered art, music, poetry and theater.

Another Campbell initiative was a new, jointly subsidized college-level curriculum at Rutgers University's Camden campus, designed specifically to provide training in management skills to senior managers of local social service agencies. This commitment to the community has been reinforced by R. Gordon McGovern's acceptance of general chairmanship responsibilities for the 1987 United Way of Camden County fund raising drive.

As a food company, Campbell is especially sensitive to the needs of the hungry. Aware of the fact that there were countless homeless and hungry Americans within the shadow of the Statue of Liberty's torch, Campbell donated 40 tons of soup to shelters for the homeless in New York City during the Fourth of July weekend celebration. In addition, some 250,000 cases of product were contributed to social service organizations with mass feeding programs during the year.

GENERAL MILLS, INC. (MAY)

CORPORATE RESPONSIBILITY

Along with our commitment to offer superior products and services and to achieve top financial results, General Mills is committed to recruiting and developing the best people in each of our industries. The company also believes strongly in taking action to make a difference in its communities.

A Commitment to the Employee

Outstanding people make General Mills a great company. Consequently, our goal is to attract and develop talented individuals.

General Mills is committed to providing equal employment and advancement opportunities, and to maintaining nondiscriminatory compensation policies and practices. The company's affirmative action objectives encompass the hiring and promotion of women, minorities, handicapped individuals, Vietnam-era veterans and older workers. The company believes its compensation and affirmative action systems ensure fair pay and opportunity for all employees, and provide freedom from sex- and race-based wage discrimination.

The company strives to utilize fully its minority, female and handicapped employees. For example, the company's Disability Awareness Council has developed a number of programs to improve employment opportunities for the handicapped. In July, the company received a special award from the U.S. Department of Labor recognizing these efforts.

Corporate Citizenship

General Mills employees are encouraged to play active roles in their communities. In Minneapolis, the Community Action Team involved more than 500 employees in volunteer service last year. Retirement PLUS similarly promotes volunteerism by General Mills retirees. Other company locations are equally committed to volunteer efforts.

General Mills is addressing broad areas of social concern. The nation's elderly are the focus of Altcare, a joint venture begun in 1983 with the Wilder Foundation of St. Paul, Minn. Altcare has been the catalyst for Elder Homestead, a 28-unit alternative to the nursing home, opening in a Minneapolis suburb this fall. If the prototype proves successful, it will be replicated elsewhere. Altcare has also played an important role in the success of the nation's first senior HMO specializing in long-term care, and is planning an Alzheimer's Care Network.

To promote child safety, Big G cereals has since 1985 distributed more than 120,000 child safety kits and printed photos of missing children on more than 50 million cereal boxes. A marionette show featuring Big G characters tours shopping malls and schools, combining entertainment and a strong safety message. General Mills Chairman Atwater is a member of the President's Child Safety Partnership, a national advisory committee established to recommend ways the public and private sectors can work together to promote child safety.

Participation in Second Harvest, a nationwide system of food banks, is another key company effort. In 1986, General Mills donated more than 3 million pounds of food to the network. Cumulative contributions made since 1983 are nearly 9 million pounds. Company employees serve Second Harvest in various capacities, from board member to quality control advisor.

The commitment to direct philanthropy continues. In 1986, the General Mills Foundation made grants totaling $6.1 million, and General Mills, Inc. and its subsidiaries provided $1.3 million in gifts. Colleges, universities and secondary schools received $541,131 through the foundation's employee gift-matching program.

INTERNATIONAL BUSINESS MACHINES CORPORATION (DEC)

IBM AND SOCIAL RESPONSIBILITY

IBM supported numerous programs that address community, social and human needs in 1986, contributing more than $187 million in cash, equipment and other resources to social, cultural and educational programs worldwide.

IBM continued its commitment to affirmative action in employment and advancement in 1986. Of the nearly 3,500 new employees hired in the U.S. last year, 48 percent were women and 21 percent were minorities. About 6,000 women and 3,900 minority employees held management positions at year end, and of these, nearly 600 women and more than 500 minorities were in senior management positions.

The company also extended its support to minority-owned businesses, purchasing more than $100 million in products and services from some 750 minority-owned firms in 1986. IBM also purchased goods and services totaling over $60 million from more than 725 firms owned primarily by women, and over $15 million from more than 65 companies employing primarily handicapped workers.

IBM supported colleges, universities and high schools with large minority, handicapped and disadvantaged enrollments by providing these institutions with more than 100 employees through the company's Faculty Loan Program. These employees are teaching and providing administrative assistance during the current academic year.

In New York City, IBM is serving as the lead company for a coalition of businesses, non-profit organizations and educational institutions, whose objective is to establish a program to help needy inner-city youths find summer jobs. In 1986, the company continued its support of job training centers in the U.S. and Europe. More than 19,500 people in the U.S. have received training in information processing and office skills at IBM-sponsored job training centers since 1968.

In January of 1986, IBM opened its National Support Center for Persons with Disabilities. The center, which is located in Atlanta, Ga., provides information to individuals, institutions and agencies about computers and associated products that can help disabled individuals live more productively. IBM also created a Product Initiatives for the Disabled Person project office within the company to act as the corporate focal point for product planning and development efforts designed to aid persons with disabilities.

In an effort to foster more interest in mathematics among school children, IBM is helping underwrite a new public television series called "Square One TV." The half-hour, daily program presents a spectrum of math concepts through short segments which parody popular television programming. The series is produced by Children's Television Workshop, the producer of several successful educational TV programs for children.

SARA LEE CORPORATION (JUN)

REPORT ON EMPLOYEE AND PUBLIC RESPONSIBILITY

Sara Lee Corporation believes that corporations can—and should—serve as catalysts in helping resolve significant social issues. This belief guides our employee and public responsibility activities.

It is our policy that our annual contributions, including cash and product donations, will be at least 2% of domestic pre-tax income. In 1986, we again surpassed that goal.

Domestic cash contributions, including those made by the Sara Lee Foundation, totaled $4.4 million in fiscal 1986.

Lyon's Restaurants continued its "Employee Participation in the Community" program, which donated $500 to a local charity in 59 of the communities where Lyon's operates. Employees and customers nominate organizations, and recipients are chosen by a panel of local Lyon's employees.

Through the Sara Lee Foundation Matching Grants program, employees direct a significant portion of the Foundation's funds to organizations they personally support. In 1986, nearly $700,000 were contributed in Foundation matching grants.

Our corporate-wide product donation program contributed millions of pounds of food and non-food products to assist the needy.

Our product donations places us in the top 5% of corporate contributors to the Second Harvest national food bank network. For example, Chef Pierre and Kitchens of Sara Lee donated baked goods; Gallo Salame, Standard Meat and Peck Meat Packing gave meat products; and Superior Coffee and Foods contributed beverages to Second Harvest food banks in the past year.

Working with Gifts In Kind, Inc., which distributes non-food products to health and human care agencies, our Aris Isotoner division expanded its "Helping Hands" program—giving gloves to the needy in six cities. L'eggs Products and the Direct Marketing Division also donated thousands of cases of clothing which were distributed to shelters for battered women and the homeless, senior centers and youth programs.

Our divisions and their employees actively participate in community involvement programs to inprove their communities. For the fourth year, the corporate office continued its Adopt-A-School program with an inner-city Chicago high school. School board officials cite the partnership as a model for the program's success in improving academic performance and attendance.

Kahn's in Cincinnati, Ohio; L'eggs in Florence, South

Carolina; and Hi-Brand Foods in Peachtree City, Georgia, also developed strong partnerships with schools in their communities.

Hillshire Farm announced $1,000 awards to honor outstanding teachers in its hometown of New London, Wisconsin.

The Sara Lee Neighborhood Development Corporation committed to a $500,000 share in the Chicago Equity Fund which invests in housing rehabilitation projects for low-income Chicago residents.

Our corporate-wide efforts to aid minorities and the disadvantaged are illustrated by two programs at Hanes Knitwear. The division has provided a packaging contract that employs trainees at a job training center for American Indians.

The division also regularly presents seminars and workshops on effective sales techniques to minority business councils across the country.

In the area of employee health and safety, intensified training efforts, awareness programs and safety engineering surveys at our locations produced a 7% reduction in the corporate-wide injury rate.

Affirmative action information and "PARTNERships," a quarterly newsletter highlighting Sara Lee Corporation's public responsibility initiatives, may be obtained by writing to the Corporate Affairs Department at Sara Lee Corporation's headquarters.

Section 4: Stockholders' Equity

This section reviews the presentation of transactions, other than net income (loss) for the year, affecting the stockholders' equity accounts.

RETAINED EARNINGS

PRESENTATION OF CHANGES IN RETAINED EARNINGS

Table 4-1 summarizes the presentation formats used by the survey companies to present changes in retained earnings. Examples of statements showing the increase or decrease in retained earnings resulting from 1986 fiscal year transactions are presented throughout this section.

TABLE 4-1: PRESENTATION OF CHANGES IN RETAINED EARNINGS

	1986	1985	1984	1983
Statement of Stockholders' Equity	413	394	390	371
Separate statement of retained earnings	90	94	105	114
Combined statement of income and retained earnings	58	74	73	87
Changes shown in balance sheet or notes	39	38	32	28
Total Companies	**600**	**600**	**600**	**600**

DIVIDENDS

Chapter 7B of *ARB No. 43* discusses the accounting for stock dividends. *APB Opinion No. 15* refers to Chapter 7B and states in part:

> 48. *Stock dividends or splits.* If the number of common shares outstanding increases as a result of a stock dividend or stock split or decreases as a result of a reverse split, the computations should give retroactive recognition to an appropriate equivalent change in capital structure for all periods presented. If changes in common stock resulting from stock dividends or stock splits or reverse splits have been consummated after the close of the period but before completion of the financial report, the per share computations should be based on the new number of shares because the readers' primary interest is presumed to be related to the current capitalization. When per share computations reflect such changes in the number of shares after the close of the period, this fact should be disclosed.

Table 4-2 shows the nature of distributions made by the survey companies to their shareholders. Approximately 69% 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 48% of the survey companies make a similar disclosure for cash dividends paid to preferred stock shareholders. Stock purchase rights enable the holder to purchase additional equity in a company if an outside party acquires or tenders for a substantial minority interest in the subject company. Rarely is an amount attributed to the distribution of such rights.

Examples of distributions to shareholders follow.

Cash Dividends

SPS TECHNOLOGIES, INC.

Statements of Consolidated Shareholders' Equity

(Thousands of dollars)

Years ended December 31	1986	1985	1984
Common stock, $1 par value; authorized 10,000,000 shares; issued 6,361,606 shares			
Beginning and end of year	$ 6,362	$ 6,362	$ 6,362
Additional paid-in capital			
Beginning of year	$ 51,144	$50,119	$49,890
Exercise of stock options	2,590	1,025	229
End of year	$ 53,734	$51,144	$50,119
Retained earnings			
Beginning of year	$ 94,033	$86,837	$80,527
Net earnings	14,335	11,112	9,824
Cash dividends, ($.90 a share in 1986, $.82 a share in 1985, and $.74 a share in 1984)	(4,367)	(3,916)	(3,514)
End of year	$104,001	$94,033	$86,837
Common stock in treasury, at cost—1,482,006 shares (1985—1,564,253 shares; 1984—1,608,780 shares)			
Beginning of year	$ 12,632	$12,992	$13,090
Exercise of stock options	(664)	(360)	(98)
End of year	$ 11,968	$12,632	$12,992
Cumulative translation adjustments			
Beginning of year	$ (17,765)	$(24,089)	$(17,499)
Changes during the year:			
Working capital	1,409	4,956	(4,966)
Property, plant and equipment, net	885	2,007	(1,962)
Other, net	517	(639)	338
End of year	$ (14,954)	$(17,765)	$(24,089)

WM. WRIGLEY JR. COMPANY

Statement of Consolidated Earnings and Retained Earnings

(In thousands of dollars except for per share amounts)

Years ended December 31, 1986, 1985 and 1984

	1986	1985	1984
Net earnings	$ 53,818	$ 43,498	$ 39,662
Retained earnings at beginning of the year	303,766	282,093	264,684
Dividends declared (per share of common stock: 1986—$1.32; 1985—$1.03; 1984—$1.05)	(27,905)	(21,825)	(22,253)
Retained earnings at end of the year	$329,679	303,766	282,093
Net earnings per average share of common stock	$ 2.55	2.06	1.87
Dividends paid per share of common stock	$ 1.28	1.03	.93

TABLE 4-2: DIVIDENDS

	Number of Companies			
	1986	1985	1984	1983
Cash Dividends Paid to Common Stock Shareholders				
Per share amount disclosed in retained earnings statement	335	340	347	348
Per share amount not disclosed in retained earnings statement	152	159	156	159
Total	**487**	**499**	**503**	**507**
Cash Dividends Paid to Preferred Stock Shareholders				
Per share amount disclosed in retained earnings statement	75	88	99	110
Per share amount not disclosed in retained earnings statement	81	98	101	97
Total	**156**	**186**	**200**	**207**
Dividends Paid By Pooled Companies	**2**	**2**	**2**	**4**
Stock Dividends	**12**	**10**	**14**	**14**
Dividends In Kind	**17**	**10**	**6**	**6**
Stock Purchase Rights	**117**	**13**	**2**	**—**

POTLATCH CORPORATION

Statement of Retained Earnings

(Dollars in thousands—except per-share amounts)

For the years ended December 31	1986	1985	1984
Balance at beginning of year	$465,785	$456,599	$438,423
Net earnings	69,943	37,669	49,631
Dividends:			
Common, $1.59 per share ($1.56 per share in 1985 and $1.50 per share in 1984)	(21,055)	(23,664)	(23,064)
Series B Preferred, $3.75 per share	(2,802)	—	—
Series A Preferred, $12.375 per share	(1,205)	(4,819)	(6,641)
Premium on purchase of redeemable preferred stock	(3,221)	—	(1,750)
Excess cost of treasury shares issued for stock option plans	(338)	—	—
Balance at end of year	$507,107	$465,785	$456,599

GREAT NORTHERN NEKOOSA CORPORATION

Consolidated Statement of Reinvested Earnings

$ millions, except per share amounts	Years ended December 31, 1986	1985	1984
Reinvested earnings at beginning of year	$766.0	$759.0	$678.6
Add-net income	85.3	46.2	119.9
	851.3	805.2	798.5
Deduct-dividends:			
Common stock ($1.57 a share in 1986, $1.52 in 1985 and $1.43 in 1984)	41.3	38.2	35.7
$4.75 preferred stock (exchanged for convertible debentures in March 1985)	—	1.0	3.8
Reinvested earnings at end of year	$810.0	$766.0	$759.0

RUBBERMAID INCORPORATED

Consolidated Statements of Shareholders' Equity

(Dollars in thousands except per share amounts)

	Common Shares	Paid-in Capital	Retained Earnings	Foreign Currency Translation Adjustment	Treasury Shares	Total Shareholders' Equity
Transactions for 1984:						
Opening balance	$37,174	$2,610	$190,179	$(3,448)	$(2,479)	$224,036
Net earnings	—	—	50,055	—	—	50,055
Cash dividends, $.195 per share	—	—	(12,693)	—	—	(12,693)
Employee stock plans	58	1,846	—	—	(133)	1,771
Foreign currency translation adjustment	—	—	—	(1,944)	—	(1,944)
Acquisition of 200,000 shares for treasury	—	—	—	—	(1,868)	(1,868)
Other, net	54	262	(15)	—	—	301
Balance at December 31, 1984	37,286	4,718	227,526	(5,392)	(4,480)	259,658
Transactions for 1985:						
Net earnings	—	—	57,996	—	—	57,996
Cash dividends, $.225 per share	—	—	(15,259)	—	—	(15,259)
Employee stock plans	13	1,807	—	—	1,296	3,116
Foreign currency translation adjustment	—	—	—	1,125	—	1,125
Other, net	(703)	(1,611)	(12)	—	2,207	(119)
Balance at December 31, 1985	36,596	4,914	270,251	(4,267)	(977)	306,517
Transactions for 1986:						
Net earnings	—	—	70,050	—	—	70,050
Cash dividends:						
Paid, $.26 per share	—	—	(18,954)	—	—	(18,954)
Declared but unpaid, $.07 per share	—	—	(5,127)	—	—	(5,127)
Employee stock plans	56	3,430	—	—	402	3,888
Foreign currency translation adjustment	—	—	—	3,056	—	3,056
Two-for-one stock split	36,652	(8,226)	(28,426)	—	—	—
Balance at December 31, 1986	$73,304	$ 118	$287,794	$(1,211)	$ (575)	$359,430

Stock Dividends

ARCHER DANIELS MIDLAND COMPANY

Consolidated Statements of Shareholders' Equity

	Common Stock Shares	Amount	Reinvested Earnings
	(In thousands)		
Balance July 1, 1983	87,145	$ 895,147	$554,816
Net earnings			117,717
Cash dividends paid—$.08 per share			(12,455)
Public offerings	4,400	98,480	
5% stock dividend—September 1984	4,587	68,803	(68,803)
Other	190	3,144	(6,983)
Balance June 30, 1984	96,322	1,065,574	584,292
Net earnings			163,908
Cash dividends paid—$.08 per share			(13,354)
5% stock dividend—September 1985	4,833	105,983	(105,983)
Other	339	5,894	(2,920)
Balance June 30, 1985	101,494	1,177,451	625,943
Net earnings			230,386
Cash dividends paid—$.09 per share			(14,199)
Public offering	490	13,107	
3-for-2 stock split	51,745		
Acquisitions	1,099	23,110	
5% stock dividend—declared July 1986	7,763	132,021	(132,021)
Other	423	8,177	11,912
Balance June 30, 1986	163,014	$1,353,866	$722,021

BERGEN BRUNSWIG CORPORATION

Statements of Consolidated Retained Earnings

Dollars in thousands, except for per share amounts Years Ended August 31:	1986	1985	1984
Balance at beginning of year	$110,471	$ 91,135	$76,786
Net earnings for year	20,661	23,270	18,264
5% stock dividend on Class A and B Common Stock	(20,328)	—	—
Cash dividends on Class A Common Stock ($0.316, $0.305, and $0.305 per share)	(4,098)	(3,934)	(3,915)
Balance at end of year	$106,706	$110,471	$91,135

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7 (In Part): Capital Stock, Paid-in Capital, and Stock Options

The authorized capital stock of the Corporation consists of 3,000,000 shares of Preferred Stock, no par value, issuable in series; 25,000,000 shares of Class A Common Stock, par value $1.50 per share; and 750,000 shares of Class B Common Stock, par value $1.50 per share. Class B Common Stock is convertible into Class A Common Stock on a share-for-share basis.

The owners of Class B Common Stock are entitled to elect the smallest number of Directors constituting an absolute majority of the Board, and the remaining Directors are elected by the owners of Class A Common Stock. Any resolution, motion or corporate action which requires the vote of the shareowners requires the affirmative vote of a majority of the votes cast by the owners of Class A Common Stock and the affirmative vote of a majority of the votes cast by the owners of Class B Common Stock.

On December 18, 1985, the Corporation declared a 5% stock dividend on the Corporation's Class A Common Stock and Class B Common Stock payable on March 1, 1986 to shareowners of record on February 3, 1986. The dividend was charged to retained earnings in the aggregate amount of $20,328,000 which is based on the closing price of $32.25 per share of Class A Common Stock on the declaration date. Average shares outstanding and all per share amounts included in the accompanying consolidated financial statements and notes are based on the increased numbers of shares giving retroactive effect to the stock dividend. Accordingly, on February 3, 1986, the 7⅝% Convertible Subordinated Debentures became convertible at a price of $33.33 per share as compared to the pre-dividend price of $35.00 per share.

Changes in Class A and Class B Common stock, Paid-in capital and Treasury shares during the years ended August 31, 1986, 1985 and 1984 were as follows:

Dollars in thousands	Class A Common	Class B Common	Paid-in Capital	Treasury Shares
Balance, August 31, 1983	$18,428	$405	$29,225	$(467)
Exercise of stock options	141		520	
Acquisition of Treasury shares				(12)
Balance, August 31, 1984	18,569	405	29,745	(479)
Exercise of stock options	23		720	101
Balance, August 31, 1985	18,592	405	30,465	(378)
Exercise of stock options	63	—	671	38
5% Stock Dividend	925	20	19,383	(51)
Balance, August 31, 1986	$19,580	$425	$50,519	$(391)

EMERSON RADIO CORP.

Consolidated Statements of Changes in Shareholders' Equity

($000)

	Common Shares Issued Number of Shares	Par Value	Capital in Excess of Par	Retained Earnings	Deferred Compensation	Treasury Shares at Cost
Balance—April 1, 1983	8,353,860	$ 835	$15,641	$ 5,055		$(8)
Issuance of shares upon exercise of stock options and distribution of stock grants, including income tax benefits of $1,167	268,965	27	1,376			4
Nonqualified options and stock grants which became exercisable.			984			
5 for 3 stock split declared January 24, 1984	5,748,695	575		(580)		
Net earnings for the year				9,084		
Balance—March 31, 1984	14,371,520	1,437	18,001	13,559		(4)
Issuance of shares upon exercise of stock options and distribution of stock grants, including income tax benefits of $346	91,813	9	415			
Grants of compensatory stock options and stock grants			3,295		$(3,370)	
Ten percent common stock dividend declared Nov. 13, 1984	1,439,918	144	14,255	(14,406)		
Net earnings for the year				13,254		
Balance—March 31, 1985	15,903,251	1,590	35,966	12,407	(3,370)	(4)
Issuance of shares upon exercise of stock options and distribution of stock grants, including income tax benefits of $508	177,709	18	1,018			
Grants of compensatory stock options and stock grants, net of cancellations of $979			1,233		(1,233)	
Amortization of compensatory stock options and stock grants					963	
Ten percent common stock dividend declared Oct. 28, 1985	1,594,061	160	12,750	(12,958)		
Net earnings for the year				12,907		
Balance—March 31, 1986	17,675,021	$1,768	$50,967	$12,356	$(3,640)	$(4)

JOHN FLUKE MFG. CO. INC.

Consolidated Statements of Stockholders' Equity

(In thousands except shares)	Number of Shares Outstanding	Par Value of Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury and Von-Vested Shares	Total Stockholders' Equity
Balance, September 30, 1983	7,554,209	$1,901	$52,506	$31,794	$(1,401)	$ 84,800
Net income				18,983		18,983
Issuance of shares under stock award plans	20,914		257		(257)	—
Vesting of 7,288 shares under stock award plans					200	200
5% stock dividend	379,181	95	9,953	(10,048)		—
Exercise of stock options	10,900	2	237			239
Income tax benefit from non-qualified stock options and stock award plans			103			103
Balance, September 28, 1984	7,965,204	$1,998	$63,056	$40,729	$(1,458)	$104,324
Net income				15,200		15,200
Issuance of shares under stock award plans	24,826		312		(312)	—
Vesting of 8,041 shares under stock award plans					228	228
5% stock dividend and payment for fractional shares	398,172	100	11,597	(11,738)		(41)
Exercise of stock options	1,686		37			37
Income tax benefit from stock award plans			35			35
Purchase of treasury shares	(350,000)				(8,356)	(8,356)
Balance, September 27, 1985	8,039,888	$2,098	$75,037	$44,191	$(9,898)	$111,428
Net income				12,156		12,156
Issuance of shares under stock award plans	63,878		318		(318)	—
Vesting of 14,612 shares under stock award plans					420	420
5% stock dividend and payment for fractional shares	402,491	101	11,470	(11,609)		(38)
Exercise of stock options	11,564	3	239			242
Income tax benefit from stock award plans			40			40
Balance, September 26, 1986	8,517,821	$2,202	$87,104	$44,738	$(9,796)	$124,248

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Stock Dividends—5% stock dividends were distributed on March 31, 1986, March 29, 1985 and March 30, 1984 to stockholders of record on February 14, 1986, February 20, 1985 and February 22, 1984, respectively. Stock dividends are issued at fair market value. Average shares outstanding and all per share amounts included in the financial statements and notes are based on the increased number of shares giving retroactive effect to these stock dividends.

DOW JONES & COMPANY, INC.

Consolidated Statements of Stockholders' Equity

For the years ended December 31, 1986, 1985 and 1984

(dollars in thousands except shares)	Common Stock	Class B Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock Shares	Treasury Stock Amount	Total
Balance, December 31, 1983	$65,164		$ 4,874	$355,679	(1,077,090)	$ (8,903)	$416,814
Net income—1984				129,140			129,140
Dividends, $.48 per share				(46,232)			(46,232)
Sales under stock purchase plans			4,389		215,883	1,726	6,115
Capital changes of investee			(236)				(236)
Balance, December 31, 1984	65,164		9,027	438,587	(861,207)	(7,177)	505,601
Net income—1985				138,608			138,608
Dividends, $.52 per share				(50,228)			(50,228)
Sales under stock purchase plans			4,322		173,228	1,426	5,748
Capital changes of investee			471				471
Balance, December 31, 1985	65,164		13,820	526,967	(687,979)	(5,751)	600,200
50% class B common stock dividend (Note 6)		$32,580	(13,820)	(18,760)	(343,989)		
Cash paid in lieu of fractional shares				(61)			(61)
Net income—1986				183,362			183,362
Dividends, $.553 per share				(53,585)			(53,585)
Conversion of class B common stock into common stock	5,815	(5,815)					
Sales under stock purchase plans			5,818		354,946	2,769	8,587
Purchase of stock tendered under stock option plans					(17,806)	(633)	(633)
Purchase of treasury stock					(298,600)	(9,893)	(9,893)
Balance, December 31, 1986	$70,979	$26,765	$ 5,818	$637,923	(993,428)	$(13,508)	$727,977

NOTES TO FINANCIAL STATEMENTS

Note 6. Capital Stock

On May 29, 1986 the number of authorized shares of common stock was increased to 300,000,000 from 200,000,000. Also, 65,200,000 shares of class B common stock were authorized. The company distributed to stockholders of record on June 9, 1986 a 50% stock dividend in the form of class B common stock. One share of class B common stock was issued for every two shares of common stock, with both classes having the same dividend and liquidation rights. The class B common stock has ten votes per share, free convertibility into common stock on a one-for-one basis and can be transferred in class B form only to members of a stockholder's family and certain others affiliated with a stockholder.

All per share amounts, stock purchase, stock option and executive incentive data in this report have been retroactively adjusted for the stock dividend. Additionally, $32,580,000, an amount equal to the $1 par value of the class B common stock, has been transferred from paid-in capital and retained earnings to class B common stock.

Dividends in Kind

THE INTERLAKE CORPORATION

Consolidated Statement of Shareholders' Equity

For The Years Ended December 28, 1986, December 29, 1985 and December 30, 1984.

	Common Stock and Paid-in Capital		Common Stock Held in Treasury		Retained Earnings	Foreign Currency Translation	Total
	Shares	Amount	Shares	Amount			
			(in thousands)				
Balance December 25, 1983	14,317	$122,331	(2,649)	$(31,414)	$268,966	$(32,482)	$327,401
Net Income					36,551		36,551
Cash Dividends					(14,095)		(14,095)
Dividend Reinvestment		988	114	1,532			2,520
Shares Purchased			(1,000)	(21,625)			(21,625)
Stock Incentive Plans		946	152	1,712			2,658
Translation (Loss)						(12,483)	(12,483)
Divestiture						2,337	2,337
Balance December 30, 1984	14,317	124,265	(3,383)	(49,795)	291,422	(42,628)	323,264
Net Income					28,181		28,181
Cash Dividends					(14,470)		(14,470)
Dividend Reinvestment		957	119	1,758			2,715
Stock Incentive Plans		1,007	143	1,889			2,896
Translation Gain						9,167	9,167
Balance December 29, 1985	14,317	126,229	(3,121)	(46,148)	305,133	(33,461)	351,753
Net Income					32,555		32,555
Cash Dividends					(14,873)		(14,873)
Dividend Reinvestment		879	62	926			1,805
Stock Incentive Plans	78	4,486	176	1,830			6,316
Translation Gain						4,283	4,283
Cancel Treasury Stock	(2,883)	(43,392)	2,883	43,392			—
Acme Steel Company Spin-Off					(131,477)		(131,477)
Balance December 28, 1986	11,512	$ 88,202	—	$ —	$191,338	$(29,178)	$250,362

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3 (In Part): Discontinued Operations

On June 23, 1986 The Interlake Corporation made a tax-free distribution (the Spin-Off) of shares in the Acme Steel Company, a wholly-owned subsidiary. Shareholders received one share in Acme Steel Company for each share of the Interlake Corporation common stock owned of record on June 9, 1986. No gain or loss was recorded arising from the Spin-Off. Retained earnings were charged $131,477,000 for the book value of assets distributed, which comprised working capital of $36,406,000, investments in associated companies and other long-term assets of $26,940,000, property, plant and equipment of $91,379,000 less long-term liabilities of $23,248,000. Future adjustments relating to the Spin-Off amounts may occur, but are not expected to be material.

UNIVAR CORPORATION

Consolidated Statements of Shareholders' Equity

For the Fiscal Years Ended February 29/28, 1984, 1985, 1986

(Thousands of dollars)	Common Stock	Additional Paid-in Capital	Retained Earnings	Cumulative Translation Adjustment	Treasury Stock	Total Shareholders' Equity
Balance, February 28, 1983	$2,298	$15,895	$100,048	$ —	$(20,579)	$97,662
Cumulative effect of change in accounting for foreign currency translation at March 1	—	—	—	(472)	—	(472)
Net income	—	—	9,196	—	—	9,196
Purchase of 14,937 shares treasury stock	—	—	—	—	(345)	(345)
Cash dividends at $.68 per share	—	—	(3,769)	—	—	(3,769)
Foreign currency translation adjustment	—	—	—	(323)	—	(323)
Balance, February 29, 1984	2,298	15,895	105,475	(795)	(20,924)	101,949
Distribution of Penwest Ltd. to shareholders	—	(14,458)	(2,999)	—	—	(17,457)
Net income	—	—	15,810	—	—	15,810
Acquisition of Acacia Sales (165,107 shares)	—	227	—	—	2,580	2,807
Sale of 58,000 shares treasury stock	—	65	—	—	896	961
Purchase of 149,917 shares treasury stock	—	—	—	—	(2,579)	(2,579)
Cash dividends at $.68 per share	—	—	(3,780)	—	—	(3,780)
Foreign currency translation adjustment	—	—	—	(1,830)	—	(1,830)
Balance, February 28, 1985	2,298	1,729	114,506	(2,625)	(20,027)	95,881
Net income	—	—	10,650	—	—	10,650
Purchase of 10,500 shares treasury stock	—	—	—	—	(190)	(190)
Cash dividends at $.80 per share	—	—	(4,482)	—	—	(4,482)
Cost allocation of treasury stock resulting from distribution of VWR Corporation	—	—	(10,715)	—	10,715	—
Distribution of VWR Corporation to shareholders	—	—	(56,209)	—	—	(56,209)
Foreign currency translation adjustment	—	—	—	(650)	—	(650)
Balance, February 28, 1986	$2,298	$ 1,729	$ 53,750	$(3,275)	$ (9,502)	$45,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In Part): Companies Distributed

On February 28, 1986, the Corporation transferred all outstanding stock of its VWR Corporation subsidiaries to VWR Corporation (a Delaware corporation organized on January 3, 1986) in exchange for capital stock.

In March 1986, effective as of February 28, 1986, the Corporation distributed all outstanding VWR Corporation common stock to the Corporation shareholders of record on February 28, 1986 on the basis of one share of VWR Corporation common stock for each share of Corporation stock owned on the record date.

The net assets of companies distributed as of February 28, 1986, were as follows:

(Thousands of dollars)	1986	1985
Assets:		
Current assets	$103,090	$101,462
Net property, plant and equipment	16,976	17,370
Other assets	3,856	2,565
Total	123,922	121,397
Liabilities:		
Current liabilities	60,347	61,525
Long-term debt	4,507	4,749
Deferred items	2,859	2,615
Total	67,713	68,889
Net assets	$ 56,209	$ 52,508

Stock Purchase Rights

BROWN GROUP, INC. (OCT)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note H (In Part): Capital Stock

Common Stock

The corporation's Common Stock has a par value of $3.75 per share and 48,000,000 shares are authorized. At November 1, 1986 and November 2, 1985 there were 18,019,685 shares and 19,113,812 shares, net of 3,986,212 shares and 2,892,085 shares held in treasury, outstanding, respectively. The stock is listed and traded on the New York and Midwest Stock Exchanges (symbol BG). There were approximately 11,000 stockholders at December 1, 1986.

In March, 1986, the corporation declared a dividend distribution of one Common Stock Purchase Right on each outstanding share of common stock. When exercisable, each right will entitle its holder to buy one share of the corporation's stock at $150 per share. The Rights will become exercisable if a person acquires 20% of the corporation's common stock or makes an offer to acquire 30% of the corporation's common stock. In the event that a person acquires 40% of the common stock of the corporation, each Right shall entitle the holder, other than the acquirer, to purchase one share of common stock of the corporation for one-third of the market price of the common stock. In the event that the corporation is acquired in a merger or transfers 50% or more of its assets or earnings to any one person, each Right entitles the holder to purchase common stock of the surviving or purchasing company having a market value of twice the exercise price of the Right. The Rights may be redeemed by the corporation at a price of $.05 per Right and they expire in March, 1996.

CATERPILLAR INC. (DEC)

NOTES TO FINANCIAL STATEMENTS

14 (In Part): Capital Stock

On December 1, 1986, the company distributed a dividend of one preferred stock purchase right for each outstanding share of common stock. Each right entitles the holder to purchase one one-hundredth of a share of the new Series A Junior Participating Preferred Stock, $1.00 par value, for $150, subject to adjustment. The rights are exercisable only after a third party acquires 20 percent or more of the company's common stock or after commencement of a tender offer by a third party, which upon consummation would result in such party's control of 30 percent or more of the company's common stock. The rights, which do not have voting rights, expire on December 1, 1996, and may be redeemed by the company at a price of $.05 per right at any time until ten days after a 20 percent ownership position has been acquired, unless such period is extended. The right of redemption may be reinstated under certain circumstances.

If the company is acquired in a merger or other business combination at any time after the rights become exercisable and the company is not the surviving corporation or its common stock is changed or exchanged or 50 percent or more of the company's assets or earning power is sold or transferred, each such right will entitle its holder to purchase common shares of the acquiring company having a market value of twice the exercise price of each right (i.e., at a 50 percent discount). If a 20 percent or greater holder acquires the company and the company is the surviving corporation and its common stock is not changed or exchanged, or such holder engages in one or more "self-dealing" transactions as set forth in the Rights Agreement or increases its beneficial ownership of the company by more than one percent in a transaction involving the company, each right will entitle its holder, other than the acquirer, to purchase common stock of the company (or under certain circumstances to receive cash, preferred stock, or other securities of the company), at a similar 50 percent discount from market value at that time.

DYNAMICS CORPORATION OF AMERICA (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 9: Preferred Stock Purchase Rights

In 1986 the Company declared a distribution to shareholders of record on February 14, 1986 of one preferred stock purchase right for each outstanding share of the Company's voting and non-voting common stock. Under certain conditions, each right may be exercised to purchase one one-hundredth of a share of a newly created series of participating preferred stock at an exercise price of $80. The rights become exercisable 10 days after a public announcement that a party or group has acquired or obtained the right to acquire 20% or more of the Company's common stock in a transaction not previously approved by the Board of Directors of the Company, or after commencement or public announcement of a tender offer for 25% or more of the Company's common stock. The rights, which are non-voting, expire on February 14, 1996 unless extended and may be redeemed by the Company at a price of $.05 per right at any time prior to their expiration or the acquisition by a party or group of 20% of the Company's common stock. The participating preferred stock to be purchased upon exercise of the rights will be nonredeemable.

In the event the Company is acquired in a merger or other business combination transaction after the rights become exercisable, provision shall be made so that each holder of a right shall have the right to receive, upon exercise thereof and payment of the then current exercise price, that number of shares of common stock of the surviving company which at the time of such transaction would have a market value of two times the exercise price of the right. If the Company is the surviving company, each holder would have the right to receive for the then current exercise price preferred stock of the Company with a market value of two times the exercise price.

GENERAL SIGNAL CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Common Stock Purchase Rights

On March 7, 1986, the board of directors declared a dividend distribution of one common stock purchase right (the "Right") for each share of common stock outstanding on March 21, 1986. Shares issued subsequent to March 21, automatically receive these Rights. The Rights expire on March 21, 1996, unless redeemed earlier by the company. Each Right entitles its registered holder to purchase from the company one share of common stock at a price of $150 per share, subject to adjustment to prevent dilution.

The Rights are not exercisable and cannot be transferred separately from the common stock until: 1) a person or group publicly announces the acquisition of, or obtains the right to acquire, 20 percent or more of the outstanding shares of the company's common stock; or 2) a tender or exchange offer is announced or commenced that would result in such an acquisition. Within 10 days after such a 20 percent interest has actually been obtained, the company is entitled to redeem all of the Rights at a price of 5 cents per Right.

If certain triggering events occur, and unless the Rights are redeemed by the company, the Rights holder is entitled to receive for $150 per Right the number of shares of General Signal's or an acquiring company's common stock having a market value of $300, subject to adjustment to prevent dilution. This provision does not apply to Rights that are beneficially owned by the acquirer. These triggering events are: 1) the company is acquired in a merger or other business combination transaction; 2) 50 percent or more of its assets or earnings power are sold; 3) an acquirer engages in one of a number of self-dealing transactions specified in the Rights Agreement; or 4) an acquirer becomes the beneficial owner of 40 percent or more of the company's outstanding shares of common stock.

THE GILLETTE COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Preferred Stock Purchase Rights

On November 26, 1986, the Company's outstanding preferred stock purchase rights, originally issued in December 1985, were redeemed at a cost of $.3 million, and the Board of Directors approved the distribution of a new preferred stock purchase right for each outstanding share of common stock. Under certain conditions, each of these new rights may be exercised to purchase one two-hundredth of a share of junior participating preferred stock at an exercise price of $160, subject to certain anti-dilution provisions. The rights only become exercisable, or transferable apart from the common stock, 10 days after a person becomes the beneficial owner of 20% or more of the Company's stock or 10 business days after a tender offer commences which could result in ownership of more than 30% of the Company's stock.

If (i) any person becomes the beneficial owner of 30% or more of the common stock (except in an offer for all common stock approved by the Board), (ii) Gillette is the surviving corporation in a merger with a 20% or more stockholder and Gillette common stock is not changed or exchanged, or (iii) a 20% or more stockholder engages in certain "self-dealing" transactions with Gillette, each right not owned by that person or related parties will enable its holder to purchase, at the right's exercise price, common stock (or, in certain circumstances, a combination of cash, property, common stock or other securities) having a value of twice the right's exercise price. In addition, if Gillette either (i) engages in a merger or other business combination transaction with another party in which Gillette is not the surviving corporation or in which its common stock is changed or exchanged, or (ii) sells 50% or more of its assets to another party, each right will entitle its holder to similar terms with regard to the purchase of common stock of that other party.

The rights, which have no voting power, expire on December 9, 1996. They may be redeemed at the option of the Board for $.01 per right at any time up to the end of the tenth day, subject to extension, after any person becomes a 20% stockholder of Gillette. Thereafter, the rights can also be redeemed if the 20% holder reduces his beneficial ownership to 10% or less of Gillette stock, except in a transaction with the Company, and there are no other holders of 20% or more of Gillette stock. The rights may be amended under certain circumstances, but no amendment may change the redemption price, the exercise price or the expiration date.

At December 31, 1986, 57,453,921 preferred stock purchase rights were outstanding, and there were 5,000,000 shares of preferred stock without par value, authorized but unissued, of which 400,000 shares have been reserved for issuance upon exercise of the rights.

RALSTON PURINA COMPANY (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Shareholders Equity (In Part)

On January 17, 1986, the Board of Directors declared a dividend distribution of one share purchase right (Right) for each outstanding share of the Company's common stock. Each Right entitles shareholders to purchase from the Company one common share at an exercise price of $150 per share subject to antidilution adjustments. The Rights become exercisable and transferable apart from the common stock ten days after an acquiring person or a group acquires 20% or more, or announces or commences a tender offer for 30% or more, of the Company's common stock. If, after the Rights become exercisable, an acquiring person or group acquires 40% or more of the Company's common stock without proposing to acquire the remainder in a tender or exchange offer approved by the Board of Directors, merges into or recapitalizes the Company or engages in certain other specified transactions, holders of Rights (other than the acquiring person or group) may purchase common stock of the Company at one-third of its then market price. In the event that the Company merges with, or transfers 50% or more of its assets or earning power to, any person or group after the Rights become exercisable, holders of Rights may purchase, at the exercise price, common stock of the acquiring entity having a value equal to twice the exercise price. The Rights can be redeemed by the Board of Directors under certain circumstances and expire January 27, 1996. At September 30, 1986, 80,280,879 shares of the Company's common stock were reserved for issuance upon exercise of the Rights.

UNISYS CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

14 (In Part): Stockholders' Equity

On March 7, 1986, the Board of Directors declared a dividend distribution of one preferred share purchase right (a Right) on each outstanding share of common stock, par value $5 per share. Each Right entitles the registered holder to purchase for $225, under certain circumstances, one one-hundredth of a share of Junior Participating Preferred Stock, par value $1 per share. The Rights become exercisable only if a person or group acquires 20% or more of the Company's common stock, or announces a tender or exchange offer for 30% or more of the common stock. If the Company is acquired (or survives in a reverse merger transaction) or 50% or more of its consolidated assets or earning power were sold, each Right will entitle its holder to purchase a number of the acquiring company's common shares (or the Company's common shares) having a market value of $450. The Company will be entitled to redeem the Rights at five cents per Right prior to the earlier of the expiration of the Rights at March 17, 1996 or the time that a 20% position has been acquired. Until the Rights become exercisable, they have no dilutive effect on net income per common share.

ADJUSTMENTS TO OPENING BALANCE OF RETAINED EARNINGS

Reasons for which the opening balance of retained earnings is properly restated include certain changes in accounting principles, changes in reporting entity, and prior period adjustments. Effective for financial statements for fiscal periods beginning after October 15, 1977, *Statement of Financial Accounting Standards No. 16* stipulates that only corrections of errors and "Adjustments that result from realization of income tax benefits of pre-acquisition operating loss carryforwards of purchased subsidiaries," are properly accounted for as prior period adjustments.

Table 4-3 summarizes the reasons disclosed by the survey companies as to why the opening balance of retained earnings was adjusted. As shown in Table 4-3, the most frequently disclosed reason for adjusting the opening balance of retained earnings was for a pooling of interests. Examples of adjustments to the opening balance of retained earnings follow.

TABLE 4-3: ADJUSTMENTS TO OPENING BALANCE OF RETAINED EARNINGS

	Number of Companies			
	1986	1985	1984	1983
Pooling of interests	13	10	12	11
Successful efforts method adopted	5	2	1	—
LIFO discontinued	1	4	3	3
Change in accounting for foreign currency translation	—	—	—	2
Change in accounting for compensated absences	—	—	1	—
Other—Described	2	3	7	9

Pooling of Interests

LEGGETT & PLATT, INCORPORATED

Consolidated Statements of Changes in Shareholders' Equity

(Dollar amounts in thousands, except per share data)	Common Stock	Additional Contributed Capital	Retained Earnings	Treasury Stock Cost	Treasury Stock Shares
Balances—January 1, 1984					
As previously reported	$ 9,102	$ 8,544	$ 81,115	$ (50)	4,648
Adjustment for pooling of interests	1,043	213	13,528		
As restated	10,145	8,757	94,643	(50)	4,648
Common stock issued in connection with employees' stock option and benefit plans	41	546			
Common stock issued by pooled company		407			
Treasury stock sold		(101)		1,349	(79,481)
Treasury stock purchased				(9,473)	528,563
Tax benefit related to stock options		15			
Net earnings for the year			24,812		
Cash dividends					
Leggett & Platt, Inc. (.293 per share)			(3,976)		
Pooled company			(4,140)		
Balances—December 31, 1984	10,186	9,624	111,339	(8,174)	453,730
Conversion of debentures	966	18,331			
Common stock issued in connection with employees' stock option and benefit plans	76	980			
Treasury stock issued and sold		(2,187)		11,128	(597,443)
Treasury stock purchased				(3,653)	174,694
Tax benefit related to stock options		44			
Additional shares issued in three-for-two stock split effected in the form of a stock dividend March 14, 1986	5,093	(5,093)			15,490
Net earnings for the year			26,469		
Cash dividends					
Leggett & Platt, Inc. ($.333 per share)			(4,519)		
Pooled company			(4,249)		
Balances—December 31, 1985	16,321	21,699	129,040	(699)	46,471
Common stock issued in connection with employees' stock option and benefit plans	191	2,270			
Treasury stock sold		355		1,779	(82,039)
Treasury stock purchased				(11,711)	457,219
Tax benefit related to stock options		87			
Reclassify undistributed subchapter "S" earnings of pooled company (Note B)		950	(950)		
Net earnings for the year			34,575		
Cash dividends					
Leggett & Platt, Inc. ($.40 per share)			(6,456)		
Pooled company			(4,345)		
Balances—December 31, 1986	$16,512	$25,361	151,874	$(10,631)	421,651

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

B. Acquisitions

In May 1986, the Company acquired all of the outstanding capital stock of MPI, Inc., a privately owned manufacturer of bonded carpet cushioning and polyurethane foam products, in exchange for 1,043,393 shares of the Company's common stock. The acquisition has been accounted for as a pooling of interests and, accordingly, the accompanying consolidated financial statements for periods prior to the date of acquisition have been restated to reflect the accounts and operations of

MPI. Separate results of operations of the Company and MPI for periods prior to the acquisition are as follows:

(000's except per share data)	3 months ended March 31, 1986 (Unaudited)	Year ended December 31, 1985	1984
Net Sales:			
Leggett & Platt[1]	$126,294	$454,432	$396,735
MPI	12,809	46,228	50,624
Combined	$139,103	$500,660	$447,359
Net Earnings:			
Leggett & Platt (as previously reported)..............	$ 7,147	$ 23,994	$ 20,771
MPI[2]	793	2,475	4,041
	$ 7,940	$ 26,469	$ 24,812
Net Earnings per Share:			
Primary			
As previously reported...........	$ .46	$ 1.76	$ 1.52
As restated.........	.48	1.80	1.69
Fully diluted			
As previously reported...........	.46	1.63	1.43
As restated.........	.47	1.68	1.58

[1]As restated for the change to the equity method of reporting certain operations discussed in Note C.

[2]Prior to May 1986, MPI had elected to be taxed as an S Corporation and, therefore, federal income taxes were assessed to the shareholders. For purposes of the consolidated financial statements, federal income taxes have been provided on the earnings of MPI at the rates which would have been applicable had such earnings been taxed to MPI.

During 1986, the Company acquired the assets of three small companies in transactions accounted for as purchases, at a total cost of $7,773,000 in cash and notes. These acquisitions are not included in the pro forma information presented below as their sales and earnings are not material.

Change in Accounting Principles

PROLER INTERNATIONAL CORP.

Consolidated Statements of Retained Earnings

For the three years ended January 31, 1987

	1987	1986	1985
Balance at beginning of year as previously reported	$72,786,913	$80,064,702	$75,391,236
Cumulative effect of applying retroactively the change in the method of accounting for inventories (see Note 2).........	3,235,002	2,314,877	2,247,207
Balance at beginning of year, restated.......	76,021,915	82,379,579	77,638,433
Net income (loss)......	517,736	(4,161,736)	7,011,614
Cash dividends on common stock, $1.40 per share....	(2,195,928)	(2,195,928)	(2,270,478)
Balance at end of year	$74,343,723	$76,021,915	$82,379,579

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Accounting Change

In the fourth quarter of fiscal 1987, the Company changed the method of valuing its inventories to the FIFO method from the LIFO method which was used in prior years. This change was made due to continual fluctuations in the worldwide market for ferrous and non-ferrous scrap metal, the depressed economic environment in the United States steel industry, the Company's principal market, and to more accurately reflect results of operations and financial condition during periods of declining prices.

The change has been applied by retroactively restating the financial statements for prior years. As a result of adopting the FIFO method, net income for the year ended January 31, 1987 is approximately $1,200,000 or $.77 per share less than it would have been on the LIFO method.

The effect of the change on net income (loss) and per share amounts for the periods below are as follows:

	Increase (Decrease) in Net Income	Increase (Decrease) in Earnings Per Share
Year ended January 31,		
1986.................................	$ 921,000	$ .59
1985.................................	68,000	.04
1984.................................	1,589,000	.96
1983.................................	(2,175,000)	(1.33)

INTERNATIONAL MINERALS AND CHEMICAL CORPORATION

Consolidated Statement of Changes in Shareholders' Equity

(Columns for Foreign Currency Translation and Valuation Allowance Omitted)

(In millions)	Common Stock	Preferred Stock	Capital in Excess of Par Value	Retained Earnings	Treasury Stock	Total
Balance, June 30, 1983, as previously reported	$137.9	$10.0	$ 17.5	$894.9	$(34.1)	$1,024.1
Cumulative effect of change in method of accounting for inventory				16.3		16.3
Balance, June 30, 1983, as restated	137.9	10.0	17.5	911.2	(34.1)	1,040.4
Net earnings				80.3		80.3
Dividends paid				(69.8)		(69.8)
Conversion of 4% debentures			.1			.1
Stock options exercised	.6		3.3			3.9
Contribution to employee stock ownership plan (ESOP)			.1		1.1	1.2
Awards of restricted shares			.1		1.0	1.1
Purchase of shares					(1.3)	(1.3)
Translation adjustment						(1.9)
Balance, June 30, 1984	138.5	10.0	21.1	921.7	(33.3)	1,054.0
Net earnings				121.3		121.3
Dividends paid				(71.2)		(71.2)
Conversion of 4% debentures			.1			.1
Stock options exercised	.5		2.5			3.0
Contribution to ESOP					.5	.5
Awards of restricted shares			.3		1.3	1.6
Purchases of shares					(13.3)	(13.3)
Debenture exchange			(1.6)		18.8	17.2
Translation adjustment						(1.8)
Market value adjustment						(2.8)
Balance, June 30, 1985	139.0	10.0	22.4	971.8	(26.0)	1,108.6
Net loss				(217.0)		(217.0)
Dividends paid				(49.2)		(49.2)
Issuance of Series A Preferred Stock		2.9	136.6			139.5
Conversion of 4% debentures			.1			.1
Stock options exercised	.4		1.9			2.3
Contribution to ESOP					.4	.4
Awards of restricted shares			(.1)		3.5	3.4
Sale of shares			(.4)		3.8	3.4
Purchases of shares					(7.3)	(7.3)
Translation adjustment						
Discontinued Operations						6.8
Other						.5
Market value adjustment						2.8
Balance, June 30, 1986	$139.4	$12.9	$160.5	$705.6	$(25.5)	$ 994.3

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in millions except per share amounts)

Product Inventories

In the fourth quarter of 1986, IMC changed its method of determining cost of certain domestic product inventories from the LIFO cost method to a cumulative annual average cost method. Management believes this cost method will result in a fairer presentation of inventories while maintaining an appropriate matching of cost with revenues.

Financial statements of prior years have been restated to reflect this change. As a result, retained earnings have been increased by $16.3 million as of July 1, 1984. The effect of the restatement was to increase (decrease) operating results and per common share amounts as follows:

	1986 Adjustment	1986 Per Common Share	1985 Adjustment	1985 Per Common Share	1984 Adjustment	1984 Per Common Share
Continuing operations	$1.5	$.05	$1.2	$.04	$(1.5)	$(.05)
Discontinued operations	(1.3)	(.04)	.5	.02	.1	
	$ .2	$.01	$1.7	$.06	$(1.4)	$(.05)

OTHER CHANGES IN RETAINED EARNINGS

In addition to opening balance adjustments, the retained earnings account is affected by direct charges and credits. The most frequent direct charges to retained earnings are net loss for the year, losses on treasury stock transactions, and cash or stock dividends. The most common direct credit to retained earnings is net income for the year. Direct charges and credits—other than net loss, net income, dividends and stock splits—are summarized in Table 4-4. Examples of such charges and credits follow.

TABLE 4-4: OTHER CHANGES IN RETAINED EARNINGS

	Number of Companies			
	1986	1985	1984	1983
Charges				
Purchase or retirement of capital stock	67	61	51	37
Treasury stock issued for less than cost	32	27	25	22
Preferred stock accretion	12	13	12	10
Translation adjustments	7	11	17	15
Other—Described	24	21	22	13
Credits				
Translation adjustments	21	8	2	4
Poolings of interests	5	7	7	8
Other—Described	17	12	10	16

Treasury Stock Transactions

AMOCO CORPORATION

Consolidated Statement of Shareholders' Equity

For the Years 1986, 1985, and 1984

millions of dollars, except per-share amounts	Common Stock	Earnings Retained and Invested in the Business	Foreign Currency Translation Admustment	Treasury Shares	Total
Balance on December 31, 1983	$2,247	$10,946	$(163)	$ (590)	$12,440
Net income		2,183			2,183
Cash dividends of $3.00 per share		(856)			(856)
Foreign currency translation adjustment			(43)		(43)
Acquisitions of common stock (net), etc.	(9)			(1,191)	(1,200)
Balance on December 31, 1984	2,238	12,273	(206)	(1,781)	12,524
Net income		1,953			1,953
Dividends paid					
Cash dividends of $3.30 per share		(872)			(872)
Distribution of Cyprus Minerals Company		(1,212)	4		(1,208)
Foreign currency translation adjustment			1		1
Acquisitions of common stock (net), etc.	(4)			(806)	(810)
Balance on December 31, 1985	2,234	12,142	(201)	(2,587)	11,588
Net income		747			747
Cash dividends of $3.30 per share		(849)			(849)
Foreign currency translation adjustment			40		40
Retirement of treasury shares	(342)	(2,306)		2,648	—
Acquisitions of common stock (net), etc.	(17)	(124)		(61)	(202)
Balance on December 31, 1986	$1,875	$ 9,610	$(161)	$ —	$11,324

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

11 (In Part): Capital Stock

There were 800,000,000 shares of common stock without par value authorized at December 31, 1986. Details concerning share transactions are shown below:

	1986		1985	
	Shares (thousands)	Amount (millions)	Shares (thousands)	Amount (millions)
Issued common shares on January 1	304,328	$2,234	304,328	$2,238
Stock repurchase programs	(200)	(2)	—	—
Other purchases	(4,017)	(29)	—	—
Sales and distributions under employee benefit plans, etc.	2,273	14	—	(4)
Retirement of treasury shares	(46,683)	(342)	—	—
Issued common shares on December 31	255,701	$1,875	304,328	$2,234
Treasury shares on January 1	45,600	$2,587	32,899	$1,781
Stock repurchase programs	1,150	68	11,748	742
Other purchases	325	19	3,118	193
Sales and distributions under employee benefit plans	(392)	(26)	(2,165)	(129)
Retirement of treasury shares	(46,683)	(2,648)	—	—
Treasury shares on December 31	—	$ —	45,600	$2,587
Net shares outstanding on December 31	255,701		258,728	

On April 2, 1986, the corporation elected to adopt the provisions of the new Indiana Business Corporation Law. The new statute provides that shares of its own common stock reacquired by the corporation constitute authorized but unissued shares. Therefore, in the Consolidated Statement of Financial Position the cost of reacquired shares has been eliminated from the caption "Common stock held in treasury" and allocated proportionately between "Common stock" and "Earnings retained and invested in the business." As a result of this change, "Earnings retained and invested in the business" were reduced by $2,306 million and "Common stock" was reduced by $342 million. The change had no effect on total shareholders' equity.

WINN-DIXIE STORES, INC.

Consolidated Statements of Shareholders' Equity

Years Ended June 25, 1986, June 26, 1985 and June 27, 1984	1986	1985	1984
	Amounts in thousands		
Common stock:			
Beginning of year	$ 45,799	45,799	27,489
Add par value of common stock issued in connection with 5-for-3 stock split	—	—	18,310
Deduct par value of common stock retired	3,500	—	—
End of year	42,299	45,799	45,799
Capital in excess of par value of common stock:			
Beginning of year	—	—	2,549
Add excess of proceeds over cost of treasury shares sold under associates' stock purchase plan	1,871	—	—
Deduct excess of cost over par value of common stock retired	1,871	—	—
Deduct par value of common shares issued in connection with 5-for-3 stock split	—	—	2,549
End of year	—	—	—
Retained earnings:			
Beginning of year	688,962	649,853	615,095
Net earnings	116,391	107,895	115,916
Deduct cash dividends on common stock of $1.74, $1.68, and $1.56 per share in 1986, 1985 and 1984, respectively	71,297	67,783	63,834
Deduct excess of cost over par value of common stock retired	58,210	—	—
Deduct par value of common shares issued in connection with 5-for-3 stock split	—	—	15,761
Deduct other	19	3	1,563
End of year	675,827	688,962	649,853
Cost of common stock held:			
Beginning of year—4,872,111, 4,830,191 and 3,939,185 shares in 1986, 1985 and 1984, respectively	87,984	86,979	62,310
Add cost of 28,954, 41,920 and 1,283,154 shares reacquired during 1986, 1985 and 1984, respectively	730	1,005	35,700
Deduct cost of 3,500,000 shares retired	63,581	—	—
Deduct cost of 413,414 and 392,148 shares issued under associates' stock purchase plan during 1986 and 1984, respectively	11,565	—	11,031
End of year—987,651, 4,872,111 and 4,830,191 shares in 1986, 1985 and 1984, respectively	13,568	87,984	86,979
Total shareholders' equity	$704,558	646,777	608,673

HUNT MANUFACTURING CO.

Consolidated Statements of Income and Retained Earnings

For the years 1986, 1985 and 1984

	1986	1985	1984
		($000)	
Net income	$ 7,959	$ 8,470	$ 7,428
Retained earnings, beginning of year	42,766	36,830	31,846
	50,725	45,300	39,274
Cash dividends on common stock: 1986—$.38 per share 1985—$.33 per share 1984—$.29 per share	(2,696)	(2,353)	(2,067)
Excess of cost over proceeds of treasury shares issued under stock option and grant plans	(488)	(181)	(377)
Retained earnings, end of year	$47,541	$42,766	$36,830

H. H. ROBERTSON COMPANY

Consolidated Retained Earnings

For the years ended December 31

(Thousands)	1986	1985	1984
Balance, January 1	$115,900	$154,812	$152,546
Net income (loss)	(41,843)	(31,987)	11,073
Excess cost of treasury shares issued over market value related to PAYSOP and ESOP contributions	(863)	—	—
Cash dividends:			
Common—per share: 1986, None; 1985, $1.20; 1984, $1.60	—	(6,700)	(8,851)
Preferred—per share: 1986 and 1985, $.45; 1984, $.11	(225)	(225)	(56)
Balance, December 31	$ 72,969	$115,900	$154,812

Preferred Stock Accretion

TENNECO INC.

Statement of Changes in Common and Other Stockholders' Equity (In Part)

Year Ended December 31, 1986, 1985 and 1984

(Millions Except Share Amounts)	1986	1985	1984
Retained Earnings:			
Balance January 1	2,221	2,716	2,809
Net income (loss)	(39)	(1)	369
Dividends—			
Preferred stock	(9)	(10)	(10)
Preference stock	(42)	(42)	(48)
Common stock	(447)	(431)	(401)
Accretion of excess of redemption value of preference stock over fair value at date of issue	(15)	(11)	(3)
Balance December 31	1,669	2,221	2,716

NOTES TO FINANCIAL STATEMENTS

6 (In Part): Preferred and Preference Stock with Mandatory Redemption Provisions

Tenneco Inc. has recorded the preference stock at its fair value at date of issue ($598 million) and is making periodic accretions of the excess of the redemption value over the fair value at date of issue. Such accretions are included in preference stock dividends as a reduction of net income to arrive at net income to common stock.

ANHEUSER-BUSCH COMPANIES, INC.

Consolidated Statement of Changes in Shareholders Equity and Convertible Redeemable Preferred Stock

Shareholders Equity
(In millions, except per share data)

	Common Stock	Capital in Excess of Par Value	Retained Earnings	Treasury Stock	Foreign Currency Translation Adjustment	Convertible Redeemable Preferred Stock
Balance at December 31, 1983	$ 48.5	$167.2	$1,555.4	$ (.9)	$(3.7)	$286.0
Net income			391.5			
Cash dividends:						
Common ($.31⅓ per share)			(89.7)			
Preferred ($3.60 per share)			(27.0)			
Shares issued under stock option plans	.1	6.0				
Accretion of preferred stock			(.9)			.9
Treasury stock acquired				(92.6)		
Foreign currency translation adjustment					(2.9)	
Balance At December 31, 1984	48.6	173.2	1,829.3	(93.5)	(6.6)	286.9
Net income			443.7			
Cash dividends:						
Common ($.36⅔ per share)			(102.7)			
Preferred (3.60 per share)			(27.0)			
Shares issued under stock option plans and conversion of preferred stock	.5	14.3				(.3)
Three-for-one stock split	97.5	(97.5)				
Accretion of preferred stock			(1.0)			1.0
Treasury stock acquired				(109.0)		
Treasury stock issued		.4		.6		
Foreign currency translation adjustment					2.2	
Balance At December 31, 1985	146.6	90.4	2,142.3	(201.9)	(4.4)	287.6
Net income			518.0			
Cash dividends:						
Common ($.44 per share)			(120.2)			
Preferred ($3.60 per share)			(26.9)			
Shares issued under stock option plans and conversion of preferred stock	1.3	23.1				(1.7)
Two-for-one stock split	147.4	(107.4)	(40.0)			
Accretion of preferred stock			(1.0)			1.0
Treasury stock acquired				(258.9)		
Foreign currency translation adjustment					5.3	
Balance At December 31, 1986	$295.3	$ 6.1	$2,472.2	$(460.8)	$ .9	$286.9

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8. Redeemable Preferred Stock

In connection with the acquisition of Campbell Taggart, the company authorized 7,502,000 shares and issued 7,500,766 shares of convertible redeemable preferred stock, par value $1. The convertible redeemable preferred stock has a redemption value of $40, requires dividend payments at a rate of $3.60 per year, is non-callable for five years from the date of acquisition of Campbell Taggart and is subject to mandatory redemption at the end of fifteen years. The preferred shares are also convertible into 3.87 shares of the company's common stock and have voting rights in this ratio. The difference between the redemption value and the carrying value is being amortized over fifteen years.

Change In Fiscal Year-End of Division

THE DUN & BRADSTREET CORPORATION

Consolidated Statement of Shareowners' Equity

($000)

Three Years Ended December 31, 1986	Common Stock ($1 Par Value)	Capital in Excess of Par Value	Retained Earnings	Cumulative Translation Adjustment	Total
Balance, January 1, 1984	$76,038	$ 82,219	$ 697,792	$(16,724)	$ 839,325
Net income			521,561		521,561
Cash dividends ($1.81 per share)			(123,718)		(123,718)
Treasury shares reissued under stock option and deferred compensation plans	133	4,244			4,377
Treasury shares acquired	(129)	(47)	(7,574)		(7,750)
Change in cumulative translation adjustment				(8,282)	(8,282)
Balance, December 31, 1984	76,042	86,416	1,088,061	(25,006)	1,225,513
Net income			294,708		294,708
Cash dividends ($2.12 per share)			(161,183)		(161,183)
Treasury shares reissued under stock option and deferred compensation plans	178	8,788			8,966
Treasury shares acquired	(205)	(38)	(15,738)		(15,981)
Change in cumulative translation adjustment				3,691	3,691
Balance, December 31, 1985	76,015	95,166	1,205,848	(21,315)	1,355,714
Net income			339,990		339,990
Cash dividends ($2.47 per share)			(187,897)		(187,897)
Treasury shares reissued under stock option and deferred compensation plans	182	10,629			10,811
Treasury shares acquired	(369)	(202)	(39,131)		(39,702)
Shares issued for acquisition	170	18,724			18,894
Change in cumulative translation adjustment				593	593
Adjustment for change in McCormack & Dodge fiscal year-end			(9,573)		(9,573)
Balance, December 31, 1986	$75,998	$124,317	$1,309,237	$(20,722)	$1,488,830

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Principles of Consolidation. The consolidated financial statements include those of the Company and its subsidiaries. Investments in companies over which the Company has influence but not a controlling interest are carried at equity. The effects of all significant intercompany transactions have been eliminated.

During 1986, the Company changed the fiscal year-end of its McCormack & Dodge division from December 31 to November 30. This change was made to better reflect the seasonality experienced generally by the mainframe software industry, and to facilitate more orderly planning and product development. Results of operations for December 1985, which were initially reported in retained earnings as part of 1985's operating results, have been reflected as a reduction to retained earnings. The financial statements of subsidiaries outside the United States and Canada reflect a fiscal year ending November 30, to facilitate timely reporting of the Company's consolidated financial results.

Change In Fiscal Year Of Pooled Company

SPARTON CORPORATION

Consolidated Statement of Shareowners' Equity

Years Ended June 30, 1986, 1985 & 1984

	Common stock, $1.25 par value Shares	Amount	Capital in excess of par value	Retained earnings
Balance June 30, 1983				
As previously reported	3,420,244	$4,275,305	$ 83,533	$44,090,822
Adjustment for pooling of interests	500,000	625,000		4,987,366
As restated	3,920,244	4,900,305	83,533	49,078,188
Net income				8,582,451
Exercise of stock options	26,850	33,562	134,207	
Dividends ($.45 per share)				(3,086,227)
Two-for-one stock split	3,923,494	4,904,368	(121,442)	(4,782,926)
Issuance of common stock of acquired corporations prior to merger				126,200
Balance June 30, 1984	7,870,588	9,838,235	96,298	49,917,686
Net loss				(3,235,505)
Exercise of stock options	8,150	10,188	38,750	
Dividends ($.52 per share)				(3,575,312)
Balance June 30, 1985	7,878,738	9,848,423	135,048	43,106,869
Net income				8,966,610
Exercise of stock options	21,454	26,817	102,707	
Dividends ($.52 per share)				(3,844,115)
Adjustment for change in fiscal year of pooled company				(514,792)
Balance June 30, 1986	7,900,192	$9,875,240	$237,755	$47,714,572

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Acquisition

On February 10, 1986, the Company acquired Kent Products, Inc. and White Cloud Products, Inc. (the Kent Corporations) which manufacture automotive parts and were owned primarily by John Smith and Lawson K. Smith, Officers and Directors of the Company. The transaction was effected through the exchange of 1,000,000 shares of common stock of the Company for all of the outstanding shares of the Kent Corporations and has been accounted for as a pooling of interests. Accordingly, all financial data for periods prior to the acquisition have been restated to include the results of the Kent Corporations.

The net revenues and net income (loss) of Sparton and the Kent Corporations were as follows:

	Eight months ended February 28, 1986 (unaudited)	Years ended June 30, 1985	1984
Net revenues:			
Sparton	$125,750,172	$137,747,703	$142,303,871
Kent Corporations	19,432,743	27,824,369	23,269,205
Combined	$145,182,915	$165,572,072	$165,573,076
Net income (loss):			
Sparton	$ 319,066	$ (4,394,917)	$ 7,731,414
Kent Corporations	1,640,202	1,159,412	851,037
Combined	$ 1,959,268	$ (3,235,505)	$ 8,582,451

The Kent Corporations previously used the fiscal year ended September 30 for financial reporting purposes. The Kent Corporations' balance sheet and results of operations for the year ended September 30, 1985 and 1984 have been combined with those of Sparton Corporation for the years ended June 30, 1985 and 1984, respectively, and the Kent Corporations' balance sheet at June 30, 1986 and net income for the twelve months ended June 30, 1986 have been included in the consolidated financial statements for fiscal 1986. The duplication in fiscal 1986 of reporting operating results of $514,792 of the Kent Corporations for the three-month period ended September 30, 1985 has been adjusted by a charge to retained earnings. Appropriate adjustments have also been made in the statement of changes in financial position.

Recapitalization

FMC CORPORATION

Consolidated Statements of Changes in Stockholders' Equity

(In thousands)	Preferred stock	Common stock, $5 par value	Common stock, $0.10 par value	Capital in excess of par	Retained earnings (deficit)	Foreign currency translation	Treasury stock
Balance December 31, 1983	$7,107	$170,764	—	$ 74,370	$1,320,161	$(90,807)	$(21,201)
Net income					37,968		
Incentive plan shares issued				50			391
Conversion of securities	(3,264)	6,946		26,732			
Dividends on stock					(56,907)		
Purchases							(497,262)
Translation adjustment						(15,288)	
Balance December 31, 1984	3,843	177,710	—	101,152	1,301,222	(106,095)	(518,072)
Net income					196,553		
Incentive plan shares issued				854			4,285
Conversion of securities	(774)	1,238		3,348			
Dividends on stock					(57,571)		
Purchases							(4)
Translation adjustment						15,411	
Balance December 31, 1985	3,069	178,948	—	105,354	1,440,204	(90,684)	(513,791)
Net income					152,429		
Incentive plan shares issued			$ 2	340			813
Conversion of securities	(2,963)	3,729		5,377			
Dividends on stock					(14,428)		
Recapitalization retirement/issuance	(106)	(182,677)	4,502	(107,589)	(233,636)		512,978
Distribution to stockholders					(1,799,602)		
Translation adjustment						31,029	
Balance December 31, 1986	—	—	$4,504	$ 3,482	$ (454,933)	$(59,655)	—

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 17. Recapitalization

On May 28, 1986, FMC completed a recapitalization of the company approved by stockholders at the annual meeting held May 22, 1986. Under the plan, public stockholders received $80 cash and one new common share, par value $0.10 per share, of the recapitalized company in exchange for each common share, par value $5.00 per share. Certain management-owned shares, all shares of the PAYSOP and pension accounts were converted into 5.667 new shares. Each share held in the company's employee Thrift Plan was converted for $25 cash plus 4.209 new shares.

In order to allow valid comparisons between current and historical financial performance, shares outstanding and earnings per share for all prior periods have been restated to reflect the transaction as a 5.667 to 1 stock split and a repurchase on May 28 of (i) 4.667 of the new shares issued for each share formerly held by public stockholders in exchange for $80 cash and (ii) 1.458 of the new shares issued for each share formerly held in the employee Thrift Plan in exchange for $25 cash.

As part of the recapitalization, the company called for redemption all of its convertible debt and equity securities on May 20, 1986, including all outstanding shares of its $2.25 cumulative convertible preferred stock and all of its 4¼% and 4⅞% convertible subordinated debentures.

The recapitalization was financed by $1.4 billion of bank commitments and issuance of $625 million of subordinated debt.

TABLE 4-5: PRESENTATION OF CHANGES IN ADDITIONAL PAID-IN CAPITAL

	1986	1985	1984	1983
Statement of stockholders' equity	348	340	346	326
Statement of additional paid-in capital	13	16	15	22
Schedule in notes	107	114	109	108
No statement or schedule but changes disclosed	20	24	23	37
Balance unchanged during year	45	38	37	40
Subtotal	**533**	**532**	**530**	**533**
Additional paid-in capital account not presented	67	68	70	67
Total Companies	**600**	**600**	**600**	**600**

TABLE 4-6: STOCK SPLITS

	1986	1985	1984	1983
Ratio				
Less than three-for-two	9	6	6	10
Three-for-two (50%) to two-for-one	37	23	13	31
Two-for-one (100%)	52	31	24	53
Greater than two-for-one	7	7	6	8
Total Companies	**105**	**67**	**49**	**102**
Account charged				
Additional paid-in capital	60	35	23	60
Retained earnings	33	12	14	29
No charge	12	20	12	13
Total Companies	**105**	**67**	**49**	**102**

ADDITIONAL PAID-IN CAPITAL

PRESENTATION OF CHANGES IN ADDITIONAL PAID-IN CAPITAL

APB Opinion No. 12 states in part:

> 10. When both financial position and results of operations are presented, disclosure of changes in the separate accounts comprising stockholders' equity (in addition to retained earnings) and of the changes in the number of shares of equity securities during at least the most recent annual fiscal period and any subsequent interim period presented is required to make the financial statements sufficiently informative. Disclosure of such changes may take the form of separate statements or may be made in the basic financial statements or notes thereto.

Table 4-5 summarizes the presentation formats used by the survey companies to present changes in additional paid-in capital.

STOCK SPLITS

Chapter 7B of *ARB No. 43* discusses the accounting for stock splits. *APB Opinion No. 15* refers to Chapter 7B and states in part:

> 48. *Stock dividends or splits.* If the number of common shares outstanding increases as a result of a stock dividend or stock split or decreases as a result of a reverse split, the computations should give retroactive recognition to an appropriate equivalent change in capital structure for all periods presented. If changes in common stock resulting from stock dividends or stock splits or reverse splits have been consummated after the close of the period but before completion of the financial report, the per share computations should be based on the new number of shares because the readers' primary interest is presumed to be related to the current capitalization. When per share computations reflect such changes in the number of shares after the close of the period, this fact should be disclosed.

Table 4-6 shows the number of survey companies disclosing stock splits and summarizes the accounting treatments for stock splits. Examples of stock splits follow.

CPC INTERNATIONAL INC.

Consolidated Statement of Stockholders' Equity

(Column for Translation Adjustment omitted)

Shares in thousands $ Millions	Common Stock Issued Shares	Common Stock Issued Amount	Treasury Stock Shares	Treasury Stock Amount	Capital in Excess of Par Value	Retained Earnings
Balance, December 31, 1983	97,286.4	$12.1	(249.8)	$ (3.5)	$173.5	$1,238.7
Net income						193.4
Cash dividends declared ($1.10 per share)						(106.8)
Stock issued in connection with:						
Stock options	32.0	.1	136.0	2.0	.4	(.5)
Deferred compensation			1.2			
Translation adjustment						
Treasury stock acquired			(60.6)	(1.2)		
Balance, December 31, 1984	97,318.4	12.2	(173.2)	(2.7)	173.9	1,324.8
Net income						142.0
Cash dividends declared ($1.10 per share)						(106.9)
Stock issued in connection with:						
Stock options	97.0		62.0	1.1	1.5	
Deferred compensation	20.0		5.0	.1	.4	
Translation adjustment						
Treasury stock acquired			(60.4)	(1.4)		
Balance, December 31, 1985	97,435.4	12.2	(166.6)	(2.9)	175.8	1,359.9
Net income						219.2
Cash dividends declared (1.13 per share)						(106.0)
Stock issued in connection with:						
Stock split		12.2			(12.2)	
Stock options	185.1		69.6	2.0	3.5	(.8)
Deferred compensation	15.2		5.5	.1	.4	
Translation adjustment						
Treasury stock acquired			(14,967.3)	(623.2)		
Balance, December 31, 1986	97,635.7	$24.4	(15,058.8)	$(624.0)	$167.5	$1,472.3

NOTES TO FINANCIAL STATEMENTS

Stock Split

In December 1986, the Board of Directors authorized a two-for-one stock split effected in the form of a 100-percent stock dividend which was distributed on January 23, 1987, to holders of record on January 2, 1987. This split resulted in the issuance of an additional 48.8 million shares of common stock and was accounted for, in 1986, by a transfer of approximately $12.2 million to common stock from capital in excess of par value.

All numbers of common shares and per share data have been restated to reflect the stock split.

MOHASCO CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Common Stock Split

In August 1986, the Board of Directors authorized a three-for-two stock split of common shares effected in the form of a stock dividend in September 1986. All earnings per common share amounts, dividends and market prices per common share included in this report have been adjusted for the stock split. Additionally an amount equal to the $5 par value of the additional common shares has been transferred from additional paid-in-capital to common stock; and common stock options outstanding, exercised and expired have been increased three-for-two and the exercise price reduced by one-third. In connection with the stock split, 1,012 common shares were cancelled as a result of the payment of cash in lieu of fractional shares.

8 (In Part): Common Stock

Activity in common stock and additional paid-in capital, and common stock in treasury, at cost during the last three years is summarized below:

(In thousands)	Common Stock	Additional Paid-In Capital	Common Stock in Treasury, at Cost
Balance at January 1, 1984....	$34,145	34,140	(1,595)
Proceeds upon exercise of common stock options........	62	92	—
Reacquisition of preferred stock	—	68	—
Balance at December 31, 1984	34,207	34,300	(1,595)
Proceeds upon exercise of common stock options........	758	1,498	—
Reacquisition of common stock.	—	—	(23,788)
Reacquisition of preferred stock	—	140	—
Balance at December 31, 1985	34,965	35,938	(25,383)
Proceeds upon exercise of common stock options........	442	1,178	—
Stock split........................	17,703	(17,703)	—
Reacquisition of common stock.	(5)	(19)	(228)
Balance at December 31, 1986	$53,105	19,394	(25,611)

THE SHERWIN-WILLIAMS COMPANY

Statements of Consolidated Shareholders' Equity

Thousands of dollars

	Serial Preferred Stock	Common Stock	Other Capital	Retained Earnings	Cumulative Translation Adjustment	Treasury Stock
Balance at January 1, 1984....................................	$386	$158,364	$ 6,220	$257,527	$(11,741)	$39,786)
Treasury stock acquired/retired	(13)	—	—	(18)	—	(20,638)
Common stock issued	(373)	2,310	4,360	(129)	—	665
Net income	—	—	—	65,006	—	—
Cash dividends:						
Series A preferred stock—$1.00 per share	—	—	—	(11)	—	—
Common stock $.38 per share	—	—	—	(17,200)	—	—
Reduction in par value of common stock	—	(134,822)	134,822	—	—	—
Current year translation adjustment	—	—	—	—	(789)	—
Balance at December 31, 1984...............................	—	25,852	145,402	305,175	(12,530)	(59,759)
Common stock issued	—	520	7,879	—	—	(724)
Net income	—	—	—	74,638	—	—
Cash dividends on common stock—$.46 per share..........	—	—	—	(21,064)	—	—
Current year translation adjustment	—	—	—	—	(22)	—
Balance at December 31, 1985...............................	—	26,372	153,281	358,749	(12,552)	(60,483)
Two-for-one stock split	—	23,433	(23,433)	—	—	—
Treasury stock acquired/retired	—	(3,000)	(17,328)	(34,234)	—	(8,574)
Common stock issued	—	326	5,522	—	—	388
Net income	—	—	—	105,952	—	—
Cash dividends on common stock—$.50 per share..........	—	—	—	(22,594)	—	—
Current year translation adjustment	—	—	—	—	(256)	—
Balance at December 31, 1986...............................	$ —	$ 47,131	$118,042	$408,873	$(12,808)	$(68,669)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (In Part): Significant Accounting Policies

Stock split. The par value of additional shares of common stock issued in connection with a two-for-one stock split distributed during March, 1986, was credited to common stock and a like amount charged to other capital.

GANNETT CO., INC.

Consolidated Statements of Changes in Shareholders' Equity

($000)

Fiscal years ended December 30, 1984; December 29, 1985; and December 28, 1986

	Common stock $1 par value	Additional paid-in capital	Retained earnings	Foreign currency translation adjustment	Total
Balance December 25, 1983	$ 80,028	$75,790	$ 871,893	$(5,422)	$1,022,289
Net income, 1984			223,934		223,934
Dividends declared, 1984—$.665 per share			(106,578)		(106,578)
Stock options exercised	137	1,926			2,063
Tax benefit derived from stock option plans		2,070			2,070
Foreign currency translation adjustment				(1,814)	(1,814)
Balance December 30, 1984	80,165	79,786	989,249	(7,236)	1,141,964
Net income, 1985			253,277		253,277
Dividends declared, 1985—$.765 per share			(122,768)		(122,768)
Stock options exercised	128	2,294			2,422
Tax benefit derived from stock option plans		2,116			2,116
Foreign currency translation adjustment				(1,798)	(1,798)
Balance December 29, 1985	80,293	84,196	1,119,758	(9,034)	1,275,213
Net income, 1986			276,404		276,404
Dividends declared, 1986—$.86 per share			(138,836)		(138,836)
Stock issued under incentive plan	324	13,300			13,624
Stock options exercised	155	2,742			2,897
Tax benefit derived from stock option plans		4,088			4,088
Par value of shares issued in stock split December 12, 1986	80,772	(80,772)			
Foreign currency translation adjustment				391	391
Balance December 28, 1986	$161,544	$23,554	$1,257,326	$(8,643)	$1,433,781

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 8 (In Part): Capital Stock, Stock Options and Incentive Plans

On October 28, 1986, the Company's Board of Directors approved a two-for-one stock split effective on January 6, 1987, for shareholders of record on December 12, 1986. In these notes and the accompanying financial statements, all per-common-share amounts have been adjusted to reflect the stock split.

COMMERCIAL METALS COMPANY

Consolidated Statements of Stockholders' Equity

(in thousands, except share data)

	Common stock Number of shares	Common stock Amount	Additional paid-in capital	Retained earnings	Treasury stock Number of shares	Treasury stock Amount
Balance, September 1, 1983	6,807,231	$34,036	$5,374	$ 81,745	542,322	$5,541
Net earnings				9,701		
Cash dividends—$.27 per share				(2,275)		
Stock issued under stock option, purchase, and bonus plans			945		(172,943)	(1,766)
Balance, August 31, 1984	6,807,231	34,036	6,319	89,171	369,479	3,775
Net earnings				9,326		
Cash dividends—$.27 per share				(2,327)		
Stock issued under stock option, purchase, and bonus plans			(121)		(111,939)	(1,066)
Balance, August 31, 1985	6,807,231	34,036	6,198	96,170	257,540	2,709
Net earnings				14,226		
Cash dividends—$.28 per share				(2,495)		
Stock split, four-for-three	2,268,451	11,342	(6,223)	(5,132)	49,511	
Stock issued under stock option, purchase, and bonus plans			25	10	(125,121)	(1,121)
Balance, August 31, 1986	9,075,682	$45,378	$ —	$102,779	181,930	$1,588

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

J (In Part): Capital Stock

Common Stock

On March 31, 1986, the Board of Directors declared a 4 for 3 stock split in the form of a 33.33 percent dividend on the Company's common stock payable May 2, 1986, to shareholders of record on April 11, 1986. All applicable share and per share data have been adjusted for the stock split.

NATIONAL SERVICE INDUSTRIES, INC.

Consolidated Statements of Stockholders' Equity

	Number of Shares Common Stock	Number of Shares Treasury Stock	Amount Common Stock	Amount Retained Earnings	Amount Treasury Stock	Total
	(In thousands, except per-share data)					
Balance August 31, 1983	19,309	2,879	$19,309	$349,817	$(34,746)	$334,380
Cumulative effect of change in accounting for foreign currency translation as of September 1, 1983	—	—	—	(330)	—	(330)
Purchase of treasury stock	—	12	—	—	(273)	(273)
Three-for-two stock split effective January 12, 1984	9,652	1,440	9,652	(9,652)	—	—
Net income	—	—	—	61,506	—	61,506
Cash dividends of $.65 per share paid on common stock	—	—	—	(21,230)	—	(21,230)
Foreign currency translation adjustment	—	—	—	(57)	—	(57)
Balance August 31, 1984	28,961	4,331	28,961	308,054	(35,019)	373,996
Issuance of treasury stock under stock bonus plan	—	(9)	—	—	250	250
Net income	—	—	—	67,661	—	67,661
Cash dividends of $.73 per share paid on common stock	—	—	—	(23,899)	—	(23,899)
Foreign currency translation adjustment	—	—	—	(50)	—	(50)
Balance August 31, 1985	28,961	4,322	28,961	423,766	(34,769)	417,958
Issuance of treasury stock under stock bonus plan	—	(1)	—	—	35	35
Four-for-three stock split effective January 13, 1986	9,653	1,440	9,653	(9,653)	—	—
Net income	—	—	—	71,341	—	71,341
Cash dividends of $.80 per share paid on common stock	—	—	—	(26,410)	—	(26,410)
Foreign currency translation adjustment	—	—	—	(17)	—	(17)
Balance August 31, 1986	38,614	5,761	$38,614	$459,027	$(34,734)	$462,907

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3 (In Part): Common Stock and Related Matters

The authorized number of common shares was increased from 20,000,000 to 30,000,000 shares as of January 4, 1984, and to 40,000,000 shares as of January 3, 1986.

The Board of Directors declared stock splits of 3-for-2 effective January 12, 1984, and 4-for-3 effective January 13, 1986. Transfers from retained earnings to the common stock account of the par value of the additional shares issued were made in 1984 and 1986. Earnings per share for 1984, 1985, and 1986 have been computed based on the weighted average number of shares outstanding during each year after adjustment for all stock splits.

PALL CORPORATION

Consolidated Statement of Stockholders' Equity

($000)

Years Ended August 2, 1986, August 3, 1985, and July 28, 1984	Common Stock	Capital in Excess of Par Value	Retained Earnings	Equity Adjustment From Foreign Currency Translation	Total Stockholders' Equity
Balance at July 30, 1983	$9,003	$ 3,171	$121,608	$(10,113)	$123,669
Net earnings			30,732		30,732
Cash dividends declared			(7,026)		(7,026)
Reduction of par value from $.50 per share to $.25 per share	(4,503)	4,503			
Issuance of stock pursuant to exercise of stock options, 17,326 shares	6	361			367
Foreign currency translation adjustment				(3,574)	(3,574)
Balance at July 28, 1984	4,506	8,035	145,314	(13,687)	144,168
Net earnings			34,254		34,254
Cash dividends declared			(8,323)		(8,323)
Issuance of stock pursuant to exercise of stock options, 52,285 shares	13	1,146			1,159
Issuance of stock in satisfaction of contribution to pension and profit-sharing plans, 76,218 shares	19	2,782			2,801
Foreign currency translation adjustment				(1,182)	(1,182)
Balance at August 3, 1985	4,538	11,963	171,245	(14,869)	172,877
Net earnings			40,942		40,942
Cash dividends declared			(10,005)		(10,005)
Three-for-two stock split (including $16 paid for fractional shares)	2,271	(2,287)			(16)
Issuance of stock pursuant to exercise of stock options, 224,301 shares	56	3,860			3,916
Issuance of stock in satisfaction of contribution to pension and profit-sharing plans, 81,493 shares	20	3,280			3,300
Foreign currency translation adjustment				10,385	10,385
Balance at August 2, 1986	$6,885	$16,816	$202,182	$(4,484)	$221,399

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 6 (In Part): Common Stock and Capital in Excess of Par Value

On November 22, 1985, the Board of Directors declared a three-for-two stock split effective December 9, 1985. The par value of the new shares issued totalled $2,271,000, and this amount was transferred from capital in excess of par value to the common stock account.

All references in the financial statements with regard to average number of shares of Common Stock and related prices, dividends and per share amounts have been restated to reflect the three-for-two stock split.

USG CORPORATION

Consolidated Statement of Stockholders' Equity

(Column for Translation Adjustment omitted)

(All dollar amounts in thousands except per-share figures)	$1.80 Convertible Preferred Stock Shares	Amount	Common Stock Shares	Amount	Capital Received In Excess of Par Value	Reinvested Earnings
December 31, 1983	305,720	$306	16,709,962	$ 66,840	$ 8,219	$690,517
Net earnings						186,556
Dividends						
Preferred stock $1.80 per share						(492)
Common stock $0 70 per share						(46,199)
Currency translation adjustment						
Stock options exercised			54,383	217	2,349	
Restricted stock amortization					170	
Conversion of preferred to common	(50,160)	(50)	45,133	181	(131)	
Purchase of stock for treasury			(474,841)	(1,899)	(8,475)	(14,922)
7.875% debentures received in exchange for common stock			199,753	799	8,720	
December 31, 1984	255,560	256	16,534,390	66,138	10,852	815,460
Net earnings						223,797
Dividends						
Preferred stock $1.80 per share						(372)
Common stock $0.84 per share						(55,826)
Currency translation adjustment						
Stock options exercised			125,919	503	4,364	
Restricted stock issuance and amortization			77,500	310	195	
Conversion of preferred to common						
At 1 preferred to 0.9 common	(25,065)	(25)	22,554	90	(65)	
At 1 preferred to 1.8 common	(40,404)	(41)	72,711	291	(250)	
Purchase of stock for treasury			(1,065,515)	(4,262)	(2,861)	(39,445)
Two-for-one stock split			16,638,526	66,554	(12,235)	(54,319)
December 31, 1985	190,091	190	32,406,085	129,624	—	889,295
Net earnings						225,508
Dividends						
Preferred stock $1.80 per share						(269)
Common stock $1.04 per share						(66,932)
Currency translation adjustment						
Stock options exercised			237,555	950	7,955	
Restricted stock issuance and amortization			17,000	68	884	
Conversion of preferred to common						
At 1 preferred to 1.8 common	(36,115)	(36)	64,987	260	(224)	
At 1 preferred to 3.6 common	(24,567)	(25)	88,416	354	(329)	
Purchase of stock for treasury			(16,867,067)	(67,468)	(18,694)	(632,881)
Common stock issued for the Donn acquisition			2,792,948	11,172	128,476	
Two-for-one stock split			33,694,524	134,778	(118,068)	(16,710)
December 31, 1986	129,409	129	52,434,448	209,738	—	398,011

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Common Stock (In Part):

On May 14, 1986, the Board of Directors effected a two-for-one stock split of the outstanding common stock and stock held in treasury, without reducing the par value thereof, by declaring a 100% common stock dividend paid June 23, 1986 to holders of record on May 27, 1986. The aggregate par value of the additional common shares ($134,778,000) has been transferred from capital received in excess of par value ($118,068,000) and reinvested earnings ($16,710,000).

On February 13, 1985, the Board of Directors effected a two-for-one stock split of the outstanding common stock, without reducing the par value thereof, by declaring a 100% common stock dividend paid March 18, 1985 to holders of record on February 26, 1985. The aggregate par value of the additional common shares ($66,554,000) has been transferred from capital received in excess of par value ($12,235,000) and reinvested earnings ($54,319,000).

All per-share figures and common stock amounts have been retroactively restated to reflect the increased number of common shares outstanding resulting from these stock splits.

CHANGES IN ADDITIONAL PAID-IN CAPITAL

Table 4-7 summarizes credits and charges to additional paid-in capital. Examples of such credits and charges follow.

TABLE 4-7: CHANGES IN ADDITIONAL PAID-IN CAPITAL

	Number of Companies			
	1986	1985	1984	1983
Credits				
Common stock issued for:				
Employee benefits	367	360	365	368
Debt conversions/ extinguishments........	73	64	84	100
Preferred stock conversions	37	41	58	58
Business combinations....	32	30	51	41
Public offerings	50	33	32	63
Purchase or retirement of capital stock..............	17	17	23	18
Stock option tax benefits ...	39	45	43	48
Warrants issued or exercised	19	12	19	20
Other—Described	45	41	38	42
Charges				
Purchase or retirement of capital stock..............	88	85	63	42
Treasury stock issued for less than cost	67	72	70	44
Conversion of preferred stock	21	20	18	25
Other—Described	47	37	36	47

Common Stock Issued in Connection with Employee Benefit Plans

SCHERING-PLOUGH CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in millions, except per share figures)

Common Shareholders' Equity (In Part)

A summary of activity in common shares, paid-in capital and treasury shares accounts is as follows (number of shares in thousands):

	Common Shares	Paid-in Capital	Treasury Shares Number	Treasury Shares Amount
Balance at January 1, 1984....	$64.5	$69.2	4,568	$183.7
Shares issued under stock incentive plans	.4	3.7	(123)	(4.0)
Purchase and retirement of shares	(.5)	(23.0)	—	—
Issuance of shares under DNAX acquisition agreement	—	(2.1)	(66)	(2.2)
Balance at December 31, 1984	64.4	47.8	4,379	177.5
Shares issued under stock incentive plans	.3	16.6	(751)	(21.4)
Issuance of shares under DNAX acquisition agreement	—	(1.9)	(67)	(2.0)
Balance at December 31, 1985	64.7	62.5	3,561	154.1
Shares issued under stock incentive plans	.4	23.9	(532)	(18.0)
Purchase of treasury shares.	—	—	3,690	300.0
Issuance of shares under DNAX acquisition agreement	—	(2.8)	(62)	(2.8)
Balance at December 31, 1986	$65.1	$83.6	6,657	$433.3

CINCINNATI MILACRON INC.

Consolidated Statement of Changes in Shareholders' Equity

Fiscal year ends on Saturday closest to December 31

(Dollars in thousands, except per-share amounts)	4% Cumulative Preferred Shares	Common Shares, $1 Par Value	Capital in Excess of Par Value	Reinvested Earnings	Foreign Currency Translation Adjustments	Total
Balance at year-end 1983	$6,000	$22,713	$58,371	$244,435	$(29,251)	$302,268
Stock options exercised for 72,785 common shares		73	805			878
Issuance of 3,813 common shares under the PAYSOP Plan		4	95			99
Issuance of 18,000 common shares to the Performance Dividend Plan		18	432			450
Issuance of 624,285 common shares to the Pension Plan		624	15,248			15,872
Purchase of 2,160 common shares		(2)	(54)			(56)
Net earnings for the year				18,731		18,731
Cash dividends						
Preferred shares (4.00 per share)				(240)		(240)
Common shares ($.72 per share)				(16,697)		(16,697)
Foreign currency translation adjustments					(8,385)	(8,385)
Balance at year-end 1984	6,000	23,430	74,897	246,229	(37,636)	312,920
Stock options exercised for 48,025 common shares		48	358			406
Issuance of 39,448 common shares under the PAYSOP Plan		39	872			911
Purchase of 68,215 common shares		(68)	(1,048)			(1,116)
Net loss for the year				(44,767)		(44,767)
Cash dividends						
Preferred shares ($4.00 per share)				(240)		(240)
Common share ($.72 per share)				(16,907)		(16,907)
Foreign currency translation adjustments					17,220	17,220
Balance at year-end 1985	6,000	23,449	75,079	184,315	(20,416)	268,427
Stock options exercised for 81,133 common shares		81	666			747
Issuance of 50,000 common shares under the PAYSOP Plan		50	907			957
Issuance of 19,674 common shares to the Performance Dividend Plan		20	320			340
Purchase of 1,457 common shares		(1)	(33)			(34)
Net earnings for the year				23,328		23,328
Cash dividends						
Preferred shares ($4.00 per share)				(240)		(240)
Common shares ($.72 per share)				(16,974)		(16,974)
Foreign currency translation adjustments					12,592	12,592
Balance at year-end 1986	$6,000	$23,599	$76,939	$190,429	$ (7,824)	$289,143

Common Stock Issued in Debt Conversion/Extinguishments

DI GIORGIO CORPORATION

Consolidated Statements of Stockholders' Equity

(Dollars in thousands, except per share amounts)	Preferred Stock	Common Stock	Additional Paid-in Capital	Equity Adjustment —Foreign Currency	Retained Earnings	Treasury Stock
Balance, December 31, 1983	$11,228	$15,801	$28,086	$(2,421)	$71,067	$(3,750)
Issuance of 14,507 common shares to Stock Ownership Plan			16			137
Conversion of 6,512 shares of Series A preferred into 10,741 common shares	(165)	27	138			
Conversion of $4-5.75% convertible debentures into 235 common shares		1	3			
Exercise of stock options for 32,877 common shares			(23)			311
Cost of 369 common shares						(5)
Loss for the year					(4,895)	
Dividends declared:						
On common stock					(3,803)	
On preferred stock					(940)	
Equity adjustment from foreign currency translation				(753)		
Balance, December 31, 1984	11,063	15,829	28,220	(3,174)	61,429	(3,307)
Issuance of 10,034 common shares to Stock Ownership Plan			61			94
Conversion of 6,444 shares of Series A preferred and 400,000 shares of $2.25 preferred into 724,927 common shares	(10,163)	1,811	8,078			
Conversion of $32-5.75% convertible debentures into 1,881 common shares		5	27			
Exercise of stock options for 100,725 common shares			327			951
Earnings for the year					11,150	
Dividends declared:						
On common stock					(4,007)	
On preferred stock					(708)	
Equity adjustment from foreign currency translation				1,269		
Balance, December 31, 1985	900	17,645	36,713	(1,905)	67,864	(2,262)
Issuance of 5,778 common shares to Stock Ownership Plan			90			55
Conversion of 27,951 shares of Series A preferred into 46,060 common shares	(900)	115	539			
Conversion of $6,361-5.75% and $22,619-12% convertible debentures into 1,596,379 common shares		3,991	24,169			
Exercise of stock options for 21,975 common shares			232			207
Earnings for the year					14,333	
Dividends declared:						
On common stock					(5,191)	
On preferred stock					(8)	
Equity adjustment from foreign currency translation				2,054		
Balance, December 31, 1986	$ —	$21,751	$61,743	$ 149	$76,998	$(2,000)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 8: Conversion of Securities

On June 11, 1986, the Company called for redemption on July 11, 1986 all outstanding Series A Cumulative Convertible Preferred Stock, 5.75% Convertible Subordinated Debentures due April 1, 1993, and 12% Convertible Subordinated Debentures due September 15, 2008. Substantially all of these securities were converted into common stock.

HARTMARX CORPORATION

Consolidated Statement of Shareholders' Equity

In Thousands	Par Value of Common Stock	Paid-In Capital	Retained Earnings	Foreign Currency Translation Adjustment	Treasury Shares
Balance at November 30, 1983	$34,478	$15,916	$251,599	$(5,876)	$(24,414)
Net earnings for the year			41,735		
Cash dividends:					
Common shares, $.74⅔ per share			(13,791)		
Stock options exercised (88,254 shares issued upon exercise of 96,093 options)	147	482			
Disposition of 144,216 treasury shares		797			818
Balance at November 30, 1984	34,625	17,195	279,543	(5,876)	(23,596)
Net earnings for the year			42,660		
Cash dividends:					
Common shares, $.85⅓ per share			(16,044)		
Stock options exercised (157,656 shares issued upon exercise of 212,106 options and stock appreciation rights)	262	1,198			
Disposition of 112,193 treasury shares		1,364			636
Conversion of $445,000 face value of debentures into 22,748 common shares	38	407			
Balance at November 30, 1985	34,925	20,164	306,159	(5,876)	(22,960)
Net earnings for the year			24,775		
Cash dividends:					
Common shares, $.90⅓ per share			(18,565)		
Effect of 3-for-2 stock split	19,405	(19,405)			
Stock options exercised (162,888 shares issued upon exercise of 211,200 options)	316	1,602			
Other treasury stock transactions		12			4
Conversion of $43,464,000 face value of debentures into 2,222,433 common shares	3,705	39,338			(18)
Purchase of 872,400 treasury shares					(24,863)
Balance at November 30, 1986	$58,351	$41,711	$312,369	$(5,876)	$(47,837)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Long Term Debt (In Part)

At November 30, 1986 and 1985, long term debt, less current maturities, comprised the following (000's omitted):

	1986	1985
Loans under revolving credit agreements	$20,000	$16,000
8½% sinking fund debentures (due 1996)	12,945	12,945
9¼% promissory notes	10,400	15,600
Industrial development bonds	25,964	24,306
Other debt, extending to 2003	1,551	2,349
Senior long term debt	$70,860	$71,200
8½% convertible subordinated debentures	$ —	$43,545

The $43.5 million of 8½% convertible subordinated debentures were called for redemption on December 27, 1985. The holders elected to exchange substantially all of the debentures for the Company's common stock at the conversion rate of $19.56 per share with only $.1 million redeemed for cash at $1,068 per $1,000 face value debenture plus accrued interest from July 15, 1985. Had this exchange been effective as of the beginning of fiscal 1985 or 1984, the fully diluted earnings per share amount would also have been reported as primary earnings per share.

WETTERAU INCORPORATED

Consolidated Statements of Shareholders' Equity

For the years ended March 29, 1986, March 30, 1985 and March 31, 1984

($000)

	Common Stock		Additional		Treasury Stock	
	Shares	Amount	Paid-in Capital	Retained Earnings	Shares	Amount
Balance at April 2, 1983	10,800,336	$10,800	$ 79,068	$ 56,816	—	$ —
Net earnings	—	—	—	22,151	—	—
Cash dividends—$.80 per share	—	—	—	(8,656)	—	—
Purchase of treasury shares	—	—	—	—	(210,400)	(3,805)
Stock options exercised	41,964	42	387	—	—	—
Balance at March 31, 1984	10,842,300	10,842	79,455	70,311	(210,400)	(3,805)
Net earnings	—	—	—	26,556	—	—
Cash dividends—$.86 per share	—	—	—	(9,092)	—	—
Purchase of treasury shares	—	—	—	—	(136,709)	(2,975)
Stock options exercised	4,000	4	(83)	—	25,361	470
Other	—	—	—	—	15,083	280
Balance at March 30, 1985	10,846,300	10,846	79,372	87,775	(306,665)	(6,030)
Net earnings	—	—	—	31,825	—	—
Cash dividends—$.955 per share	—	—	—	(10,780)	—	—
Purchase of treasury shares	—	—	—	—	(1,976,363)	(69,000)
Shares issued upon conversion of notes	2,648,969	2,649	50,418	—	1,106,909	40,693
Shares issued for purchase of business	—	—	—	—	965,004	27,138
Employee Stock Ownership Plan	—	—	—	—	—	—
Payroll Stock Ownership Plan	—	—	—	—	7,182	279
Stock options exercised	27,413	28	(1,705)	—	118,719	3,444
Balance at March 29, 1986	13,522,682	$13,523	$128,085	$108,820	(85,214)	$(3,476)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Capital Stock (In Part)

Under the terms of the $40.0 million 9.75% subordinated convertible notes, the company issued 1,440,612 common shares and reissued 279,814 treasury shares. The company also issued 1,208,357 common shares and reissued 827,095 treasury shares for the conversion of the $55.0 million 9.25% convertible subordinated debentures.

Pro forma primary earnings per share for fiscal 1986 would have been $2.44 had the common stock issued for the conversion of the convertible subordinated notes and debentures to common stock occurred on March 31, 1985.

Common Stock Issued in Preferred Stock Conversions

HARNISCHFEGER INDUSTRIES, INC.

Consolidated Statement of Shareholders' Equity

(Dollar amounts in thousands)

	Preferred Stock Series A	Preferred Stock Series C	Common Stock	Capital in Excess of Par Value	Retained Earnings	Cumulative Translation Adjustments	Total
Balance at October 31, 1983	$10,000	$ —	$10,134	$ 88,332	$ 6,475	$(5,022)	$109,919
Issuance of:							
2,150,000 common shares			2,150	19,160			21,310
2,000,000 Common Stock Purchase Warrants				6,663			6,663
17,500 shares of Series A Preferred Stock in discharge of dividends payable on that series of preferred stock	1,750				(1,750)		—
Net income					15,176		15,176
Translation adjustments						(5,874)	(5,874)
Other				178			178
Balance at October 31, 1984	11,750	—	12,284	114,333	19,901	(10,896)	147,372
Issuance of Preferred Stock:							
60,000 shares of Series B (Redeemable)				(3,278)			(3,278)
63,250 shares of Series C		79,063		(3,883)			75,180
Net income					16,217		16,217
Cash dividends paid or declared on preferred stock					(7,174)		(7,174)
Translation adjustments						83	83
Other				(39)			(39)
Balance at October 31, 1985	11,750	79,063	12,284	107,133	28,944	(10,813)	228,361
Conversion of 117,500 shares of Series A Preferred Stock	(11,750)		1,044	10,706			—
Repurchase of 659,349 shares of Series B Depository Shares				(2,334)			(2,334)
Net income					1,310		1,310
Cash dividends paid or declared on preferred stock					(16,936)		(16,936)
Translation adjustments						1,976	1,976
Other			2	(172)			(170)
Balance at October 31, 1986	$ —	$79,063	$13,330	$115,333	$13,318	$(8,837)	$212,207

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 15 (In Part): Shareholders' Equity

Under the Corporation's Certificate of Incorporation, up to 250,000 shares of preferred stock, with classes and terms as designated by the Corporation, may be issued and outstanding at any point in time. The Corporation had 117,500 authorized shares of Series A Cumulative Convertible Preferred Stock ($100 par value), all of which was outstanding at October 31, 1985. During 1986, all the outstanding shares were converted at $11.25 per share, at the holder's option, into 1,044,443 shares of common stock.

TRINOVA CORPORATION

Statement of Shareholder's Equity

Period of three years ended December 31, 1986

dollars in thousands, except per share data	Preferred Stock	Common Stock	Additional Paid-In Capital	Retained Earnings	Foreign Currency Translation Adjustments
Balance at January 1, 1984	$39,035	$55,858	$ 13,463	$419,013	$(34,368)
Net income for the year				70,626	
Cash dividends paid					
Common stock ($.82 a share)				(13,857)	
Preferred stock (4.75 a share)				(4,793)	
Issuance of 160,578 common shares, net of shares exchanged, under employee stock option plan		535	2,745		
Conversion of 16,015 preferred shares to 36,033 common shares	(617)	120	497		
Translation adjustments and gains (losses) from certain hedges and intercompany balances					(21,979)
Allocated income taxes					2,595
Amount transferred to income upon sale of foreign operation					494
Balance at December 31, 1984	38,418	56,513	16,705	470,989	(53,258)
Net income for the year				74,634	
Cash dividends paid					
Common stock ($.89 a share)				(16,047)	
Preferred stock ($4.75 a share)				(4,734)	
Issuance of 39,665 common shares, net of shares exchanged, under employee stock option plan		132	769		
Conversion of 568 preferred shares to 1,278 common shares	(21)	4	17		
Translation adjustments and gains (losses) from certain hedges and intercompany balances					17,286
Allocated income taxes					(403)
Issuance of common stock		12,500	102,748		
Balance at December 31, 1985	38,397	69,149	120,239	524,842	(36,375)
Net income for the year				122,564	
Cash dividends paid					
Common stock ($.95 a share)				(15,613)	
Preferred stock ($4.75 a share)				(4,436)	
Issuance of 194,895 common shares, net of shares exchanged, under employee stock option plan		650	5,124		
Conversion of 123,350 preferred shares to 277,530 common shares	(4,753)	925	3,828		
Translation adjustments and gains (losses) from certain hedges and intercompany balances					15,813
Allocated income taxes					2,951
Retirement of 6,096,825 common shares upon divestiture of Glass Business		(20,323)	(51,014)	(222,163)	
Three-for-two common stock split including payment for fractional shares		25,193	(25,266)		
Balance at December 31, 1986	$33,644	$75,594	$ 52,911	$405,194	$(17,611)

Public Offering of Stock

ECHLIN INC.

Consolidated Statements of Changes in Shareholders' Equity

(Columns for Translation Adjustment and Treasury Stock omitted)

(Dollars in thousands, except per share data)	Common Stock	Capital in Excess of Par Value	Retained Earnings	Total Shareholders' Equity
Balance at August 31, 1983	$20,889	$ 84,140	$132,436	$232,073
Net income	—	—	43,820	43,820
Cash dividends paid ($0.35 per share)	—	—	(14,484)	(14,484)
Shares issued under stock option plans	146	1,710	—	1,856
Foreign currency translation adjustment	—	—	—	(2,410)
Balance at August 31, 1984	21,035	85,850	161,772	260,855
Net income	—	—	45,603	45,603
Cash dividends paid ($0.41 per share)	—	—	(17,058)	(17,058)
Shares issued under stock option plans	84	1,046	—	1,130
Effect of 2 for 1 stock split	20,836	(20,836)	—	—
Costs related to stock split	—	(72)	—	(72)
Foreign currency translation adjustment	—	—	—	(737)
Balance at August 31, 1985	41,955	65,988	190,317	289,721
Net income	—	—	48,844	48,844
Cash dividends paid ($0.47 per share)	—	—	(20,463)	(20,463)
Shares issued under stock option plans	529	3,198	—	3,727
Shares utilized to exercise stock options	(93)	(1,291)	—	(1,384)
Shares issued under stock offering	6,000	95,868	—	101,868
Costs of increasing authorized shares	—	(101)	—	(101)
Foreign currency translation adjustment	—	—	—	831
Balance at August 31, 1986	$48,391	$163,662	$218,698	$423,043

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 8. Shareholders' Equity

The Company's Certificate of Incorporation was amended by the shareholders at their annual meeting held on December 19, 1985, to increase the authorized number of shares of common stock from 50,000,000 to 100,000,000.

During April, 1986, the Company issued 6,000,000 shares of common stock to the public which generated net proceeds of $101,868,000 after deducting underwriting discounts, commissions, and expenses.

THE STANDARD REGISTER COMPANY

Consolidated Statement of Shareholders' Equity

(Dollars in thousands)	52 Weeks Ended December 28, 1986	52 Weeks Ended December 29, 1985	52 Weeks Ended December 30, 1984
Common Stock			
Beginning balance	$ 10,852	$ 5,410	$ 5,402
Add shares sold to public (Note 8)	1,650		
Add shares issued under Stock Incentive Plan and Employee Stock Ownership Plan	40	25	16
Less shares purchased	(24)	(14)	(8)
Transfer capital to increase stated value		5,431	
Ending balance	$ 12,518	$ 10,852	$ 5,410
Class A Stock			
Beginning balance	$ 2,362	$ 1,181	$ 1,181
Transfer capital to increase stated value		1,181	
Ending balance	$ 2,362	$ 2,362	$ 1,181
Capital in Excess of Stated Value			
Beginning balance	$ 0	$ 4,740	$ 4,496
Add selling price in excess of stated value of shares sold to public (Note 8)	48,458		
Add capital resulting from issuance of shares at market value under Stock Incentive Plan and Employee Stock Ownership Plan	1,393	1,174	486
Less excess of cost over stated value of Common shares purchased	(895)	(182)	(242)
Transfer capital to increase stated value of stock		(5,732)	
Ending balance	$ 48,956	$ 0	$ 4,740
Retained Earnings			
Beginning balance	$156,982	$134,737	$117,089
Add net income for year	32,666	31,795	24,506
Transfer capital to increase stated value of stock		(880)	
Less excess of cost over stated value of Common shares purchased		(338)	
Less cash dividends declared	(10,430)	(8,332)	(6,858)
Ending balance	$179,218	$156,982	$134,737
Total shareholders' equity	$243,054	$170,196	$146,068

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 8: Capitalization

In October, 1986, the Company sold 1,650,000 shares of its Common stock in a public offering. Net proceeds from the sale were $50,108,000 after deducting underwriting commissions of $2,310,000 and direct offering costs of $382,000. Of the net proceeds, $1,650,000 was credited to Common stock and $48,458,000 was credited to Capital in excess of stated value.

Income Tax Benefit from Issuance of Stock to Employees

DANA CORPORATION

Shareholders' Equity

(Column for Translation Adjustments omitted)

$ in thousands	Common Stock	Additional Paid-in Capital	Retained Earnings	Common Stock Held in Treasury	Shareholders' Equity
Balance at December 31, 1983	$57,880	$290,158	$ 824,376	$ (19,958)	$1,118,315
Net income for the year			191,278		191,278
Cash dividends declared ($1.20 per share)			(67,617)		(67,617)
Issuance of common stock					
Employees' stock option plans	168	3,049			3,217
Deferred compensation plans		198		326	524
Employees' stock award plan				31	31
Tax benefits arising from exercise of non-qualified stock options and disqualifying dispositions		115			115
Deferred translation adjustments					(13,565)
Cost of shares reacquired (410,298)				(9,423)	(9,423)
Balance at December 31, 1984	58,048	293,520	948,037	(29,024)	1,222,875
Net income for the year			165,106		165,106
Cash dividends declared ($1.28 per share)			(72,182)		(72,182)
Issuance of common stock					
Employees' stock option plans	286	4,546			4,832
Deferred compensation plans		109		247	356
Employees' stock award plan		3		37	40
Tax benefits arising from exercise of non-qualified stock options and disqualifying dispositions		1,105			1,105
Deferred translation adjustments					(16,013)
Cost of shares reacquired (4,026,213)				(111,366)	(111,366)
Balance at December 31, 1985	58,334	299,283	1,040,961	(140,106)	1,194,753
Net income for the year			85,872		85,872
Cash dividends declared ($1.28 per share)			(65,163)		(65,163)
Issuance of common stock					
Employees' stock option plans	381	6,358			6,739
Deferred compensation plans		108		242	350
Employees' stock award plan		4		20	24
Tax benefits arising from exercise of non-qualified stock options and disqualifying dispositions		2,159			2,159
Deferred translation adjustments					6,638
Cost of shares reacquired (8,341,608)				(276,429)	(276,429)
Balance at December 31, 1986	$58,715	$307,912	$1,061,670	$(416,273)	$ 954,943

DIGITAL EQUIPMENT CORPORATION

Consolidated Statements of Stockholders' Equity

(in thousands)	Common Stock	Additional Paid-in Capital	Retained Earnings	Total Stock-holders' Equity
July 2, 1983	$ 56,357	$1,509,781	$1,975,144	$3,541,282
Shares issued under stock option and purchase plans (Note J)	1,454	75,065		76,519
Restricted stock plans, charge to operations (Note J)		17,499		17,499
Stock option and purchase plans—excess Federal income tax benefits (Note J)		8,230		8,230
Effect of exchange rate changes on net deferred income tax charges/credits			6,907	6,907
Net income—1984			328,779	328,779
June 30, 1984	$ 57,811	$1,610,575	$2,310,830	$3,979,216
Shares issued under stock option and purchase plans (Note J)	1,442	93,786		95,228
Restricted stock plans, charge to operations (Note J)		20,420		20,420
Stock option and purchase plans—excess Federal income tax benefits (Note J)		13,053		13,053
Net income—1985			446,682	446,682
June 29, 1985	$ 59,253	$1,737,834	$2,757,512	$4,554,599
Shares issued under stock option and purchase plans (Note J)	2,125	116,285		118,410
Restricted stock plans, charge to operations (Note J)		21,155		21,155
Stock option and purchase plans—excess Federal income tax benefits (Note J)		20,522		20,522
Two-for-One stock split in form of 100% stock dividend	60,200	(60,200)		—
8% Convertible Subordinated Debentures converted into Common stock	7,013	388,708		395,721
Net income—1986			617,420	617,420
June 28, 1986	$128,591	$2,224,304	$3,374,932	$5,727,827

Note J (In Part): Stock Plans

Restricted Stock Options—Under its Restricted Stock Option and Purchase Plans, the Company has granted certain officers and key employees options, which are exercisable upon grant, to purchase common stock at a price determined by the Board of Directors. Shares purchased under the plans are generally subject to repurchase options and restrictions on sales which lapse over an extended time period not exceeding 10 years.

On November 8, 1985, the Company's stockholders approved the 1985 Restricted Stock Option Plan (the "1985 Plan") providing for the issuance of 18,000,000 shares of Common Stock under the Plan through December 31, 1990. The granting of additional options under the 1976 Plan terminated upon approval of the 1985 Plan.

* * * * * *

At the time these options are exercised, the common stock account is increased by the par value ($1 per share) of the shares sold and the remaining portion of the proceeds is credited to additional paid-in capital. The excess of the fair market value of the shares on the grant date over the option price is charged to operations each year as the restrictions lapse. Such charges to operations amounted to $21,155,000 in fiscal 1986, $20,420,000 in fiscal 1985, and $17,499,000 in fiscal 1984. The amount deductible for Federal income taxes exceeds the amount charged to income for book purposes. The Federal income tax benefits relating to this difference have been credited to additional paid-in capital.

Employee Stock Purchase Plans—Under the Company's Employee Stock Purchase Plans, all United States and certain international employees may be granted options to purchase common stock at 85% of market value on the first or last business day of the six month payment period, whichever is lower. On November 8, 1985, the shareholders amended the Employee Stock Purchase Plan to increase the number of shares subject to options by 5,000,000 shares. Common stock reserved for future grants aggregated 5,358,655 shares at June 28, 1986, and 2,186,388 shares at June 29, 1985. There were 1,827,733 shares issued at an average price of $47.73 in fiscal 1986 and 1,736,992 shares at $40.80 in fiscal 1985. There have been no charges to income in connection with the options other than incidental expenses related to the issuance of the shares. Federal income tax benefits relating to such options have been credited to additional paid-in capital.

Purchase Method Acquisitions

AMCAST INDUSTRIAL CORPORATION

Consolidated Statements of Shareholders' Equity

	Common Shares	Capital in Excess of Stated Value	Retained Earnings	Common Shares in Treasury	Total
Balance at September 1, 1983	$6,754	$30,494	$38,655	$(1,342)	$74,561
Net income	—	—	10,003	—	10,003
Cash dividends declared	—	—	(2,606)	—	(2,606)
Stock options exercised	—	19	—	451	470
Proceeds from sale of 3,254 shares to employee programs	—	46	—	22	68
Other	—	(27)	—	(1)	(28)
Balance at August 31, 1984	6,754	30,532	46,052	(870)	82,468
Net income	—	—	8,321	—	8,321
Cash dividends declared	—	—	(2,707)	—	(2,707)
Stock options exercised	—	(55)	—	385	330
Proceeds from sale of 10,323 shares to employee programs	—	154	—	69	223
Cost of 105,035 shares purchased	—	—	—	(1,758)	(1,758)
Balance at August 31, 1985	6,754	30,631	51,666	(2,174)	86,877
Net loss	—	—	(7,927)	—	(7,927)
Cash dividends declared	—	—	(2,920)	—	(2,920)
Common shares (240,964) issued for acquisition	241	2,759	—	—	3,000
Stock options exercised	—	(128)	—	250	122
Cost of 35,000 shares purchased	—	—	—	(452)	(452)
Proceeds from sale of 22,308 shares to employee programs	—	9	—	270	279
Other	—	—	(14)	—	(14)
Balance at August 31, 1986	$6,995	$33,271	$40,805	$(2,106)	$78,965

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Acquisitions (In Part)

On June 23, 1986, the company purchased all of the assets and assumed certain liabilities of two aluminum investment casting companies. The two companies, Hemet Casting Company (Hemet, California) and Hemet of Florida (Miami) serve the aviation and aerospace markets.

The acquisition was accounted for by the purchase method and the consolidated financial statements include their results of operations from the date of acquisition. The purchase price consideration was $12 million cash and 240,964 Amcast common shares valued at $3 million. The company also has an option to acquire two superalloy investment casting foundries and related supporting operations.

The following unaudited pro forma summary of consolidated results of operations has been prepared as though Hemet of Florida and Hemet Casting Company had been acquired at the beginning of fiscal 1985.

	1986	1985
Net sales	$241,669,000	$258,093,000
Net income (loss)	(10,389,000)	8,387,000
Net income (loss) per share	(1.51)	1.22

KOPPERS COMPANY, INC.

Consolidated Statement of Shareholders' Equity Other than Redeemable Convertible Preference Stock

(Column for Translation Adjustment omitted)

(Amounts in thousands, except shares and per share figures)	Cumulative Preferred Stock	Common Stock	Treasury Stock	Capital in Excess of Par Value	Earnings Retained in the Business	Total
Balance at December 31, 1983	$15,000	$35,764	$ (151)	$145,221	$376,108	$569,477
Net income for the year 1984	—	—	—	—	28,766	28,766
Cash dividends paid:						
On preference stock, $10.00 per share	—	—	—	—	(5,533)	(5,533)
On preferred stock, $4.00 per share	—	—	—	—	(600)	(600)
On common stock, $0.80 per share	—	—	—	—	(22,875)	(22,875)
Recovery of common stock via escrow claim	—	—	(820)	—	—	(820)
Common stock issued from treasury to Employee Savings Plan	—	—	55	7	—	62
Retirement of 229,000 shares of redeemable convertible preference stock	—	—	—	92	—	92
Foreign currency translation (Net of $113 in related income tax benefits)	—	—	—	—	—	(1,734)
Balance at December 31, 1984	$15,000	$35,764	$ (916)	$145,320	$375,866	$566,835
Net loss for the year 1985	—	—	—	—	(101,071)	(101,071)
Cash dividends paid:						
On preference stock, $10.00 per share	—	—	—	—	(4,577)	(4,577)
On preferred stock, $4.00 per share	—	—	—	—	(600)	(600)
On common stock, $0.80 per share	—	—	—	—	(22,859)	(22,859)
Common stock issued from treasury to Employee Savings and Profit Sharing	—	—	88	4	—	92
Retirement of 26,100 shares of redeemable convertible preference stock	—	—	—	35	—	35
Foreign currency translation (Net of $189 in related income tax benefits)	—	—	—	—	—	(2,799)
Balance at December 31, 1985	$15,000	$35,764	$ (828)	$145,359	$246,759	$435,056
Net income for the year 1986	—	—	—	—	77,480	77,480
Cash dividends paid:						
On preference stock, $10.00 per share	—	—	—	—	(2,744)	(2,744)
On preferred stock, $4.00 per share	—	—	—	—	(600)	(600)
On common stock, $0.80 per share	—	—	—	—	(22,875)	(22,875)
Common stock issued from treasury to Employee Savings and Profit Sharing Plan	—	—	8	3	—	11
Purchase of common stock for treasury	—	—	(22,973)	—	—	(22,973)
Recovery of common stock via escrow claim	—	—	(884)	—	—	(884)
Redemption of 430,444 shares of redeemable convertible preference stock for cash	—	—	—	(2,152)	—	(2,152)
Redemption of 8,456 shares of redeemable convertible preference stock for common stock	—	35	—	921	—	956
Common stock issued:						
to Employee Savings Plan	—	2	—	35	—	37
to acquire MPM, Inc. (Note 2)	—	1,558	—	32,465	—	34,023
Foreign currency translation	—	—	—	—	—	(1,196)
Balance at December 31, 1986	$15,000	$37,359	$(24,677)	$176,631	$298,020	$494,149

NOTES TO FINANCIAL STATEMENTS

2 (In Part): Investments

Western-Mobile, Inc. (WMI)—In 1986, the Company issued 1,246,859 shares of common stock, valued at $34,023,000 for the acquisition of the stock of MPM, Inc. (MPM). The Company contributed the stock of the MPM subsidiaries to WMI in exchange for a 50% ownership interest in WMI. WMI then purchased the stock of certain Construction Materials and Services Group subsidiaries for cash, resulting in a gain of $20,000,000 ($10,000,000 of which was recognized currently and $10,000,000 of which is being deferred and amortized into income over the life of the assets acquired by WMI). The company recognized equity income from WMI of $2,400,000 during the year ended December 31, 1986.

Warrants Issued

CAPITAL CITIES/ABC, INC.

Consolidated Statement of Stockholders' Equity

Year ended December 28, 1986 and December 31, 1985 and 1984

(Dollars in thousands)

	Common stock	Additional paid-in capital	Retained earnings	Treasury stock	Total
Balance December 31, 1983	$15,394	$ 14,094	$ 717,392	$(121,625)	$ 625,255
Net income for 1984	—	—	142,778	—	142,778
347,691 shares purchased for treasury	—	—	—	(46,135)	(46,135)
56,088 shares issued under Employee Stock Purchase Plan	—	5,089	—	1,527	6,616
55,462 shares issued on exercise of employee stock options	—	6,928	—	1,583	8,511
Cash dividends	—	—	(2,570)	—	(2,570)
Balance December 31, 1984	15,394	26,111	857,600	(164,650)	734,455
Net income for 1985	—	—	142,222	—	142,222
2,444 shares purchased for treasury	—	—	—	(484)	(484)
58,314 shares issued under Employee Stock Purchase Plan	—	5,627	—	1,711	7,338
74,604 shares issued on exercise of employee stock options	—	6,106	—	2,218	8,324
Cash dividends	—	—	(2,595)	—	(2,595)
Balance December 31, 1985	15,394	37,844	997,227	(161,205)	889,260
Net income for 1986	—	—	447,689	—	447,689
3,000,000 shares sold to Berkshire Hathaway Inc.	3,000	514,500	—	—	517,500
4,201 shares purchased for treasury	—	—	—	(1,075)	(1,075)
44,674 shares issued under Employee Stock Purchase Plan	—	7,092	—	1,279	8,371
87,666 shares issued on exercise of employee stock options	—	6,974	—	2,503	9,477
Warrant activity:					
2,906,703 warrants issued	—	97,193	—	—	97,193
116,013 warrants redeemed	—	(3,879)	—	—	(3,879)
246,100 warrants purchased	—	(12,802)	—	—	(12,802)
449 warrants exercised	—	99	—	13	112
Cash dividends	—	—	(3,219)	—	(3,219)
Balance December 28, 1986	$18,394	$647,021	$1,441,697	$(158,485)	$1,948,627

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3 (In Part): Acquisitions

1986—Acquisition of American Broadcasting Companies, Inc. (ABC)—On January 3, 1986, the Company acquired ABC for an aggregate consideration of $3,370,972,000. Each share of ABC common stock was converted into $118.108 plus 0.1024 of a warrant. Each warrant entitles the holder to purchase one share of the Company's common stock at $250.00 per share until July 29, 1988. Until April 3, 1986 warrant holders could have redeemed all or a portion of the warrants at $30.00 per warrant. The value of the 2,906,703 warrants of $97,193,000, has been included in additional paid-in capital.

Warrants Repurchased

RTE CORPORATION

Consolidated Statements of Shareholders' Equity

(Treasury Stock columns omitted)

($000s omitted, except per share data)

	Common Stock Shares	Common Stock Amount	Additional paid-in capital	Retained earnings	Cumulative translation adjustments
Balances at December 31, 1983	7,415,583	$7,416	$20,334	$53,143	$ (844)
Net earnings				13,020	
Cash dividends declared—$.515 a share				(3,844)	
Stock issued:					
Exercise of warrants	78,662	78	722		
Exercise of stock options	4,716	5	47		
Under employee stock purchase and patent management plans	40,399	40	549		
Translation adjustments					(204)
Balances at December 29, 1984	7,539,360	7,539	21,652	62,319	(1,048)
Net earnings				15,225	
Cash dividends declared—$.57 a share				(4,326)	
Stock issued:					
Exercise of warrants	58,996	59	541		
Exercise of stock options	16,400	17	200		
Under employee stock purchase and patent management plans	38,036	38	661		
Translation adjustments:					
Sale of subsidiary					530
Other					(172)
Balances at December 28, 1985	7,652,792	7,653	23,054	73,218	(690)
Net earnings				11,417	
Cash dividends declared—$.60 a share				(4,555)	
Treasury stock purchased					
Stock issued:					
Exercise of stock options	27,153	27	483		
Under employee stock purchase and patent management plans	26,942	27	626		
Stock warrants repurchased (Note G)			(4,166)		
Translation adjustments					594
Balances at January 3, 1987	7,706,887	$7,707	$19,997	$80,080	$ (96)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note G (In Part): Shareholders' Equity

Holders of the 16% senior notes (see Note F) also held detachable warrants to purchase 262,347 shares (after exercise of 58,996 and 78,662 shares in 1985 and 1984, respectively) of the Company's common stock at $10.17 per share at any time prior to October 2, 1991. The estimated fair value of the warrants at the date issued of $1,000,000 was recorded as an increase to additional paid-in capital and as debt discount to the 16% senior notes. The repurchase of the stock warrants in 1986 for $4,166,000 was recorded as a decrease to additional paid-in capital. Holders of the 8.93% promissory notes (see Note F) have been issued detachable warrants to purchase 86,555 shares of the Company's common stock at $17.33 per share at any time prior to November 2, 1991.

Warrants Exercised

MATTEL, INC.

Consolidated Statements of Shareholders' Equity (Deficit)

(Column for Translation Adjustment omitted)

(In thousands)	Preferred and Preference Stock	Common Stock	Additional Paid-In Capital	Common Stock Warrants	Accumulated (Deficit)	Total Shareholders' Equity (Deficit)
Balance, January 28, 1984	$2,372	$18,340	$ 98,848	$2,904	$(250,536)	$(136,148)
January 1984 (See Note 1 for year end change)	—	—	—	—	18,792	18,792
Net income for the twelve months ended December 29, 1984	—	—	—	—	71,265	71,265
Exercise of stock options and warrants	—	17	127	(2)	—	142
Capital Investment						
50,000 shares of Series B-1 15.25% exchangeable preference stock	1	—	3,367	—	—	3,368
575,000 shares of Series B-2 15.75% exchangeable preference stock	5	—	38,727	—	—	38,732
9,200,000 shares of Series C 5% convertible preference stock	92	—	57,408	—	—	57,500
7,800,000 shares of common stock	—	7,800	39,000	—	—	46,800
1,000,000 common stock warrants, $6.25 Series	—	—	—	1,000	—	1,000
Expenses related to Capital Investment	—	—	(8,700)	—	—	(8,700)
Exchange of common stock for debentures	—	3,894	40,972	—	—	44,866
Preferred stock dividends—$2.50 per share	—	—	—	—	(5,930)	(5,930)
Currency translation adjustment	—	—	—	—	—	(5,524)
Balance, December 29, 1984	2,470	30,051	269,749	3,902	(166,409)	126,163
Net income	—	—	—	—	78,725	78,725
Preferred stock dividends—$1.25 per share	—	—	—	—	(2,972)	(2,972)
Series B-1 and B-2 preference stock dividends—$22.82 and $23.54 per share, respectively	—	—	433	—	(14,727)	(14,294)
Conversion of Series A preferred stock to common stock.	(2,372)	4,890	(4,188)	—	—	(1,670)
Exercise of stock options	—	298	2,256	—	—	2,554
Exercise of common stock warrants	—	178	711	(178)	—	711
Currency translation adjustment	—	—	—	—	—	8,914
Balance, December 28, 1985	98	35,417	268,961	3,724	(105,383)	198,131
Net loss	—	—	—	—	(951)	(951)
Series B-1 and B-2 preference stock dividends—$5.52 and $5.71 per share, respectively	—	—	—	—	(3,585)	(3,585)
Series C preference stock dividends—$0.79 per share	—	—	—	—	(7,279)	(7,279)
Redemption of Series B-1 and B-2 preference stock	(6)	—	(62,927)	—	—	(62,933)
Exercise of stock options	—	234	1,805	—	—	2,039
Exercise of common stock warrants	—	2,603	10,536	(2,724)	—	10,415
Currency translation adjustment	—	—	—	—	—	16,535
Balance, December 27, 1986	$ 92	$38,254	$218,375	$1,000	$(117,198)	$152,372

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 6 (In Part): Shareholders' Equity

Common Stock Warrants—$4 Series—Warrants to purchase shares of the Company's Common Stock at $4.00 per share expired on April 5, 1986. Prior to expiration, warrants for the purchase of approximately 2.6 million shares of the Company's Common Stock were exercised.

Common Stock Warrants—$6.25 Series—Warrants to purchase 1,000,000 shares of the company's common stock at $6.25 per share became exercisable on July 13, 1986 and remain exercisable until July 13, 1991, the expiration date.

Treasury Stock Transactions

BAKER INTERNATIONAL CORPORATION

Consolidated Statements of Stockholders' Equity

(Column for Translation Adjustment omitted)

For the Three Years Ended September 30, 1986

	Common Stock Amount ($1 Par Value)	Capital In Excess of Par Value	Retained Earnings	Treasury Stock at Cost	Total
	(All amounts in thousands)				
Balance, September 30, 1983	$70,660	$270,603	$733,126		$1,044,095
Fiscal year ended September 30, 1984:					
Net income			70,625		70,625
Cash dividends on common stock ($.92 per share)			(65,120)		(65,120)
Purchase of 1,092,000 shares of treasury stock				$(19,391)	(19,391)
Treasury stock issued to retire debt (274,700 shares)				5,019	5,019
Exercise of stock options and stock purchase plan grants (including related tax benefits); 629,901 shares of treasury stock and 268,543 of previously unissued common stock (net of 23,160 shares exchanged)	269	3,073		11,081	14,423
Current year foreign currency translation adjustment					(32,010)
Other	25	(1,445)	(1,601)		(3,021)
Balance, September 30, 1984	70,954	272,231	737,030	(3,291)	1,014,620
Fiscal year ended September 30, 1985:					
Net income			87,741		87,741
Cash dividends on common stock ($.92 per share)			(64,877)		(64,877)
Purchase of 1,805,800 shares of treasury stock				(31,909)	(31,909)
Exercise of stock options and stock purchase plan grants (including related tax benefits); 1,040,981 shares of treasury stock less 5,893 of previously issued common stock exchanged	(6)	(3,790)		18,350	14,554
Current year foreign currency translation adjustment					(9,841)
Other			(136)	14	(122)
Balance, September 30, 1985	70,948	268,441	759,758	(16,836)	1,010,166
Fiscal year ended September 30, 1986:					
Net Loss			(272,987)		(272,987)
Cash dividends on common stock ($.805 per share)			(56,463)		(56,463)
Purchase of 92,500 shares of treasury stock				(1,524)	(1,524)
Exercise of stock options and stock purchase plan grants (including related tax benefits); 618,222 shares of treasury stock less 11,263 of previously issued common stock exchanged	(12)	(5,150)		10,873	5,711
Exercise of convertible debentures, 13,028 shares of treasury stock		(229)		229	
Current year foreign currency translation adjustment					1,109
Other		(1,775)	(2,811)	1,775	(2,811)
Balance, September 30, 1986	$70,936	$261,287	$427,497	$ (5,483)	$ 683,201

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6 (In Part): Employee Stock Plans

When common stock is issued under the plans, the proceeds are credited to common stock to the extent of the par value of the shares, and the excess is credited to capital in excess of par value. When treasury common stock is issued, the difference between the cost of the treasury stock issued and the proceeds is charged or credited to capital in excess of par value.

THE LOUISIANA LAND AND EXPLORATION COMPANY

Consolidated Statements of Stockholders' Equity

Years ended December 31, 1986, 1985 and 1984

(Millions of dollars, except per share data)	Additional paid-in capital	Retained earnings	Treasury stock Number of shares	Treasury stock Cost
Balance at December 31, 1983	$64.9	$777.5	7,112,580	$213.5
Net earnings	—	95.3	—	—
Cash dividends ($1.00 per share)	—	(30.0)	—	—
Purchase of treasury stock	—	—	3,260,900	111.6
Other	(.2)	—	(70,754)	(2.2)
Balance at December 31, 1984	64.7	842.8	10,302,726	322.9
Net earnings	—	10.4	—	—
Cash dividends ($1.00 per share)	—	(27.7)	—	—
Purchase of treasury stock	—	—	331,100	10.8
Other	1.5	—	(91,727)	(2.8)
Balance at December 31, 1985	66.2	825.5	10,542,099	330.9
Net loss	—	(20.6)	—	—
Cash dividends ($1.00 per share)	—	(29.1)	—	—
Acquisition of Inexco Oil Company (note 2)	(27.3)	—	(4,209,204)	(126.2)
Purchase of treasury stock	—	—	604,700	16.4
Other	1.8	—	(100,918)	(3.0)
Balance at December 31, 1986	$40.7	$775.8	6,836,677	$218.1

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 (In Part): Acquisition of Inexco Oil Company

On May 11, 1986, the Boards of Directors of the Company and Inexco Oil Company (Inexco) unanimously approved a merger agreement whereby Inexco would become a wholly owned subsidiary of the Company. The acquisition, which was approved by the shareholders of Inexco on July 22, 1986, resulted in the issuance of 4.2 million shares of capital stock (fair market value of approximately $99 million), the payment of approximately $6 million in cash, and the addition of approximately $322 million (fair market value) of long-term debt (Note 9). The capital stock issued was taken from the Company's treasury at a cost of $30 per share; the excess of cost over market value at the acquisition date was charged to additional paid-in capital. The cost of the acquisition was allocated under the purchase method of accounting based on the fair values of the acquired assets and liabilities.

ANDERSON, CLAYTON & CO.

Statement of Consolidated Additional Paid-In Capital

Years ended June 30, 1986, 1985 and 1984

(In thousands of dollars except per share)	1986	1985	1984
Balance at beginning of year	$82,679	$82,899	$83,072
Excess of cost of treasury common stock over proceeds received from exercise of stock options (note 10)	(199)	(220)	(173)
Balance at end of year	$82,480	$82,679	$82,899

Note 10 (In Part)

The Company has followed the policy of using treasury common shares to fulfill its obligations under the stock option plans. When stock is issued pursuant to the stock option plans, the difference between the cost of treasury common shares issued and the option price is charged or credited to additional paid-in capital. Changes in treasury common stock were as follows:

June 30, 1986	Shares	Amount
Balance at beginning of year	2,693,814	$50,457,000
Purchases	818	41,000
Issued in exercise of stock options	(101,696)	(2,626,000)
Balance at end of year	2,592,936	$47,872,000
June 30, 1985		
Balance at beginning of year	2,761,983	$52,111,000
Purchases	7,881	264,000
Issued in exercise of stock options	(76,050)	(1,918,000)
Balance at end of year	2,693,814	$50,457,000
June 30, 1984		
Balance at beginning of year	2,469,465	$44,307,000
Purchases	337,593	8,821,000
Issued in exercise of stock options	(45,075)	(1,017,000)
Balance at end of year	2,761,983	$52,111,000

UNC INCORPORATED

Consolidated Statements of Changes in Shareholders' Equity

(Dollars in thousands)	Common Stock Shares	Common Stock Par Value	Additional Paid-In Capital	Retained Earnings	Treasury Shares	Total
Balance at December 31, 1983	13,916,151	$2,783	$ 98,986	$ 60,835	$ (3,897)	$158,707
Net loss	—	—	—	(122,238)	—	(122,238)
Award of restricted stock under the employees' stock plan, net of forfeitures	52,114	11	270	—	—	281
Exercise of stock options	105,726	21	554	—	—	575
Sale of common stock	8,000,000	1,600	98,400	—	—	100,000
Balance at December 31, 1984	22,073,991	4,415	198,210	(61,403)	(3,897)	$137,325
Net earnings	—	—	—	17,698	—	17,698
Forfeitures of restricted stock under the employees' stock plan, net of awards	(19,386)	(4)	(122)	—	—	(126)
Exercise of stock options	21,020	4	88	—	—	92
Receipt of 56,258 contingent shares issued in prior acquisition	—	—	—	—	(556)	(556)
Balance at December 31, 1985	22,075,625	4,415	198,176	(43,705)	(4,453)	154,433
Net earnings	—	—	—	17,889	—	17,889
Forfeitures of restricted stock under the employees' stock plan, net of awards	(61)	—	(16)	—	—	(16)
Exercise of stock options	26,416	5	154	—	—	159
Purchase and retirement of common shares	(4,372,700)	(875)	(49,085)	—	—	(49,960)
Retirement of treasury shares	(256,258)	(51)	(4,402)	—	4,453	—
Purchase of 2,000,000 shares for treasury	—	—	—	—	(25,000)	(25,000)
Issuance of warrants	—	—	170	—	—	170
Balance at December 31, 1986	17,473,087	$3,494	$144,997	$ (25,816)	$(25,000)	$ 97,675

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9. Purchase and Retirement of Common Shares

In March 1986, the Company purchased from Maxxam Properties, Inc. ("Maxxam") 4,372,700 shares of common stock. Maxxam and certain related parties have agreed, until March 28, 1996, not to purchase any voting securities of the Company (other than pursuant to the exercise of theWarrants described below), solicit proxies, engage in election contests involving the Company, propose any business combination or restructuring, or otherwise seek to exercise control or influence over the Company. In addition to net cash paid of $49,960,000 as part of the consideration for such repurchase, the Company issued Warrants to purchase 3,500,000 shares of common stock at an exercise price of $13.50 per share (subject to anti-dilution provisions). The Warrants do not become exercisable or transferable until January 1, 1988, subject to limited exceptions, and expire on March 28, 1991. The Warrants and, until March 28, 1996, the common stock issuable upon their exercise are also subject to certain restrictions on transfer, including rights of first refusal in favor of the Company. The purchase price paid by the Company did not exceed the fair value of the shares acquired.

Recapitalization

BADGER METER, INC.

Consolidated Statement of Shareholders' Equity

(Column for Translation Adjustment omitted)

	Common Stock $1.00 par	Class B Common Stock $.10 par value	Capital in excess of par value	Reinvested earnings	Employee benefit stock
Balance, December 31, 1983:	$1,423,444	$ —	$1,601,584	$15,910,766	$ —
Net earnings	—	—	—	1,534,476	—
Cash dividends, $.40 per share	—	—	—	(578,978)	—
Restricted Stock Plan:					
Awards (32,000 shares)	32,000	—	244,000	—	—
Unearned compensation	—	—	—	—	(276,000)
Amortization of unearned compensation	—	—	—	—	23,000
Tax benefit on dividends	—	—	3,000	—	—
Employee Stock Ownership Plan:					
Unearned compensation	—	—	—	—	(500,000)
Balance, December 31, 1984:	$1,455,444	$ —	$1,848,584	$16,866,264	$(753,000)
Net earnings	—	—	—	1,339,194	—
Cash dividends, $.40 per share	—	—	—	(583,678)	—
Restricted Stock Plan:					
Awards (5,000 shares)	5,000	—	58,750	—	—
Unearned compensation	—	—	—	—	(63,750)
Amortization of unearned compensation	—	—	—	—	41,803
Employee Stock Ownership Plan:					
Amortization of unearned compensation	—	—	—	—	83,333
Tax benefit on dividends	—	—	10,000	—	—
Balance, December 31, 1985:	$1,460,444	$ —	$1,917,334	$17,621,780	$(691,614)
Net earnings	—	—	—	1,171,576	—
Cash dividends, $.475 per share	—	—	—	(698,439)	—
Restricted Stock Plan:					
Awards (11,000 shares)	11,000	—	157,125	—	—
Unearned compensation	—	—	—	—	(168,125)
Amortization of unearned compensation	—	—	—	—	61,860
Employee Stock Ownership Plan:					
Amortization of unearned compensation	—	—	—	—	83,333
Tax benefit on dividends	—	—	15,000	—	—
Class B Common Stock (Note 3) Issued (622,885 shares)	—	62,288	560,597	—	—
Treasury stock (Note 3) (622,885 shares)	(622,885)	—	—	—	—
Balance, December 31, 1986:	$ 848,559	$62,288	$2,650,056	$18,094,917	$(714,546)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. Class B Common Stock

On November 21, 1986, shareholders approved a recapitalization whereby 5,000,000 shares of Class B Common Stock were authorized. Shareholders were given the option until December 31, 1986, to convert their existing shares of Common Stock on a share-for-share basis into shares of Class B Common Stock. Shareholders who elected to convert their shares of Common Stock into shares of Class B Common Stock may convert their shares of Class B Common Stock back into shares of Common Stock at any time. Class B Common Stock shareholders are substantially restricted in their ability to transfer their stock. Holders of Common Stock are entitled to cash dividends per share equal to 110% of all dividends declared and paid on each share of the Class B Common Stock when and if such cash dividends are declared by the Company's Board of Directors and paid.

Holders of Class B Common Stock are entitled to ten votes per share on any matters brought before the shareholders of the company, while holders of Common Stock are entitled to one vote per share. Liquidation rights are the same for both classes of stock.

Common shares received in exchange for the issuance of Class B Common shares have been recorded as treasury shares at par value.

Change In Par Value

JOHNSON CONTROLS, INC.

Consolidated Statement of Shareholders' Equity

(Column for Translation Adjustment omitted)

	Total	Preferred Stock	Common Stock	Capital in Excess of Par Value	Retained Earnings	Treasury Stock at Cost
At September 30, 1983	$418,523	$ 657	$13,263	$159,405	$257,164	$ —
Net income	66,723	—	—	—	66,723	—
Conversion and redemption of Series B preferred stock	(99)	(657)	808	(250)	—	—
Change in par value of common stock from $1.00 to $.50	—	—	(7,041)	7,041	—	—
Cash dividends						
Common ($1.66 per share)	(23,385)	—	—	—	(23,385)	—
Translation adjustments	(2,106)	—	—	—	—	—
Options exercised and other	489	—	18	471	—	—
At September 30, 1984	460,145	—	7,048	166,667	300,502	—
Net income	78,290	—	—	—	78,290	—
Issuance of common stock in acquisition	263,476	—	3,136	260,340	—	—
Repurchase and retirement of common stock	(79,912)	—	(887)	(37,577)	(41,448)	—
Issuance of Series C preferred stock	72,521	1,500	—	71,021	—	—
Cash dividends						
Series C preferred ($,2479 per share)	(372)	—	—	—	(372)	—
Common ($1.86 per share)	(31,330)	—	—	—	(31,330)	—
Translation adjustments	(260)	—	—	—	—	—
Options exercised and other	2,773	—	59	2,714	—	—
At September 30, 1985	765,331	1,500	9,356	463,165	305,642	—
Net income	95,926	—	—	—	95,926	—
Change in par value of common stock from $.50 to $.16⅔	—	—	(6,287)	6,287	—	—
Cash dividends						
Series C preferred ($4.25 per share)	(6,375)	—	—	—	(6,375)	—
Common ($2.00 per share)	(37,772)	—	—	—	(37,772)	—
Translation adjustments	6,040	—	—	—	—	—
Options exercised and other	5,691	—	88	5,687	—	(84)
At September 30, 1986	$828,841	$1,500	$ 3,157	$475,139	$357,421	$(84)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8 (In Part): Shareholders' Equity

September 30,	1986	1985
	(thousands of shares)	
Preferred Stock, $1.00 par value		
Authorized	2,000	2,000
Issued and outstanding Convertible Exchange, Series C	1,500	1,500
Common Stock, $.16⅔ par value in 1986 and $.50 par value in 1985		
Authorized	150,000	50,000
Issued and outstanding	18,902	18,713

In 1986, the company's Articles of Incorporation were amended to increase the number of authorized shares of common stock from 50,000,000 to 150,000,000 and to change the par value from $.50 per share to $.16⅔ per share.

Change To Par Value

THE TIMES MIRROR COMPANY

Statements of Shareholders' Equity

(Column for Other omitted)

(In thousands of dollars except for number of shares)	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Total
	Three Years Ended December 31, 1986					
Balance at January 1, 1984	68,666,676	$33,091	$ 51,716	$1,035,582	$	$1,120,389
Transactions related to executive stock option and restricted stock plans	55,977	27	5,135			5,162
Dividends on common stock				(85,212)		(85,212)
Net income				232,703		232,703
Translation losses				(1,371)		(1,371)
Balance at December 31, 1984	68,722,653	33,118	56,851	1,181,702		1,271,671
Transactions related to executive stock option and restricted stock plans	311,906	150	9,016			9,166
Sale of common stock to Employee Stock Ownership Trust	3,065,917	1,471	147,848			149,319
Repurchases of common stock	(7,667,700)	(3,680)	(22,411)	(433,202)		(459,293)
Dividends on common stock				(92,602)		(92,602)
Net income				237,127		237,127
Translation gains				727		727
Transactions related to guaranteed bank loans of Employee Stock Ownership Plan:						
Guarantee						(150,000)
Repayment						8,300
Balance at December 31, 1985	64,432,776	31,059	191,304	893,752		974,415
Assignment of $1.00 par value per share		33,373	(33,373)			
Transactions related to executive stock option and restricted stock plans	57,706	58	8,131			8,189
Repurchases of common stock	(40,855)				(2,354)	(2,354)
Dividends on common stock				(98,967)		(98,967)
Net income				408,085		408,085
Translation gains				1,401		1,401
Repayment of guaranteed bank loans of Employee Stock Ownership Plan						9,400
Balance at December 31, 1986	64,449,627	$64,490	$166,062	$1,204,271	$(2,354)	$1,300,169

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note B. Capital Stock

At January 1, 1986, the company's authorized capital stock consisted of 80,000,000 shares of common stock without par value and 4,500,000 shares of convertible preferred stock without par value. On February 28, 1986, the company reincorporated in Delaware, assigned a par value of $1 per share to each class of stock and eliminated the requirement that the preferred stock be convertible to common stock. At December 31, 1986, the company's authorized capital stock consisted of 80,000,000 shares of common stock, $1 par value, and 4,500,000 shares of preferred stock, $1 par value. The preferred stock is issuable in series under such terms and conditions as the board of directors may determine.

As of December 31, 1986, the company held 40,855 common shares as treasury stock. Shares reacquired by the California corporation prior to the reincorporation were automatically retired under applicable state law, but shares reacquired by the Delaware corporation may be held as treasury stock.

Stock Option Issued In Connection With Acquisition

UNITED STATES SURGICAL CORPORATION

Consolidated Statements of Changes in Stockholders' Equity

(Columns for Deferred Compensation, Receivable, Treasury Stock, and Valuation Allowance omitted)

Years Ended December 31, 1986, 1985 and 1984	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Translation Adjustments
Dollars in thousands				
Balance at January 1, 1984	$1,122	$ 81,121	$17,068	$(4,133)
Common stock issued to employees (426,714 shares)	43	6,258		
Amortization and adjustment of deferred compensation				
Aggregate adjustment resulting from the translation of foreign subsidiaries' financial statements				(1,351)
Valuation allowance for noncurrent marketable equity securities				
Net income			7,602	
Balance at December 31, 1984	1,165	87,379	24,670	(5,484)
Common stock issued to employees (684,577 shares)	69	12,041		
Amortization and adjustment of deferred compensation				
Aggregate adjustment resulting from the translation of foreign subsidiaries' financial statements				2,120
Reversal of valuation allowance for noncurrent marketable equity securities				
Cash dividends paid ($.40 per share)			(4,864)	
Net income			10,019	
Balance at December 31, 1985	1,234	99,420	29,825	(3,364)
Common stock issued to employees (129,679 shares)	12	2,269		
Amortization and adjustment of deferred compensation				
Purchase of common stock for treasury (395,000 shares)				
Value of stock option issued in connection with acquisition of assets from Medical Biological Sciences, Inc.		800		
Aggregate adjustment resulting from the translation of foreign subsidiaries' financial statements				1,622
Cash dividends paid ($.40 per share)			(4,937)	
Net income			18,741	
Balance at December 31, 1986	$1,246	$102,489	$43,629	$(1,742)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note D (In Part): Acquisitions and Sale of Investment

HTR Sciences, a Division of Medical Biological Sciences, Inc. In August 1986, the Company acquired patents and related assets for the production and marketing of HTR™ polymer products from Medical Biological Sciences (MBS) for initial consideration of $5,388,000 consisting of $4,588,000 cash and $800,000 representing the value assigned to a ten-year option to purchase 200,000 shares of the Company's Common Stock at $23.11 per share. The option was recorded at its fair value of $800,000 as part of the cost of acquiring the patents and related assets with a corresponding increase to Additional Paid-in Capital. The agreement provides that a maximum of an additional $6,000,000 will become payable to MBS by the Company as specified sales levels are attained. No portion of such contingent payment was required to be made during 1986.

Common Stock Issued To Spun-Off Company

YORK INTERNATIONAL CORPORATION

Consolidated Statements of Shareholders' Equity

(Column for Translation Adjustment omitted)

(thousands of dollars)	Common Stock Issued Shares	Common Stock Issued Amount	Add'l. Paid In Capital	Advances To (From) Borg-Warner	Retained Earnings
Balance, December 31, 1983	—	$—	$ —	$196,119	$ —
Net Loss	—	—	—	(673)	—
Capital Contributions, Net	—	—	—	(20,368)	—
Currency Translation Adjustment	—	—	—	—	—
Balance, December 31, 1984	—	—	—	175,078	—
Net Loss	—	—	—	(1,200)	—
Capital Contributions, Net	—	—	—	4,968	—
Currency Translation Adjustment	—	—	—	—	—
Balance, December 31, 1985	—	—	—	178,846	—
Common Stock Issued At Distribution	8,722,961	9	177,875	(178,846)	—
Common Stock Issued	13,587	—	164	—	—
Common Stock Warrants Issued	—	—	136	—	—
Net Income	—	—	—	—	8,217
Currency Translation Adjustment	—	—	—	—	—
Balance, December 31, 1986	8,736,548	$ 9	$178,175	$ —	$8,217

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1: Distribution

On April 9, 1986 ("Distribution Date") Borg-Warner Corporation ("Borg-Warner") distributed one share of York International Corporation ("York International" or the "Company") common stock for each 10 shares of Borg-Warner common stock to shareholders of record as of March 10, 1986. Effective on the Distribution Date, Borg-Warner's advances to the Company were converted into equity. Also on the Distribution Date, the Company became a publicly held corporation listed on the New York Stock Exchange and ceased operating as the Air Conditioning Group of Borg-Warner.

FOREIGN CURRENCY TRANSLATION

Effective for fiscal years beginning on or after December 15, 1982, *Statement of Financial Accounting Standards No. 52* is the authoritative pronouncement on foreign currency translation. *SFAS No. 52* requires translation adjustments to be reported separately and accumulated in a separate component of equity. Examples of foreign currency translation disclosures follow.

AVERY INTERNATIONAL CORPORATION

Consolidated Statement of Shareholders' Equity

In thousands	Common stock $1 par value	Capital in excess of par value	Retained earnings	Cumulative foreign currency translation adjustment
Balance November 30, 1983	$19,616	$60,782	$183,971	$(23,302)
Stock issued under option plan	133	1,518		
Net income			47,561	
Dividends ($.54 per share)			(10,644)	
Translation adjustments				(9,284)
Income taxes allocated to translation adjustments				174
Balance November 30, 1984	19,749	62,300	220,888	(32,412)
Stock issued under option plan	98	1,122		
Tax benefit arising from stock option transactions		470		
Net income			48,261	
Dividends ($.62 per share)			(12,309)	
Translation adjustments				7,725
Income taxes allocated to translation adjustments				(47)
Balance November 30, 1985	19,847	63,892	256,840	(24,734)
Stock issued under option plan	79	1,149		
Tax benefit arising from stock option transactions		437		
Net income			48,634	
Dividends ($.70 per share)			(13,940)	
Translation adjustments				16,168
Income taxes allocated to translation adjustments				(422)
Balance November 30, 1986	$19,926	$65,478	$291,534	$ (8,988)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2. Foreign Currency Translation

Foreign currency transactions and financial statements are translated into U.S. dollars at current rates, except that revenues, costs and expenses are translated at average current rates during each reporting period. Gains and losses resulting from foreign currency transactions are included in income currently, while those resulting from translation of financial statements are excluded from the statement of income and are credited or charged directly to a separate component of shareholders' equity. Translation gains and losses of subsidiaries operating in hyperinflationary economies are included in net income currently.

Transaction and translation losses included in net income in 1986, 1985 and 1984 were $867,000, $981,000 and $870,000 ($.04, $.05 and $.04 per share), respectively.

DENNISON MANUFACTURING COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Foreign Currency Translation

The translation of assets and liabilities of substantially all foreign subsidiaries and the Company's 5⅛% SFr bonds is made at year-end rates of exchange, and income statement accounts are translated at average rates of exchange. The resulting translation adjustments are excluded from net earnings, and accumulated as a separate component of shareholders' equity. Transaction adjustments are included in net income. Realized exchange gains and losses in 1986, 1985, and 1984 are reflected in operations and are not material.

Note E. Equity Adjustment for Foreign Currency Translation

Following is a reconciliation of the equity adjustment for foreign currency translation:

	1986	1985	1984
Balance at beginning of year	$(13,484,000)	$(13,190,000)	$ (9,506,000)
Aggregate adjustment from exchange rate changes and hedge transactions	(6,112,000)	(7,508,000)	(3,684,000)
Allocated tax benefit	6,724,000	7,214,000	
Balance at end of year	$(12,872,000)	$(13,484,000)	$(13,190,000)

USX CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

23. Foreign Currency Translation

Exchange adjustments resulting from foreign currency transactions generally are recognized in income, whereas, adjustments resulting from translation of financial statements are reflected as a separate component of stockholders' equity. For 1986, 1985 and 1984, respectively, the aggregate foreign currency transaction gain (loss) included in determining net income was $(3) million, $37 million and $21 million. An analysis of changes in cumulative foreign currency translation adjustments follows:

(In millions)	1986	1985
Cumulative foreign currency translation adjustments at January 1	$(102)	$(121)
Aggregate adjustments for the year:		
Foreign currency translation adjustments	50	15
Amount of income taxes related to translation adjustments	(9)	4
Amount related to disposition of investments, net of $10 million income tax	34	—
Cumulative foreign currency translation adjustments at December 31	$ (27)	$(102)

RANCO INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Foreign Currency Transactions: In the normal course of business, the Company and its subsidiaries frequently make transactions in a currency different from that in which their records are kept. Exchange rate movements which occur between the time such a transaction is recorded and the time of settlement cause transaction gains or losses which are recorded in income as they occur. The Company periodically enters into foreign exchange contracts to hedge its transaction exposures. Gains or losses on these contracts are also recorded in income as they occur.

The income statement includes net foreign exchange losses as follows:

(Dollars in thousands)	1986	1985	1984
Exchange losses included in other expense	$152	$36	$331
Tax on gains or (benefit from deductible losses)	(185)	31	(156)
(Increase) decrease in net income	$ (33)	$67	$175

12. Cumulative Foreign Currency Translation Adjustment

"Cumulative translation adjustments" reflect gains or (losses) from: (a) translating the balance sheets of Canadian and European subsidiaries and the Japanese affiliate into U.S. dollars, and (b) hedging the Company's net investment in those entities. The income taxes shown below represent the deferred tax effect of gains or losses on hedging transactions. The following summarizes changes in the cumulative foreign currency translation adjustment for 1984, 1985 and 1986:

(Dollars in thousands)	Cumulative Translation Adjustments	Income Taxes	Net Equity Adjustment
Balance at September 30, 1983	$(3,306)	$(1,035)	(4,341)
Aggregate translation adjustments	(3,375)		(3,375)
Allocated income taxes		(27)	(27)
Balance at September 30, 1984	(6,681)	(1,062)	(7,743)
Aggregate translation adjustments	3,211		3,211
Allocated income taxes		318	318
Balance at September 30, 1985	(3,470)	(744)	(4,214)
Aggregate translation adjustments	6,795		6,795
Allocated income taxes		133	133
Balance at September 30, 1986	$3,325	$ (611)	$2,714

GENERAL INSTRUMENT CORPORATION

Consolidated Statement of Stockholders' Equity

	Common Stock ($1 Par Value)	Additional Paid-in Capital	Cumulative Translation Adjustments	Notes Receivable From Employees	Retained Earnings
Balance February 28, 1983	$31,344,566	$182,831,942	$ (6,010,064)	$(4,560,672)	$398,955,515
Shares issued:					
Exercise of stock options	115,800	1,910,191		556,816	
Income tax benefits from the exercise of stock options		3,539,052			
Conversion of debentures	21,060	394,496			
Stock purchase plan	37,803	1,231,599			
Other	(13,945)	(208,332)		154,539	
Current year translation adjustment, net of $1,333,000 income taxes			(1,337,386)		
Net income					36,029,747
Cash dividends					(15,724,840)
Balance February 29, 1984	31,505,284	189,698,949	(7,347,450)	(3,849,317)	419,260,422
Shares issued:					
Exercise of stock options	13,536	70,340		721,353	
Income tax benefits from the exercise of stock options		388,360			
Conversion of debentures	9,475	159,886			
Stock purchase plan	68,709	1,223,889			
Stock issued for TOCOM acquisition	925,000	17,608,132			
Treasury stock purchased	(100,000)	(2,396,213)			
Other	(15,240)	(213,055)		200,444	
Current year translation adjustment, net of $5,155,000 income taxes			(6,278,946)		
Net loss					(9,600,267)
Cash dividends					(16,141,440)
Balance February 28, 1985	32,406,664	206,540,287	(13,626,396)	(2,927,520)	393,518,715
Shares issued:					
Exercise of stock options	28,114	124,263		69,185	
Income tax benefits from the exercise of stock options		164,150			
Conversion of debentures	9,712	76,102			
Stock purchase plan	59,130	773,534			
Shares reissued to savings plan	53,057	805,266			
PAYSOP plan	55,186	662,232			
Treasury stock purchased	(200,000)	(3,096,800)			
Other		(22,505)		8,021	
Current year translation adjustment, net of $8,261,000 income tax benefits			9,621,083		
Net loss					(66,542,939)
Cash dividends					(8,170,542)
Balance February 28, 1986	$32,411,863	$206,026,529	$ (4,005,313)	$(2,850,314)	$318,805,234

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Translation of Foreign Currencies: In accordance with SFAS 52, all assets and liabilities of operations outside the United States, except for offshore manufacturing and assembly operations in the Far East and Mexico, are translated into U.S. dollars at year-end exchange rates. Gains and losses resulting from translation and certain intercompany balances are reflected as a currency translation adjustment in stockholders' equity. Gains and losses on foreign currency transactions and translation of balance sheets of Far East and Mexican manufacturing and assembly operations have been charged or credited to income.

Exchange adjustments, including those from translation of forward exchange contracts, included in income were (losses) gains of $(904,000) in 1986, $563,000 in 1985, and $(257,000) in 1984.

EMHART CORPORATION

Statement of Shareholders' Equity

(Columns for Preference Stock and Treasury Stock omitted)

For the Years Ended December 31

(In Millions Except Share Amounts)	Common Stock	Paid-In Capital	Retained Earnings	Cumulative Translation Adjustment	Shareholders' Equity
Balance at January 1, 1984	$27.9	$186.0	$419.2	$(73.7)	$511.9
Net earnings			90.4		90.4
Cash dividends declared:					
Preference stock—$2.10 a share			(.2)		(.2)
Common stock—$1.27 a share			(35.0)		(35.0)
10% stock dividend in December:					
2,498,161 common shares issued	2.5	69.7	(72.2)		
Cash in lieu of fractional interests			(.2)		(.2)
Stock options exercised	.1	1.2			1.3
Preference shares converted		.4			
Aggregate adjustment from translation of foreign currency statements after income tax benefits of $1.9				(35.2)	(35.2)
Balance at December 31, 1984	30.5	257.3	402.0	(108.9)	533.0
Net earnings			80.5		80.5
Cash dividends declared:					
Preference stock—$2.10 a share			(.1)		(.1)
Common stock—$1.40 a share			(38.8)		(38.8)
Stock options exercised	.1	1.0			1.1
Preference shares converted		.3			
Aggregate adjustment from translation of foreign currency statements after income tax benefits of $7.2				33.7	33.7
Balance at December 31, 1985	30.6	258.6	443.6	(75.2)	609.4
Net loss			(10.2)		(10.2)
Cash dividends declared:					
Preference stock—$2.10 a share			(.1)		(.1)
Common stock—$1.40 a share			(42.2)		(42.2)
Issuance of common stock (3,150,000 shares)	3.2	109.2			112.4
Stock options exercised	.1	1.8			1.9
Preference shares converted		.1			
Treasury stock cancellation	(2.9)	(46.9)			
Aggregate adjustment from translation of foreign currency statements after income tax benefits of $8.2				40.0	40.0
Divestiture of foreign investments				5.9	5.9
Balance at December 31, 1986	31.0	322.8	391.1	(29.3)	717.1

NOTES TO FINANCIAL STATEMENTS

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

Translation of International Currencies

Assets and liabilities of international operations are translated into United States dollars at current exchange rates. Income and expense accounts are translated into United States dollars at average rates of exchange prevailing during the year. Adjustments resulting from the translation of financial statements of most international units and those transactions determined to be a hedge of a foreign currency investment or long-term intercompany investment are included in the cumulative translation adjustment in the equity section of the statement of financial position. Transaction gains and losses are included in earnings.

7. Other Income (Expense)—Net

Other income (expense)—net in 1986 includes environmental related provisions of $10 million, while 1985 principally includes a gain of $30 million (including pension related gains of $5.2 million) realized from the sale in June of the Store Equipment Group. The disposition of certain operations during 1986 for sales proceeds below their net book value did not materially affect results of operations after considering previously established loss provisions, which took into account pension related gains of $14.0 million. Gains from the sale of properties in 1985 were substantially offset by provisions for costs associated with the relocation, consolidation and disposition of certain facilities and operations.

Exchange losses in 1986, 1985 and 1984 were $5.1 million, $4.1 million and $3.6 million, respectively.

THE L. S. STARRETT COMPANY

Consolidated Statements of Stockholders' Equity

For the years ended in June, 1984 through 1986

(in thousands)	Common Stock Outstanding ($1 Par)	Additional Paid-in Capital	Retained Earnings	Equity Adjustments ESOP	Equity Adjustments Currency Translation	Total
Balance July 1, 1983 (809,128 shares in treasury)	$3,794	$ 7,836	$67,902		$(2,043)	$77,489
Net earnings			8,612			8,612
Dividends ($1.00)			(3,769)			(3,769)
Treasury shares:						
Purchased	(132)	(225)	(3,359)			(3,716)
Options exercised	82	1,450				1,532
Translation loss (net of $710,000 in taxes)					(900)	(900)
Balance June 30, 1984 (941,067 shares in treasury)	3,744	9,061	69,386		(2,943)	79,248
Net earnings			12,734			12,734
Dividends ($1.02)			(3,775)			(3,775)
Treasury shares:						
Purchased	(548)	(2,488)	(13,403)			(16,439)
Sold	407	10,644				11,051
Options exercised	35	717				752
ESOP loan guarantee:						
Borrowings				$(10,850)		(10,850)
Repayments				542		542
Translation loss (net of $187,000 in taxes)					(578)	(578)
Balance June 29, 1985 (1,082,270 shares in treasury)	3,638	17,934	64,942	(10,308)	(3,521)	72,685
Net earnings			12,701			12,701
Dividends ($1.08)			(3,831)			(3,831)
Treasury shares:						
Purchased	(169)	(866)	(5,046)			(6,081)
Sold	18	665				683
Options exercised	40	876				916
ESOP loan guarantee:						
Repayments				1,086		1,086
Translation gain (net of $638,000 in taxes)					749	749
Balance June 28, 1986 (1,232,495 shares in treasury)	$3,527	$18,609	$68,766	$ (9,222)	$(2,772)	$78,908

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Significant Accounting Policies (In Part)

Translation of Foreign Currencies: Assets and liabilities in non-hyperinflationary economies are translated at exchange rates in effect on reporting dates, and income and expenses are translated at rates which approximate those in effect on transaction dates. The resulting differences due to changing exchange rates are charged or credited directly to the "Foreign currency translation adjustment" account included as part of Stockholders' equity. For the Company's subsidiary in Brazil (a hyperinflationary economy), the translation method is the same except that inventories and plant and the related charges to cost of sales and depreciation expense are translated at rates in effect at the time the assets were purchased and the resulting translation gains and losses are included in the determination of net earnings.

Other Income and Expense

Other income and expense consists of the following (in thousands):

	1986	1985	1984
Interest income	$1,760	$2,471	$1,807
Interest expense and committment fees	(516)	(404)	(137)
Realized and unrealized exchange gains and losses	(1,414)	(1,852)	(1,511)
Other	(152)	(46)	(41)
	$ (322)	$ 169	$ 118

Unrealized exchange losses on short-term investments in Brazil are netted against the income earned on those investments.

THE TIMKEN COMPANY

Consolidated Statements of Capital and Earnings Invested in the Business

	Common Stock Stated Capital	Common Stock Other Paid-In Capital	Earnings Invested in the Business	Foreign Currency Translation Adjustment	Treasury Stock	Total
	(Thousands of dollars)					
Year Ended December 31, 1984						
Balance January 1, 1984	$53,063	$30,666	$711,668	$(18,279)	$(544)	$776,574
Net income			46,057			46,057
Cash dividends—$2.00 per share			(23,546)			(23,546)
Adjustment to state capital	1					1
Issued 102,800 shares of Common Stock in connection with dividend reinvestment and employee benefit plans		5,424			19	5,443
Foreign currency translation adjustments (net of income taxes of $6,495)				(14,658)		(14,658)
Balance December 31, 1984	$53,064	$36,090	$734,179	$(32,937)	$(525)	$789,871
Year Ended December 31, 1985						
Net (loss)			(3,903)			(3,903)
Cash dividends—$1.80 per share			(21,688)			(21,688)
Issued 338,582 shares of Common Stock in connection with dividend reinvestment and employee benefit plans		16,825			281	17,106
Granting of 5,050 restricted stock rights and related dividend credits		253				253
Foreign currency translation adjustments (net of income taxes of $7,323)				7,642		7,642
Balance December 31, 1985	$53,064	$53,168	$708,588	$(25,295)	$(244)	$789,281
Year Ended December 31, 1986						
Net income			2,736			2,736
Cash dividends—$1.00 per share			(12,386)			(12,386)
Issued 235,988 shares of Common Stock in connection with various pension plans		10,000				10,000
Issued 186,910 shares of Common Stock in connection with dividend reinvestment and other employee benefit plans		8,314			26	8,340
Foreign currency translation adjustments (net of income taxes of $2,957)				8,651		8,651
Balance December 31, 1986	$53,064	$71,482	$698,938	$(16,644)	$(218)	$806,622

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note I. International Divisions and Subsidiaries

The financial statements include the following amounts for operations of divisions and subsidiaries located outside of the United States:

	1986	1985
	(Thousands of dollars)	
Net current assets	$ 79,850	$82,306
Net other assets	117,772	74,788

Net income, including foreign currency exchange losses, from operations of divisions and subsidiaries located outside the United States was $11,601,000 in 1986; $10,701,000 in 1985, and $13,519,000 in 1984.

Foreign currency exchange losses included in other charges in the income statement amounted to $4,165,000 in 1986; $6,866,000 in 1985, and $5,568,000 in 1984.

Section 5: Statement of Changes in Financial Position

APB Opinion No. 19 requires that a statement summarizing changes in financial position be presented for each period for which an income statement is presented. Currently the FASB is developing standards for a Statement of Cash Flows which is tentatively scheduled to replace the Statement of Changes in Financial Position effective for fiscal years ending after July 31, 1988. The proposed Statement of Cash Flows classifies cash receipts and cash payments by investing, financing, and operating activities.

This section reviews the format and content of the Statement of Changes in Financial Position. The Statements appearing as examples have been edited to show, if not already so shown in the annual report, all dollar amounts in thousands or millions.

PRESENTATION IN ANNUAL REPORT

Table 5-1 shows the placement of The Statement of Changes in Financial Position in relation to other financial statements. As shown in Table 5-1, the statement of changes is usually presented in an annual report as the last financial statement or after the income statement and balance sheet but before the statement of stockholders' equity.

TABLE 5-1: PRESENTATION IN ANNUAL REPORT

	1986	1985	1984	1983
Final statement	360	373	379	387
Follows income statement and balance sheet	190	172	162	154
Between income statement and balance sheet	47	51	51	52
First statement	1	2	3	5
Other	2	2	5	2
Total Companies	**600**	**600**	**600**	**600**

TITLE

Paragraph 8 of *Opinion No. 19* states in part:

> The Board also concludes that the statement summarizing changes in financial position should be based on a broad concept embracing all changes in financial position and that the title of the statement should reflect this broad concept. The Board therefore recommends that the title be Statement of Changes in Financial Position. . . .

Prior to 1986, practically all of the survey companies used the recommended title. In 1986, 565 companies used the recommended title, 21 companies used the title *Statement of Cash Flows*, and the remaining 14 companies used other titles.

FORMAT

Paragraph 11 of *Opinion No. 19* states:

> Provided that these guides are met, the Statement may take whatever form gives the most useful portrayal of the financing and investing activities and the changes in financial position of the reporting entity. The Statement may be in balanced form or in a form expressing the changes in financial position in terms of cash, of cash and temporary investments combined, of all quick assets, or of working capital. The Statement should disclose all important changes in financial position for the period covered; accordingly, types of transactions reported may vary substantially in relative importance from one period to another.

Prior to 1981, it was rare to see a change in working capital or in cash and cash equivalents presented in terms other than total sources and total uses. In 1981 the survey companies began to present a change in working capital or in cash and cash equivalents in terms of fund flows associated with operating, investing, and financing activities. The number of survey companies using the activity format was 74 in 1981, 169 in 1982, 227 in 1983, 267 in 1984, 292 in 1985, and 315 in 1986.

Examples of statement formats follow.

SOURCE AND USE FORMAT

Sources Equal Uses

AMERICAN PETROFINA, INCORPORATED (DEC)

Consolidated Statements of Changes in Financial Position

	1986	1985	1984
	(in thousands)		
Sources of working capital:			
Net earnings (loss)	$ (24,569)	(10,163)	45,092
Items which do not use (provide) working capital:			
Equity in losses (undistributed earnings) of affiliates	3,567	1,936	(3,726)
Depreciation, depletion, amortization, lease impairment and abandonments	137,435	179,390	102,758
Pension income, including settlement	(27,004)	(2,710)	—
Deferred Federal income taxes	(6,921)	(4,125)	1,575
Working capital provided by operations	82,508	164,328	145,699
Decrease in investments in and advances to affiliates	364	5,925	2,814
Retirements of property, plant and equipment	26,604	5,010	4,258
Decrease in deferred charges and other assets	—	—	1,126
Proceeds from long-term debt and lease obligations	224,295	49,318	197,806
Increase in other deferred credits and liabilities	4,903	20	3,975
Proceeds from issuance of common stock	54,097	448	65,727
Proceeds from sale of treasury stock, net	65	—	44
Decrease in working capital	—	16,880	9,437
	$392,836	241,929	430,886
Use of working capital:			
Additions to property, plant and equipment	$120,861	168,873	363,813
Increase in deferred charges and other assets	9,244	5,538	—
Reductions in long-term debt and lease obligations	242,710	42,307	30,550
Dividends paid	—	25,133	36,523
Purchase of treasury stock, net	—	78	—
Increase in working capital	20,021	—	—
	$392,836	241,929	430,886
Changes in components of working capital:			
Increase (decrease) in current assets:			
Cash	$ 84	(5,957)	5,534
Temporary investments	(21,000)	(1,155)	(25,897)
Accounts and notes receivable	6,277	43,771	21,825
Inventories	(40,771)	90,245	47,955
Prepaid expenses and other current assets	25,984	(133)	357
	(29,426)	126,771	49,774
Increase (decrease) in current liabilities:			
Short-term obligations	(62,673)	163,900	140,187
Current installments of long-term debt and lease obligations	(24,229)	8,972	3,739
Accounts payable and accrued liabilities	40,962	(37,597)	(53,118)
Income taxes	(3,507)	8,376	(31,597)
	(49,447)	143,651	59,211
Increase (decrease) in working capital	$ 20,021	(16,880)	(9,437)

TABLE 5-2: FORMAT

	1986	1985	1984	1983
Changes in Working Capital				
Sources equal uses	24	25	31	39
Increase (decrease) in working capital	141	156	176	199
Ending working capital	37	39	37	48
Changes in Cash				
Sources equal uses	5	8	5	7
Increase (decrease) in cash or cash and cash equivalent	243	223	206	175
Ending cash or cash and cash equivalent	150	149	145	132
Total Companies	**600**	**600**	**600**	**600**

PUBLIX SUPER MARKETS, INC. (DEC)

Statements of Changes in Financial Position

	1986	1985	1984
	(Amounts in thousands)		
Sources of working capital:			
Net earnings	$ 84,308	71,827	75,522
Add items which do not use working capital:			
Depreciation and amortization	67,416	60,008	51,761
Contribution to employee stock ownership trust	9,600	6,200	5,900
Deferred income taxes	5,636	7,799	2,391
Working capital provided by operations	166,960	145,834	135,574
Proceeds from long-term borrowings and capitalized lease liabilities	3,002	5,365	2,808
Sale of investments, net of gain of $1,137, $626 and $227	3,794	2,535	4,904
Sale of property, plant and equipment, net of gain (loss) of ($338), ($208) and $727	3,275	10,789	159
Sale of common stock acquired from stockholders	—	—	1,749
Contribution to tax credit stock ownership plan	1,794	1,607	1,431
Increase in other noncurrent liabilities	4,869	1,109	4,516
Decrease in other noncurrent assets	661	310	2,289
	$184,355	167,549	153,430
Uses of working capital:			
Purchase of property, plant and equipment	$147,134	115,809	91,502
Purchase of investments	10,658	8,213	16,513
Dividends paid	9,862	9,723	7,227
Reduction of long-term debt	1,717	1,689	1,384
Common stock acquired from stockholders	8,451	4,353	—
Increase in working capital	6,533	27,762	36,804
	$184,355	167,549	153,430
Changes in components of working capital:			
Increase (decrease) in current assets:			
Cash and cash equivalents	$ 14,142	(6,836)	15,529
Marketable securities	19,060	19,048	31,318
Receivables	(4,692)	6,543	(2,016)
Merchandise inventories	14,772	8,586	27,412
Prepaid expenses	493	(408)	48
	43,775	26,933	72,291
Increase (decrease) in current liabilities:			
Short-term debt	$ 9,271	—	—
Current installments of long-term debt	(19)	658	(2)
Accounts payable	15,523	3,034	22,312
Accrued expenses	8,114	4,858	5,429
Federal and state income taxes	4,353	(9,379)	7,748
	37,242	(829)	35,487
Increase in working capital	$ 6,533	27,762	36,804

Increase (Decrease) in Working Capital or Cash

SPRINGS INDUSTRIES, INC. (DEC)

Consolidated Statement of Changes in Financial Position

	1986	1985	1984
	(In thousands)		
Funds Provided:			
Net income	$ 32,575	$ 13,271	$36,071
Items not currently requiring funds:			
Depreciation	55,636	37,641	32,940
Deferred income taxes	8,977	3,007	2,521
Other, net	7,323	10,610	660
Funds provided by operations	104,511	64,529	71,192
Accounts receivable	10,222	(4,492)	2,664
Inventories	12,863	16,021	(12,321)
Book value of property sold and retired	4,914	2,001	6,504
Disposal of real estate interests	25,402		
Additions to long-term debt	10,000	251,410	
Funds provided	167,912	329,469	68,039
Funds Required:			
Purchase of Lowenstein:			
Inventories and accounts receivable		225,602	
Property		137,380	
Investments in affiliates and other assets		50,352	
Payables, accrued liabilities, etc.		(136,083)	
Total for purchase of Lowenstein		277,251	
Additions to property	56,970	37,431	50,892
Accounts payable and accrued liabilities	16,021	(920)	6,828
Reduction of long-term debt	35,627	4,336	7,237
Dividends	13,457	13,417	13,406
Other	8,889	5,993	(5,906)
Funds required	130,964	337,508	72,457
Net funds provided (required)	$ 36,948	$ (8,039)	$ (4,418)
Increase (Decrease) in cash and short-term investments	$ 36,948	$ (8,039)	$ (4,418)

FOSTER WHEELER CORPORATION (DEC)

Consolidated Statement of Changes in Financial Position

	1986	1985	1984
	(In Thousands of Dollars)		
Sources of Working Capital			
Operations:			
Net earnings	$ 28,027	$ 26,019	$ 35,374
Charges (credit) not affecting working capital:			
Depreciation, amortization and write-downs	19,573	17,495	17,374
Non-current deferred tax	4,008	2,818	9,894
Gain on sale of investments	(5,189)	—	—
Issuance of treasury stock (at market value under Management and Sales Incentive and Profit Sharing Plans)	209	446	3,289
Minority interest	436	416	170
Other non-cash charges and credits (net)	1,872	963	1,143
Working capital provided from operations	48,936	48,157	67,244
Decrease in long-term notes and accounts receivable and deferred charges	—	—	2,695
Decrease in investments and advances	—	1,774	383
Increase in other long-term liabilities	9,372	6,374	—
Increase in working capital arising from translation adjustments	12,099	10,737	—
Increase in long-term debt	83,312	78,809	5,687
Proceeds from sale of long-term investments	14,447	—	—
Disposal of land, buildings and equipment	11,306	16,259	1,885
Proceeds from sale of common stock	420	873	521
Tax benefit related to Management and Sales Incentive and Profit Sharing Plans and stock options	(399)	419	398
Other	710	—	174
	180,203	163,402	78,987

	1986	1985	1984
Uses of Working Capital			
Investment in land, buildings and equipment	131,558	38,413	38,151
Cash dividends paid	15,166	15,139	15,075
Net non-current assets of subsidiary acquired	—	—	4,768
Increase in investments and advances	12,957	—	—
Cost in excess of subsidiaries acquired	—	656	4,074
Reduction of long-term debt	8,158	4,274	3,818
Purchase of treasury stock	318	621	794
Increase in long-term notes and accounts receivable and deferred charges	35,237	1,687	—
Decrease in other long-term liabilities	—	—	3,626
Decrease in working capital arising from translation adjustments	—	—	10,865
Other	—	484	—
	203,394	61,274	81,171
Increase (Decrease) in Working Capital	($ 23,191)	$102,128	($ 2,184)
Increase (Decrease) in Components of Working Capital			
Cash and short-term investments	($ 2,718)	$ 17,240	($ 59,242)
Accounts and notes receivable	(22,107)	55,124	7,030
Contracts in process and inventories	(9,194)	32,942	(11,437)
Deferred income taxes	6,461	5,020	6,217
Increase (decrease) in current assets	(27,558)	110,326	(57,432)
Less:			
Current installments on long-term debt	1,156	135	830
Bank loans	9,438	17,178	2,326
Accounts payable and accrued expenses	6,010	19,993	(5,962)
Estimated cost to complete long-term contracts	(11,929)	(16,670)	(44,651)
Advance payments by customers	1,262	(3,207)	(9,992)
Income taxes	(10,304)	(9,231)	2,201
Increase (decrease) in current liabilities	(4,367)	8,198	(55,248)
Increase (Decrease) in Working Capital	($ 23,191)	$102,128	($ 2,184)

End of Year Working Capital or Cash

CHOCK FULL O'NUTS CORPORATION (JUL)

Consolidated Statements of Changes in Financial Position

	1986	1985	1984
		($000)	
Financial resources provided by:			
Income/(loss) from continuing operations	$ 3,459	$ 242	$ (483)
Items not affecting working capital:			
Depreciation and amortization of property, plant and equipment	1,735	1,161	1,162
Amortization of deferred charges	768	971	846
Other		157	890
Working capital provided by continuing operations	5,964	2,533	2,415
Discontinued operations	(2,964)	(201)	354
Items not affecting working capital:			
Issuance of shares in settlement of litigation	3,060		
Depreciation and amortization of property, plant and equipment			35
Loss on disposition of fixed assets			197
Working capital provided by/(used for) discontinued operations	95	(201)	587
Working capital provided by operations	6,059	2,331	3,003
Issuance of shares pursuant to registered public offering, net	4,518		
Increase in long-term debt	751	19,447	12,000
Property, plant and equipment disposed		2,659	
Other, net	146	406	
Decrease in notes receivable, other assets and deferred charges	1,024		
Total	12,499	24,844	15,003
Financial resources used for:			
Reduction of long-term debt and capital lease obligations	364	12,962	196
Cash dividends paid			1,177
Reclassification of marketable equity security to noncurrent			1,334
Additions to property, plant and equipment	8,894	4,460	3,229
Purchase of treasury stock			12,012
Reduction in other noncurrent liabilities			622
Increase in notes receivable, other assets and deferred charges		2,921	547
Total	9,259	20,345	19,120
Increase/(decrease) in working capital—Note 8(d)	3,240	4,499	(4,117)
Working capital at beginning of year	20,628	16,128	20,246
Working capital at end of year	$23,868	$20,628	$16,128

AMOCO CORPORATION (DEC)

Consolidated Statement of Changes in Financial Position

	1986	1985	1984
		millions of dollars	
Sources of funds			
Net income	$ 747	$1,953	$2,183
Items not affecting working capital			
Depreciation, depletion, amortization, and retirements and abandonments	2,418	2,059	2,090
Deferred income taxes (non-current) and other items	204	477	559
Funds provided from operations	3,369	4,489	4,832
New long-term obligations	1,153	334	37
Dispositions of property	114	159	327
Effect of distribution of Cyprus Minerals Company (less working capital of $84 million)			
Properties (net)	—	1,524	—
Long-term obligations	—	(124)	—
Other non-current assets and liabilities	—	(276)	—
Other sources	78	81	(1)
	4,714	6,187	5,195
Application of funds			
Capital expenditures	2,256	3,881	3,344
Dividends paid			
Cash	849	872	856
Distribution of Cyprus Minerals Company	—	1,208	—
Reduction of long-term obligations	955	439	602
Increase in investments and related advances	66	23	59
Increase (decrease) in long-term receivables and other assets	37	11	(122)
Acquisitions of common stock—net, etc.	202	810	1,200
Increase (decrease) in non-cash working capital	899	(629)	31
	5,264	6,615	5,970
Decrease in cash and marketable securities	(550)	(428)	(775)
Cash and marketable securities—beginning of year	991	1,419	2,194
Cash and marketable securities—end of year	$ 441	$ 991	$1,419
Change in non-cash working capital			
Increase (decrease) in current assets			
Accounts and notes receivable—net	$ (672)	$ (8)	$ (222)
Inventories	(75)	(139)	87
Prepaid expenses and income taxes	(45)	(81)	22
(Increase) decrease in current liabilities			
Current installments of long-term obligations	61	(63)	48
Short-term obligations	263	(249)	(67)
Accounts payable	1,167	(233)	274
Accrued liabilities	(76)	173	(71)
Taxes payable (including income taxes)	276	(29)	(40)
Increase (decrease) in non-cash working capital	$ 899	$ (629)	$ 31

ACTIVITY FORMAT

AMERICAN MEDICAL INTERNATIONAL, INC.

Consolidated Statements of Changes in Financial Position

	1986	1985	1984
		($000)	
Cash Provided by Operations			
Net income (loss)	$ (97,279)	$163,792	$137,062
Add—Items not requiring cash:			
Depreciation and amortization	193,540	139,781	115,779
Deferred income taxes	(3,000)	75,700	54,500
Amortization of debt discount and deferred financing costs	15,740	14,487	12,031
Writedown of assets and other expenses	221,285	7,359	(3,399)
Income taxes received (paid)	5,881	5,854	(11,250)
Decrease (increase) in non-cash working capital accounts	140,396	9,712	(93,509)
Cash Provided by Operations	476,563	416,685	211,214
Investing Activities			
Property and equipment additions	(436,766)	(434,602)	(344,459)
Business acquisitions	(376,026)	(272,309)	(142,062)
Increase in notes receivable and investments	(8,984)	(15,782)	(9,477)
Increase in deferred costs	(81,173)	(62,909)	(23,607)
Disposition of assets	13,794	15,785	22,486
Other	(21,388)	(16,855)	(10,419)
	(910,543)	(786,672)	(507,538)
Capital Transactions			
Cash dividends	(62,683)	(57,575)	(44,502)
Sale of common stock	—	116,015	—
Repurchase of common stock	—	(87,039)	(21,750)
Exercise of stock options and warrants	2,055	4,394	12,521
	(60,628)	(24,205)	(53,731)
Financing Activities			
Borrowings	476,152	463,842	427,786
Reduction of borrowings	(39,722)	(22,208)	(61,364)
	436,430	441,634	366,422
Increase (Decrease) in Cash	(58,178)	47,442	16,367
Cash, Beginning of Period	100,325	52,883	36,516
Cash, End of Period	$ 42,147	$100,325	$ 52,883
Decrease (Increase) in Non-cash Working Capital Accounts			
Accounts receivable	$ 50,719	$ (60,818)	$(161,111)
Supply inventories and prepaid expenses	(10,054)	(10,972)	(11,886)
Short-term debt and current maturities	47,936	1,025	734
Accounts payable and accrued liabilities	143,650	51,530	33,286
Income taxes	(91,855)	28,947	45,468
	$140,396	$ 9,712	$ (93,509)
Other Changes Not Affecting Working Capital			
Notes receivable from dispositions	$ 43,100	$ 20,700	$ —
Indebtedness and other liabilities of acquired businesses	18,707	23,244	17,858
Conversion of debentures	—	70,221	28,492

CUMMINS ENGINE COMPANY, INC. (DEC)

Consolidated Statement of Changes in Financial Position

	1986	1985	1984
		($ Thousands)	
Operating activities:			
Funds provided by (used for) operations:			
Net earnings (loss)	$(107,331)	$ 50,355	$187,944
Depreciation and amortization	106,630	79,244	72,225
Minority interest	2,937	—	—
Long-term liabilities and deferred income taxes	(69,988)	23,305	77,792
Unusual charges and tax credit	108,717	—	(15,728)
Other	19,022	20,054	21,636
Total funds provided by operations	59,987	172,958	343,869
Common and preferred stock dividends declared	(22,723)	(21,014)	(19,554)
Funds retained from operations	37,264	151,944	324,315
Increase (decrease) in funds from working capital changes:			
Receivables	(47,207)	(6,706)	(54,370)
Inventories	4,472	32,931	(98,984)
Prepaid and other assets	(5,925)	(14,748)	(1,986)
Accounts payable and accrued expenses	16,947	64,583	60,320
Income taxes payable	(6,054)	(15,391)	19,736
Working capital of acquired business	(64,503)	—	—
Net funds (used for) obtained from working capital	(102,270)	60,669	(75,284)
Net funds (used for) provided by operating activities	(65,006)	212,613	249,031
Investing and related activities:			
Additions of property, plant and equipment	(186,284)	(198,210)	(109,149)
Property, plant and equipment of acquired businesses	(87,728)	(8,146)	—
Disposals of property, plant and equipment	23,436	7,445	13,319
Investments in and advances to unconsolidated companies	(39,201)	(40,518)	(53,503)
(Increase) decrease in long-term receivables and deferred charges	(42,995)	(9,883)	4,665
Translation adjustments	213	12,038	(12,858)
Net funds used for investing and related activities	(332,559)	(237,274)	(157,526)
Net funds (used for) provided by operating, investing and related activities	(397,565)	(24,661)	91,505

Financing activities:			
Increase in loans payable	61,158	10,055	26,319
Increase (decrease) in long-term debt	87,809	17,883	(55,545)
Minority interest of acquired business	57,751	—	—
Preferred stock retired	—	(1,107)	(3,652)
Preference stock issued	112,021	—	—
Common stock issued	75,903	8,830	6,264
Common stock retired	(2,511)	(2,966)	(4,884)
Net funds available from (used in) financing activities	392,131	32,695	(31,498)
Net change in cash and marketable debt securities	$ (5,434)	$ 8,034	$ 60,007

JOHNSON & JOHNSON (DEC)

Consolidated Statement of Cash Flows

	1986	1985	1984
	Dollars in Millions		
Cash flows from operating activities			
Net earnings	$ 329.5	613.7	514.5
Non-cash items included in net earnings			
Depreciation and amortization	275.2	250.5	226.3
Redirection charges and over-the-counter capsule withdrawal	456.3	—	—
Tax deferrals	(187.1)	45.9	(23.7)
Changes in other current assets and liabilities	39.1	49.8	87.7
Changes in other non-current assets and liabilities	178.5	(11.3)	(1.6)
Net cash flows from operating activities	1,091.5	948.6	803.2
Cash flows from investing activities			
Additions to property, plant and equipment	(445.7)	(366.3)	(366.0)
Proceeds from the disposal of assets	217.8	29.0	55.4
Acquisition of businesses	(416.0)	(6.0)	—
Other, principally non-current investments	(65.8)	(18.0)	18.1
Net cash used by investing activities	(709.7)	(361.3)	(292.5)
Cash flows from financing activities			
Dividends to stockholders	(244.7)	(233.2)	(219.9)
Repurchase of common stock	(822.3)	(122.5)	(328.8)
Proceeds from (retirement of) short-term debt, net	777.2	(4.9)	3.3
Proceeds from (retirement of) long-term debt, net	25.2	(17.7)	41.4
Proceeds from the exercise of stock options	56.3	55.5	22.7
Net cash used by financing activities	(208.3)	(322.8)	(481.3)
Effect of exchange rate changes on cash	43.4	28.6	(13.4)
Increase in cash and current marketable securities	$ 216.9	293.1	16.0
Acquisition of businesses			
Working capital other than cash acquired	$ 66.9	(2.2)	—
Property, plant and equipment acquired	42.6	.1	—
Intangible assets acquired	320.5	9.7	—
Other, principally non-current liabilities	(14.0)	(1.6)	—
Cash paid to acquire businesses	$ 416.0	6.0	—

GOULD INC. (DEC)

Consolidated Statements of Changes in Financial Position

	1986	1985	1984
		(In millions)	
Funds Provided from Continuing operations:			
Earnings (loss)	$ 34.6	$(102.4)	$ 84.8
Items not affecting funds:			
Depreciation and amortization	63.9	70.5	60.1
Deferred income taxes	2.7	5.2	4.7
Translation gains applicable to non-current liabilities	—	—	(6.1)
Equity in undistributed earnings	(9.9)	(4.5)	0.1
Special charge	—	159.2	—
Total provided from continuing operations	91.3	128.0	143.6
Loss from discontinued operations	(136.4)	(73.3)	(67.0)
Total (used for) provided from operations	$ (45.1)	$ 54.7	$ 76.6
Funds Used for Operations:			
Net changes in certain working capital items:			
Accounts receivable	0.7	(0.1)	(21.0)
Inventories	(6.8)	0.9	(29.7)
Other current assets	(6.1)	5.9	(6.0)
Accounts payable and other liabilities	9.1	(9.5)	3.7
Income taxes	12.0	(40.2)	9.1
Additions to properties	(57.2)	(81.7)	(120.7)
Carrying amounts of property disposals	23.8	4.4	15.2
Translation adjustment	3.5	9.1	11.5
Other, net	(15.5)	27.5	2.4
Total used for operations	$ (36.5)	$ (83.7)	$(135.5)
Acquisitions and Divestitures:			
Acquisitions:			
Net assets	(0.8)	(1.5)	—
Cost in excess of net assets	(0.9)	(26.1)	—
Divestitures:			
Net (increase) decrease in net assets of discontinued operations	(66.6)	(17.8)	0.5
Investment in GNB Preferred Stock	—	—	(58.9)
Investment in GNB Notes	—	—	(49.9)
Total proceeds from sale of discontinued operations, net of gain or loss	111.7	44.1	248.7
GNB Notes repayment	49.9	—	—
Total provided from (used for) acquisitions and divestitures	$ 93.3	$ (1.3)	$140.4
Financing and Investment Activities:			
Increase (decrease) in short-term debt	35.3	(6.4)	(48.6)
Issuance of long-term debt	66.9	161.2	103.0
Retirement of long-term debt	(103.0)	(74.5)	(71.6)
Issuance of treasury shares in exchange for debt securities	—	—	2.0
Purchases of treasury stock	—	(24.0)	(38.6)
Treasury shares issued for acquisitions	—	26.1	—
Dividends paid	(15.1)	(29.8)	(30.3)
Investments in and advances to affiliates and unconsolidated subsidiaries	3.8	(30.8)	(2.9)
Stock options exercised, conversions and other capital transactions	3.6	8.8	10.7
Total (used for) provided from financing and investment activities	$ (8.5)	$ 30.6	$ (76.3)
Increase in cash and short-term investments	$ 3.2	$ 0.3	$ 5.2

GREAT NORTHERN NEKOOSA CORPORATION (DEC)

Consolidated Statements of Changes in Financial Position

	1986	1985	1984
		$ millions	
Cash provided by (used for) operations			
Net income	$ 85.3	$ 46.2	$119.9
Add noncash items included in income			
Depreciation and cost of timber harvested	114.6	112.7	86.6
Deferred taxes on income	53.6	21.5	72.6
Change in working capital, excluding cash and current maturities of long-term debt	13.6	(26.8)	(13.3)
Provision for reduced operations	25.1	—	—
Cash provided by operations	$292.2	$153.6	$265.8
Cash provided by (used for) investing activities			
Capital expenditures, including $31.7 million for acquisitions in 1986	$(176.5)	$(112.7)	$(230.9)
Use of funds set aside for capital projects	—	10.0	16.3
Asset retirements	2.2	7.2	5.3
Change in other assets, including $32.7 million for acquisitions in 1986	(40.0)	(5.1)	(5.6)
Cash used for investing activities	$(214.3)	$(100.6)	$(214.9)
Cash provided by (used for) financing activities			
New borrowings	$ 41.4	$140.8	$ 88.2
Less-preferred stock exchanged or converted	—	(37.4)	—
Cash provided by new borrowings	41.4	103.4	88.2
Debt reduction	(134.4)	(124.7)	(99.8)
Less—debentures converted	37.4	—	—
Cash used for debt reduction	(97.0)	(124.7)	(99.8)
Increase in long-term liabilities	21.8	—	—
Stock options exercised	9.3	4.7	4.4
Stock issued to employee benefit plans	.8	—	1.6
Dividends	(41.3)	(39.2)	(39.5)
Cash used for financing activities	$ (65.0)	$ (55.8)	$ (45.1)
Increase (decrease) in cash	$ 12.9	$ (2.8)	$ 5.8
Increase (decrease) in elements of working capital, excluding cash and current maturities of long-term debt			
Receivables	$ 28.4	$ 14.2	$ (16.9)
Inventories	(6.1)	4.3	25.8
Bank overdrafts	(5.3)	4.7	1.3
Accounts payable and accrued expenses	(25.4)	.3	(14.7)
Accrued federal and state income taxes	(4.7)	2.9	14.9
Other	(.5)	.4	2.9
	$ (13.6)	$ 26.8	$ 13.3

KERR GLASS MANUFACTURING CORPORATION (DEC)

Statements of Cash Flow

	1986	1985	1984
		(in thousands)	
Cash flow provided (used) by operations			
Net earnings (loss)	$ 3,772	(2,441)	318
Add (deduct) noncash items included in net income (loss)			
Depreciation and amortization	13,229	12,431	11,290
Change in noncurrent portion of deferred income taxes	2,655	(659)	(1,278)
Loss on buildings and improvements from restructuring	—	2,028	—
Actuarial gain from purchase of annuities	—	—	(1,227)
Other, net	(190)	(104)	2,613
Changes in operating working capital other than cash and cash equivalents			
Receivables	(3,169)	(507)	194
Income taxes refundable	1,758	2,144	2,820
Inventories	8	10,763	1,717
Prepaid expenses	128	508	—
Deferred income taxes—current	187	(225)	2,609
Accounts payable	2,287	294	(1,166)
Accrued expenses	(757)	5,501	(9,065)
Cash flow provided by operations	19,908	29,733	8,825
Cash flow used by investing activities			
Capital expenditures	(13,106)	(9,281)	(17,460)
Purchase of certificates of deposit	(4,500)	(1,800)	—
Other, net	(653)	(355)	(679)
Cash flow used by investing activities	(18,259)	(11,436)	(18,139)

Cash flow provided (used) by financing activities			
Proceeds from ESOP Term Loan	—	5,638	—
Loan made to ESOP Trust	—	(5,638)	—
Proceeds from sale of common stock to ESOP Trust	—	5,638	—
Payments received on ESOP Trust note receivable	564	423	—
Repayment of ESOP Term Loan	(564)	(423)	—
Periodic Bank Credit Agreement borrowings (repayments), net	(9,000)	(16,000)	14,755
Other long-term debt repayments	(21)	(20)	(18)
Proceeds from sale of Subordinated Notes, net of $2,027 debt issuance costs	37,973	—	—
Redemption and repurchase of Class B Preferred Stock, Series B and Series C	(25,026)	(2,900)	(1,500)
Dividends paid	(4,427)	(4,745)	(4,671)
Issuance of common stock under stock option plans and sale of treasury stock	275	65	431
Cash flow provided (used) by financing activities	(226)	(17,962)	8,997
Cash and cash equivalents			
Increase (decrease) during the year	1,423	335	(317)
Balance at beginning of the year	2,122	1,787	2,104
Balance at end of the year	$ 3,545	2,122	1,787

MOTOROLA, INC. (DEC)

Statements Of Consolidated Changes In Financial Position

	1986	1985	1984
	(In millions of dollars)		
Operations			
Net earnings	$194	$ 72	$387
Add (deduct) noncash items:			
Depreciation:			
Fixed assets	406	366	286
Equipment leased to others	53	75	67
Net change in deferred taxes	(26)	(24)	(51)
Funds provided by operations	627	489	689
Funds provided by (used for):			
Cash	(23)	6	—
Accounts receivable, net	(38)	4	(162)
Inventories	(18)	136	(258)
Other current assets	(29)	(16)	(47)
Accounts payable and accrued liabilities	117	(146)	238
Income taxes payable	53	(51)	25
Sundry assets	(50)	(24)	(22)
Other noncurrent liabilities	17	15	(1)
Total funds provided by (used for)	29	(76)	(227)
Net funds provided by operations	656	413	462
Investments			
Fixed asset expenditures	(567)	(641)	(783)
Disposals and other changes to plant and equipment, net	2	36	33
Increase in equipment leased to others, net	(26)	(82)	(66)
Decrease (increase) in short-term investments	14	(14)	39
Net funds used for investments	(577)	(701)	(777)
Dividends Declared	(82)	(76)	(73)
Total funds provided (required)	$ (3)	$(364)	$(388)
Financing			
Increase (decrease) in notes payable and current portion of long-term debt	16	180	103
Increase (decrease) in long-term debt	(371)	174	269
Issuance of common stock	358	10	16
Net funds provided by (used for) financing	$ 3	$374	$388

REICHHOLD CHEMICALS, INC. (DEC)

Consolidated Statements of Changes in Financial Position

	1986	1985	1984
	(Dollars in thousands)		
Cash provided (used):			
Operations:			
Net income (loss)	$15,859	$(28,432)	$25,709
Items affecting income which do not use (provide) cash:			
Depreciation	21,517	23,353	20,226
Deferred income taxes	6,040	(27,188)	2,321
Restructuring program	(14,603)	39,577	(1,001)
Other net	2,259	7,351	(1,391)
Cash provided by operations	31,072	14,661	45,864
Changes in certain elements of working capital:			
Receivables	4,376	5,613	7,690
Inventories	4,518	(13,879)	(736)
Other current assets	(2,628)	662	(511)
Current liabilities other than borrowings	(6,827)	(3,942)	(448)
Cash provided by current operations	30,511	3,115	51,859
Net proceeds from restructuring program	54,923	63,998	7,878
Cash provided by operating activities	85,434	67,113	59,737
Dividends	(5,944)	(5,905)	(6,078)
Investment activities:			
Acquisitions, net of cash acquired	—	(98,025)	—
Capital expenditures	(40,912)	(35,057)	(24,228)
Net proceeds from property sold or retired	6,457	28,087	2,028
(Increase) decrease in long-term receivables	1,573	3,792	(850)
(Increase) decrease in construction funds	759	(5,273)	(632)
	(32,123)	(106,476)	(23,682)
Financing activities:			
Increase (decrease) in notes payable	(17,654)	22,889	(4,424)
Increase in long-term debt	20,765	74,675	35,234
Reduction of long-term debt	(33,859)	(54,908)	(37,756)
Redemption of minority interest	(15,186)	—	—
Repurchase of preferred stock	—	—	(28,500)
Common stock issued, net of treasury stock acquired	1,321	1,614	9,196
	(44,613)	44,270	(26,250)
Translation adjustment	2,811	816	(1,834)
Other net	1,022	618	(518)
Increase (decrease) in cash and cash equivalents	$ 6,587	$ 436	$ 1,375

VF CORPORATION (DEC)

Statements of Changes in Consolidated Financial Position

	1986	1985	1984
	Dollars in thousands		
Operations			
Net earnings	$129,350,	$139,417	$124,746
Add items not requiring cash:			
Depreciation	43,975	40,238	24,998
Amortization of intangibles	10,991	9,837	1,844
Deferred taxes and other charges	15,532	12,070	4,503
Funds provided by operations	199,848	201,562	156,091
Cash provided (used) by the change in:			
Accounts receivable, net	26,618	(12,401)	25,179
Inventories	(6,334)	(32,420)	62,943
Accounts payable	(21,497)	6,681	(19,248)
Federal and state income taxes	(6,657)	(19,388)	(16,202)
Other, net	(23,981)	8,302	(13,503)
Net cash provided by operations	167,997	152,336	195,260
Cash Dividends	(42,124)	(36,026)	(32,607)
Net cash provided by operations and retained in the business	125,873	116,310	162,653
Investments			
Business acquisitions:			
Net current assets, excluding cash	(279,905)	(405)	(73,012)
Intangible assets	(358,989)	(64)	(117,722)
Debt assumed	391,588	—	—
Other noncurrent items, net	(72,116)	(55)	(142,509)
	(319,422)	(524)	(333,243)
Capital expenditures	(60,775)	(53,142)	(30,714)
Other changes, net	7,915	9,567	731
Net cash invested	(372,282)	(44,099)	(363,226)
Financing			
Increase (decrease) in short-term borrowings	162,909	(63,178)	64,643
Additions to long-term debt	384,693	14,819	123,453
Reductions in long-term debt	(420,195)	(13,836)	(20,545)
Shares issued in business acquisition	172,402	—	—
Purchase of treasury shares	—	—	(47,940)
Proceeds from sale of Common Stock under stock option plans	4,214	3,940	1,692
Net increase (decrease) in cash from financing	304,023	(58,255)	121,303
Net Change in Cash and Short-Term Investments	57,614	13,956	(79,270)
Cash and short-term investments—beginning of year	68,483	54,527	133,797
Cash and Short-Term Investments—End of Year	$126,097	$ 68,483	$ 54,527

TIME INCORPORATED (DEC)

Consolidated Statement of Cash Flows

	1986	1985	1984
	(in millions)		
Net income	$376	$200	$216
Non-cash and non-operating items included in income:			
Depreciation	139	121	101
Amortization of intangibles	21	17	10
Deferred income taxes	111	97	63
Equity in net losses of affiliated companies	17	1	11
Gain on partial sale of subsidiary	(318)	—	—
Gains on sales of investments	(31)	(4)	—
Net gains on sales of cable systems, subsidiaries and property and equipment	—	—	(37)
Net decrease (increase) in working capital, excluding cash, notes receivable and current debt	166	(117)	154
Net increase in programming and other assets and other liabilities	(142)	(83)	(43)
Net increase in unearned subscriptions	51	30	21
Net cash flows from operating activities	390	262	496
Cash flows from investing activities:			
Acquisitions of:			
Subsidiaries	(532)	(420)	—
Cable systems	(27)	(4)	(38)
Investments	(87)	(27)	(3)
Property and equipment	(203)	(203)	(292)
Cable television franchises	(15)	—	(4)
Partial sale of subsidiary	350	—	—
Proceeds from note receivable	50	—	—
Dividends from affiliates	7	1	—
Dispositions of:			
Cable systems and subsidiaries	—	—	108
Investments	240	13	9
Property and equipment	8	14	2
Other	8	(4)	(5)
Net cash flows used by investing activities	(201)	(630)	(223)
Cash flows from financing activities:			
Payments of debt	(747)	(36)	(33)
Purchases of treasury stock	(255)	(2)	(83)
Dividends paid	(62)	(63)	(52)
Proceeds from:			
Issuance of debt	1,108	154	31
Issuance of Common and Series B Preferred Stock	12	8	14
Net cash provided (used) by financing activities	56	61	(123)
Net increase (decrease) in cash and equivalents	$245	$(307)	$150
Schedule of non-cash investing activities:			
Acquisitions and dispositions of subsidiaries and cable systems:			
Working capital other than cash	$ 45	$ 30	$ (2)
Property and equipment	145	23	(1)
Intangible assets	420	423	(24)
Other assets	11	4	(5)
Unearned subscriptions	—	(45)	—
Long-term debt	(62)	(11)	1
Gains on dispositions	—	—	(39)
Net cash paid (received)	$559	$424	$ (70)
Schedule of non-cash financing activities:			
Conversion of Preferred Stock into Common Stock	—	$ (29)	$ (45)
Conversion of debt into Common Stock	$ (11)	—	$ (12)

WORKING CAPITAL OR CASH PROVIDED FROM OR USED IN OPERATIONS

Paragraph 10 of *Opinion No. 19* states:

> The ability of an enterprise to provide working capital or cash from operations is an important factor in considering its financing and investing activities. Accordingly, the Statement should prominently disclose working capital or cash provided from or used in operations for the period, and the Board believes that the disclosure is most informative if the effects of extraordinary items . . . are reported separately from the effects of normal items. The Statement for the period should begin with income or loss before extraordinary items, if any, and add back (or deduct) items recognized in determining that income or loss which did not use (or provide) working capital or cash during the period. Items added and deducted in accordance with this procedure are not sources or uses of working capital or cash, and the related captions should make this clear, e.g., "Add—Expenses not requiring outlay of working capital in the current period." An acceptable alternative procedure, which gives the same result, is to begin with total revenue that provided working capital or cash during the period and deduct operating costs and expenses that required the outlay of working capital or cash during the period. In either case the resulting amount of working capital or cash should be appropriately described, e.g., "Working capital provided from (used in) operations for the period, exclusive of extraordinary items." This total should be immediately followed by working capital or cash provided or used by income or loss from extraordinary items, if any; extraordinary income or loss should be similarly adjusted for items recognized that did not provide or use working capital or cash during the period.

Examples of the calculation of working capital or cash provided from (or used in) operations follow.

Net Income/Loss

ADDSCO INDUSTRIES, INC. (JUN)

Consolidated Statements of Changes in Financial Position

	1986	1985	1984
		($000)	
Financial Resources Provided by Operations:			
Net loss	$(3,438)	$(1,138)	$(4,576)
Items which did not affect working capital during the period:			
Depreciation	1,869	2,001	2,119
(Income) Loss from unconsolidated affiliated companies	(31)	(32)	135
(Decrease) in accrued pension cost not to be funded currently	—	—	(251)
(Decrease) in accrued workmen's compensation claims	(45)	(1,549)	(140)
(Decrease) in estimated liability for damage claims	(130)	(15)	(667)
Increase in deferred income taxes	13	663	684
Working capital used in operations	(1,763)	(70)	(2,696)
Net decrease in cash value of life insurance	—	155	175
Net book value of assets sold	—	21	4
Decrease (increase) in restricted cash and investments	392	142	(37)
Dividend received from affiliate	—	—	215
Other	—	2	1
	(1,371)	251	(2,337)
Financial Resources Applied To			
Additions to property, plant and equipment	487	147	1,923
Current maturities and retirements of deferred compensation	2	22	146
Current maturities and retirements of long-term debt	—	—	163
	489	169	2,233
Increase (Decrease) in Working Capital	$(1,860)	$ 81	$(4,571)

AMETEK, INC. (DEC)

Consolidated Statement of Changes in Financial Position

	1986	1985	1984
		($000)	
Source of funds:			
Operations:			
Net income	$ 36,584	$ 34,935	$42,696
Items not requiring outlay of funds:			
Depreciation and amortization	26,238	16,900	15,999
Deferred federal income taxes and credits	4,517	18,912	7,115
Retroactive credit from purchased tax benefits	(8,024)	—	—
Total from operations	59,315	70,747	65,810
Proceeds from exercise of stock options	1,242	1,457	1,652
Additional borrowings	120,000	28,000	—
Increase in payables and accruals	13,727	3,931	1,048
Decrease (increase) in inventories	9,124	(12,762)	(4,284)
Net book value of fixed assets sold or retired	3,631	72	2,652
Increase (decrease) in income taxes	698	(3,680)	4,132
Other	580	(1,947)	(1,580)
Total sources of funds	208,318	85,817	69,431
Application of funds:			
Additions to property, plant and equipment	23,899	16,969	17,741
Noncurrent assets of purchased companies	4,285	51,616	2,750
Dividends	21,974	18,683	17,467
Repayment of debt	34,629	2,149	4,164
Purchase of treasury stock	5,212	15	1,302
Purchase of equity securities	—	—	21,119
Increase in receivables, prepaid expenses and other current assets	4,679	13,383	1,057
Total application of funds	94,679	102,817	65,603
Net increase (decrease) in funds	113,638	(16,999)	3,827
Cash and marketable securities:			
Beginning of year	59,894	76,894	73,066
End of year	$173,533	$ 59,894	$76,894

Income or Loss From Continuing Operations

AMPCO-PITTSBURGH CORPORATION (DEC)

Consolidated Statements of Changes in Financial Position

	1986	1985	1984
		($000)	
Financial resources were provided by (used for):			
Income (loss) from continuing operations	$ (1,773)	$ 7,614	$14,525
Charges (credits) not affecting working capital—			
Depreciation	11,730	11,162	9,060
Gain on sale of stock investment and other assets	—	(1,857)	(4,474)
Amortization of unfunded pension liabilities	—	(1,217)	(2,886)
Equity in Finance Subsidiary net income	(14)	(430)	(1,571)
Provision for plant closing	964	—	—
Deferred income taxes	(1,628)	(628)	(456)
Other—net	419	(253)	82
Working capital provided by continuing operations	9,698	14,389	14,279
Operating losses of discontinued operations	(9,562)	(4,179)	(3,870)
Loss on discontinuance	(34,959)	—	(4,900)
Discontinuance charges not affecting working capital	23,592	1,085	2,850
Working capital used for discontinued operations	(20,928)	(3,094)	(5,920)
Working capital (used for) provided by operations	(11,230)	11,295	8,359
Proceeds from sales of assets	9,266	9,381	18,954
Proceeds from issuance of common stock	39	11	84,097
Working capital from acquired companies	—	—	49,181
Advances from Finance Subsidiary	806	714	669
	(1,118)	21,402	161,262
Financial resources were used for:			
Acquisition of companies	—	—	85,229
Reduction of long-term obligations	2,671	6,402	20,013
Investments	3,370	—	5,796
Cash dividends to shareholders	2,864	2,864	2,323
Purchase of property, plant and equipment	7,036	12,015	9,975
Note received from sale of current assets	6,075	—	—
Adjustment for foreign currency rate changes—			
Cumulative translation adjustment	(1,455)	480	1,106
Non-current items included above	493	(16)	(604)
Increase (decrease) in other—net	3,980	2,623	2,501
	25,038	24,368	126,341
Increase (decrease) in working capital	$(26,156)	$ (2,966)	$34,920

GENCORP (NOV)

Statement of Changes in Consolidated Financial Position

	1986	1985	1984
	(amounts in millions)		
Cash Provided From Operations:			
Income from continuing operations	$130	$ 49	$ 31
Adjustments for non-cash items:			
Depreciation and amortization	157	137	121
Closures and nonoperating losses—noncurrent	6	51	61
Deferred income taxes	(74)	29	(4)
Other	(5)	4	1
Changes in working capital:			
Reduction (Increase) in accounts receivable	(67)	7	(31)
Reduction (Increase) in inventories	25	(29)	(47)
Reduction (Increase) in other current assets	15	(58)	24
Increase (Reduction) in current liabilities for closures and nonoperating losses	(34)	32	52
Increase (Reduction) in other current liabilities	109	(10)	(19)
Nonoperating reclassifications	(10)	1	(47)
Provided from continuing operations	252	213	142
Provided from discontinued operations	—	99	43
Provided From Operations	252	312	185
Cash Provided From (Used In) Capital Asset Transactions:			
Expenditures for property, plant and equipment	(189)	(161)	(145)
Expenditures for broadcast program rights	(43)	(38)	(25)
Disposal of property, plant and equipment	8	18	14
Acquisitions	(13)	—	(11)
Other investments	21	60	(17)
Net Capital Asset Transactions	(216)	(121)	(184)
Cash Provided From (Used In) Financing Transactions:			
Proceeds from issuance of long-term debt	—	—	62
Reduction of long-term debt	(57)	(58)	(61)
Dividends	(34)	(33)	(33)
Other	(1)	(2)	(4)
Net Financing Transactions	(92)	(93)	(36)
Net Increase (Decrease) in Cash and Marketable Securities Less Short-Term Borrowings	$ (56)	$ 98	$ (35)

DYNAMICS CORPORATION OF AMERICA (DEC)

Consolidated Statements of Changes in Financial Position

	1986	1985	1984
	(in thousands)		
Funds from Operations			
Income from continuing operations, before equity in extraordinary credit of CTS Corporation not affecting funds	$ 2,197	$17,591	$10,840
Charges (credits) not affecting funds:			
Depreciation and amortization	2,067	2,239	1,944
Deferred income taxes	2,368	5,895	(622)
Equity in (income) loss of CTS Corporation, net of related dividends and income taxes	5,484	(29)	(1,432)
Patent award	(918)	(11,928)	
Other—net	250	239	206
	11,448	14,007	10,936
Loss from discontinued operations	(1,738)	(1,784)	(2,631)
Charges (credits) not affecting funds:			
Deferred income taxes	(703)	(751)	25
Equity in (income) loss of CTS Corporation	(639)	(135)	1,993
Loss on sale of net assets	845		
Other—net	158	242	389
	9,371	11,579	10,712
Other funds provided from (used for) operations:			
Accounts receivable	(1,664)	1,504	(3,016)
Inventories	4,690	(2,803)	(4,011)
Other current assets	(3,192)	40	6,392
Accounts payable	(2,235)	590	382
Accrued expenses and sundry liabilities	(1,104)	(3,230)	7,843
Federal income taxes payable	(1,045)	2,189	(2,886)
Funds from operations	4,821	9,869	15,416
Refund of escrow deposit		6,450	
Shares issued and issuable pursuant to benefit plans	681	228	39
Increase in debt	29,082	73	48
Sale of net assets of discontinued operations (including working capital of $2,963)	2,973		
Sale of noncurrent marketable securities, less gain included in income		9,972	4,478
Reclassification of noncurrent marketable securities		2,918	
Other—net	332	92	58
Funds from all sources	37,889	29,602	20,039
Funds Applied			
Additions to property, plant and equipment	835	2,930	2,016
Purchases of CTS Corporation common stock	44,345	204	1,942
Investment in noncurrent marketable securities			2,898
Deposit			6,450
Debt repayments	6,905	384	843
Cash dividends	838	855	874
Deferred compensation	370		39
Common Stock purchase for treasury	3,383	1,260	2,043
Investment in Farmhand, Inc.	2,973		
Funds applied	59,649	5,633	16,655
Increase (decrease) in funds	(21,760)	23,969	3,384
Cash and current marketable securities:			
Beginning of year	43,511	19,542	16,158
End of year	$21,751	$43,511	$19,542
Increase (decrease) in funds:			
Cash	($ 1,903)	$ 295	($6,008)
Current marketable securities	(19,857)	23,674	9,392
	($21,760)	$23,969	$ 3,384

Income/Loss Before Extraordinary Item

AMERICAN MAIZE-PRODUCTS COMPANY (DEC)

Consolidated Statements of Changes in Financial Position

	1986	1985	1984
	Dollars in thousands		
Funds provided by (used in):			
Operations:			
Income (loss) before extraordinary charge	$ 10,231	$ (4,668)	$10,002
Charges (credits) to income (loss) not affecting funds:			
Depreciation and amortization	18,352	15,930	11,249
Amortization of original issue discount on subordinated debentures	252	119	—
Deferred taxes and expenses	9,666	(7,300)	3,391
Loss on marketable equity securities	—	—	681
Minority interest in earnings (loss) of subsidiary	5,452	(315)	1,910
Gain on public stock sale by subsidiary	—	(462)	(6,275)
Loss on sale of subsidiary	—	—	800
Net loss (gain) on disposal of fixed assets	688	(450)	5
Funds provided by operations before extraordinary charge	44,641	2,854	21,763
Extraordinary charge	(499)	—	—
Funds provided after extraordinary charge	44,142	2,854	21,763
Working capital:			
Accounts receivable, trade	(5,797)	3,399	(3,370)
Income tax refund receivable	(1,341)	1,598	(46)
Inventories	(26,906)	(1,739)	(6,839)
Accounts payable and accrued liabilities	4,436	2,080	6,907
Other	64	(1,863)	(1,641)
Net proceeds from disposal of subsidiary	—	—	2,537
Additions to property, plant and equipment	(19,762)	(22,426)	(21,777)
Proceeds from disposal of fixed assets	—	1,355	260
Other	3,244	(2,138)	2,637
	(1,920)	(16,880)	431
Financing and investment activities:			
Cash dividends	(2,777)	(2,737)	(2,726)
Net proceeds of public stock sale by subsidiary	—	9,500	20,375
Issuance of common stock upon conversion of long-term debt	4,779	—	—
Proceeds on sale of marketable equity securities	—	—	2,074
Business acquisitions (net of working capital acquired of $38,865 in 1986, $3,895 in 1985 and $6,902 in 1984):			
Fixed assets	(23,117)	(1,510)	(44,184)
Goodwill	(12,765)		
Other assets	(5,285)	(263)	—
Long-term debt	—	—	8,549
Debt transactions:			
Issuance of short-term debt	—	4,500	—
Payments of short-term debt	(4,500)	—	—
Issuance of long-term debt	161,538	30,000	49,931
Payments of long-term debt	(115,588)	(29,270)	(30,298)
Conversion of long-term debt to common stock	(4,779)	—	—
Funds provided by (used in) financing and investment	(2,494)	10,220	3,721
Change in cash and short-term investments	$ (4,414)	$ (6,660)	$ 4,152

FEDERAL-MOGUL CORPORATION (DEC)

Consolidated Statements of Changes in Financial Position

	1986	1985	1984
	(Thousands of Dollars)		
Source (Use) of Funds:			
From Operations			
Earnings before extraordinary loss	$ 5,088	$51,973	$48,385
Charges (credits) not affecting funds provided from operations:			
Depreciation	36,435	34,190	32,220
Amortization	2,259	2,548	2,656
Deferred income taxes	(5,761)	(3,399)	5,768
Restructuring charge	39,808	0	0
Net gain on sale of business	0	(10,231)	0
Minority interest in net earnings of international subsidiaries	575	1,312	1,396
Other	3,123	515	3,323
Funds Provided From Operations Before Extraordinary Loss	81,527	76,908	93,748
Extraordinary loss on extinguishment of debt	(1,482)	0	0
Funds Provided From Operations	80,045	76,908	93,748
Change in working capital items	(21,999)	13,442	(23,759)
Net Cash Flow From Operations	58,046	90,350	69,989
Cash Dividends			
To shareowners	(20,547)	(20,515)	(19,677)
To minority shareowners of international subsidiaries	(1,259)	(938)	(491)
	(21,806)	(21,453)	(20,168)
Financing Activities			
Long-term borrowings	107,354	915	3,595
Reduction in long-term debt	(75,009)	(1,951)	(4,206)
Increase in short-term debt	12,424	6,864	9,183
	44,769	5,828	8,572
Investing and Other Activities			
Expenditures for property, plant and equipment	(89,384)	(61,155)	(43,960)
Acquisitions and investments in subsidiaries	(68,553)	(21,272)	0
Purchase of treasury stock	(7,449)	(21,727)	0
Investment in joint venture	0	(24,000)	0
Sales of plants and divisions	0	101,773	1,428
Disposition of property, plant and equipment	3,517	3,067	2,388
Change in long-term investments and receivables	7,467	1,871	6,215
Expenditures for taxes related to gain on sale of business	(22,561)	0	0
Other	(1,944)	1,510	(927)
	(178,907)	(19,933)	(34,856)
Net Change In Cash and Short-Term Investments	$(97,898)	$54,792	$23,547
Change in Working Capital Items:			
Accounts receivable	$ (3,966)	$ (5,057)	$ 1,354
Inventories	(10,174)	7,642	(31,116)
Other current accounts	(10,086)	(1,017)	2,473
Accounts payable	9,391	1,034	4,585
Income taxes	(5,976)	3,890	241
Other accrued expenses and liabilities	(7,363)	5,544	4,490
Effect of international currency translation	6,175	1,406	(5,786)
	$(21,999)	$13,442	$(23,759)

Income Before Cumulative Effect of Accounting Change

NATIONAL SEMICONDUCTOR CORPORATION (MAY)

Consolidated Statements of Changes in Financial Position

	1986	1985	1984
	(in millions)		
Operations:			
Earnings (Loss) before extraordinary credit and cumulative effect of accounting change	$(148.3)	$ 34.4	$ 56.2
Items not requiring the current use of cash:			
Depreciation and amortization	157.8	143.3	115.1
Deferred income taxes—noncurrent	(25.5)	23.1	33.3
Total generated by operations before extraordinary credit and cumulative effect of accounting change	(16.0)	200.8	204.6
Extraordinary credit	5.6	8.8	7.8
Cumulative effect of accounting change	51.2	—	—
Total generated by operations	40.8	209.6	212.4
Changes in items affecting operations:			
Receivables	23.9	19.7	(73.4)
Inventories	17.6	(0.3)	(49.1)
Prepaid expenses	(5.2)	(10.7)	(2.4)
Deferred income tax benefits—current	32.3	(33.1)	(14.8)
Accounts payable	44.4	(43.1)	72.8
Accrued expenses	22.9	(17.1)	18.6
Income taxes	6.8	(1.6)	7.8
Deferred income on shipments to distributors	(91.6)	6.7	29.5
Other current liabilities	18.5	5.9	(1.0)
Other noncurrent assets and liabilities	(3.6)	(9.1)	(1.9)
Cash generated by operations	$106.8	$126.9	$198.5
Investments:			
Purchase of property, plant and equipment	$(116.9)	$(400.6)	$(278.1)
Retirements of property, plant and equipment at net book value	18.3	16.6	11.8
Cash required by investment activities	$ (98.6)	$(384.0)	$(266.3)
Dividends:			
Cash required to pay preferred dividends	$ (7.2)	$ —	$ —
Financing:			
Net proceeds from preferred stock offering	$120.9	$ —	$ —
Net proceeds from common stock offering	—	—	197.6
Net short-term borrowings and current portion of long term debt	(23.4)	20.8	(15.9)
Net short-term borrowings reclassified as long-term	(123.0)	200.0	9.8
Long-term borrowings	26.1	9.7	.6
Long-term debt—decreases	(5.6)	(8.0)	(125.3)
Issuance of common stock under employee benefit plans	13.6	19.0	21.8
Cash generated by financing	$ 8.6	$241.5	$ 88.6
Total cash generated (required)	$ 9.6	$ (15.6)	$ 20.8

SOURCES AND USES

Paragraph 14 of *Opinion No. 19* states:

In addition to working capital or cash provided from operations (see paragraph 10) and changes in elements of working capital (see paragraph 12), the Statement should clearly disclose:

a. Outlays for purchase of long-term assets (identifying separately such items as investments, property, and intangibles).

b. Proceeds from sale (or working capital or cash provided by sale) of long-term assets (identifying separately such items as investments, property, and intangibles) not in the normal course of business, less related expenses involving the current use of working capital or cash.

c. Conversion of long-term debt or preferred stock to common stock.

d. Issuance, assumption, redemption, and repayment of long-term debt.

e. Issuance, redemption, or purchase of capital stock for cash or for assets other than cash.

f. Dividends in cash or in kind or other distributions to shareholders (except stock dividends and stock split-ups as defined in *ARB No. 43* Chapter 7B—Stock Dividends and Stock Split-Ups).

Examples of presentations of sources and uses follow.

Property

CPC INTERNATIONAL INC. (DEC)

Consolidated Statement of Changes in Financial Position

	1986	1985	1984
		$ Millions	
Funds provided from operations			
Net income	$219.2	$142.0	$193.4
Non-cash charges (credits) to net income			
Depreciation and amortization	170.8	148.9	135.9
Deferred taxes	63.8	49.0	25.7
Special charge—net of deferred taxes	—	32.8	—
Other	16.3	8.2	6.3
Changes in trade working capital			
Notes and accounts receivable	(24.2)	(5.9)	(47.5)
Inventories	14.3	(45.0)	(27.1)
Accounts payable and accrued items	49.8	28.4	44.8
Funds provided from operations	510.0	358.4	331.5
Dividends paid	(107.2)	(106.9)	(106.8)
Funds provided from operations after payment of dividends	402.8	251.5	224.7
Funds invested in the business			
Capital expenditures	(361.1)	(423.8)	(310.6)
Disposal of plants and properties	10.1	9.8	8.1
Proceeds from businesses sold	45.4	—	—
Businesses acquired	(192.6)	(6.5)	(12.7)
Assets acquired through merger	—	—	(89.0)
Funds invested in the business	(498.2)	(420.5)	(404.2)
Net translation adjustment	5.1	3.0	(5.8)
Net funds after investments	(90.3)	(166.0)	(185.3)
Funds provided from (used for) financing transactions			
Purchase of treasury stock	(623.2)	(1.4)	(1.2)
New long-term debt	301.6	167.8	42.6
Repayment of long-term debt	(41.6)	(81.7)	(7.5)
Net change in short-term debt	456.0	62.4	60.1
Debt from merger	—	—	50.7
Minority interest from merger	—	—	38.3
Stock issued	6.0	3.1	2.0
Other liabilities and deposits	(5.9)	3.1	(1.5)
Funds from financing transactions	92.9	153.3	183.5
Increase (decrease) in cash and temporary investments	$ 2.6	$(12.7)	$ (1.8)

BROWNING-FERRIS INDUSTRIES, INC. (SEP)

Consolidated Statement of Changes in Financial Position

	1986	1985	1984
	(In Thousands)		
Source of Funds:			
Operations—			
Net income	$136,853	$111,828	$ 89,168
Items not requiring outlay of working capital—			
Depreciation and amortization	136,715	119,056	103,004
Provision (benefit) for deferred income taxes	(4,687)	568	9,467
Amortization of deferred investment tax credit	(6,808)	(6,663)	(5,703)
Total from operations	262,073	224,789	195,936
Increase in long-term debt	56,219	61,327	15,750
Sales and retirements of property & equipment, net	11,814	18,605	7,564
Investment tax credit	4,564	9,715	5,901
Income tax benefit of stock options exercised	5,929	3,198	4,101
Stock options exercised	4,659	3,738	3,195
Change in investments, at cost, pledged	7,918	7,488	7,443
Sale of common stock, net of expenses	102,632	—	—
Other, net	16,524	12,860	3,268
	472,332	341,720	243,158
Application of Funds:			
Additions to property and equipment	277,101	224,682	165,920
Additions to property and equipment of various poolings-of-interests, net	—	1,430	7,585
Cash dividends	45,662	37,413	32,787
Cost over fair value of net tangible assets of acquired businesses	3,968	1,296	1,593
Increase in other intangible assets	35,653	28,249	8,583
Decrease in long-term debt	70,019	52,881	21,462
Change in net amount due unconsolidated partnership	7,080	3,005	(3,728)
	439,483	348,956	234,202
Change in Working Capital	32,849	(7,236)	8,956
Working Capital, beginning of year	(2,318)	4,918	(4,038)
Working Capital, end of year	$ 30,531	$ (2,318)	$ 4,918
Change in Working Capital by Component:			
Cash	$ (1,874)	(14)	$ (3,511)
Short-term investments	12,635	6,634	(3,773)
Investments, at cost, pledged, current portion	1,789	(2,050)	99
Receivables, net	28,116	9,529	25,240
Inventories and prepayments	12,563	(467)	(319)
Current notes payable and current portion of long-term debt	(827)	3,249	1,544
Accounts payable and accrued liabilities	(16,311)	(17,583)	(8,458)
Income taxes and deferred revenues	(3,251)	(6,855)	(9,571)
Other current liabilities	—	321	7,705
Change in Working Capital	$ 32,849	$ (7,236)	$ 8,956

CAESARS WORLD, INC. (JUL)

Consolidated Statements of Changes in Financial Position

	1986	1985	1984
	(In thousands)		
Sources of cash			
Operations			
Net income	$ 41,017	$ 31,812	$ 18,840
Items not affecting working capital			
Depreciation and amortization	38,549	34,555	28,599
Provision (credit) for interest differential on CRDA bonds	(1,739)	4,756	—
Deferred income taxes	10,878	1,503	(687)
Working capital provided by operations	88,705	72,626	46,752
Changes in working capital generated (used) by operations			
Inventories	(280)	(2,593)	(860)
Prepaid expenses and other	(347)	3,016	(1,486)
Receivables, net	1,381	(1,422)	18,200
Accounts payable and accrued expenses	11,287	(7,783)	14,894
Income taxes	(14,915)	(7,107)	20,387
Cash provided by operations	85,831	56,737	97,887
Additions to long-term debt	115,000	454	92,732
Disposals of property and equipment, net	3,112	1,034	2,038
Issuance of common stock	618	—	35,753
Other, net	(1,650)	2,822	(37)
Total sources of cash	202,911	61,047	228,373
Uses of cash			
Purchases of property and equipment	53,085	88,471	90,705
Reductions in long-term debt and obligations under capital leases	16,854	23,471	25,183
Deposits for CRDA bonds	7,211	5,961	—
Net (increase) decrease in short-term borrowings	3,100	(3,100)	36,794
Total uses of cash	80,250	114,803	152,682
Increase (decrease) in cash and short-term investments	$122,661	$ (53,756)	$ 75,691

Capital Stock

EMERSON RADIO CORP. (MAR)

Consolidated Statements of Changes in Financial Position

	1986	1985	1984
		($000)	
Sources of working capital:			
Operations:			
Net earnings	$12,907	$13,254	$9,084
Items not requiring (providing) working capital:			
Depreciation and amortization	2,150	1,448	1,213
Deferred income taxes	253	3,427	3,586
Compensation expense relating to nonqualified stock options and grants	963	(226)	984
Gain from sale of Imatron Inc. stock	(1,810)		
Equity in net loss of Imatron Inc.		1,008	476
Minority interest in consolidated subsidiary		(609)	(755)
Gain arising from repurchase of debentures		(105)	
Gain arising from issuance of stock by affiliates			(5,861)
Working capital provided by operations	14,463	18,197	8,727
Issuance of long-term debt	21,961	20,000	
Proceeds from sale of Imatron Inc. stock	3,273		
Remaining investment in Imatron Inc.	2,606		
Exercise of stock options (including tax benefit of $508,000, $346,000 and $1,167,000 resulting from exercise by employees of nonqualified stock options)	1,037	574	1,407
Net proceeds from issuance of CRC common stock pursuant to exercise of warrants and employee stock options and grants and conversion of convertible long-term debt		76	896
Total	43,340	38,847	11,030
Applications of working capital:			
Additions to property and equipment	3,171	2,034	985
Repayment of long-term debt	650		
Purchase of trademarks	491		
Current maturities of long-term debt	1,410	199	357
Repurchase of debentures	13	839	50
Conversion of CRC long-term notes payable			606
Other	40	460	17
Total	5,775	3,532	2,015
Increase in working capital	$37,565	$35,315	$ 9,015
Changes in working capital components:			
Increase (decrease) in current assets:			
Cash and cash equivalents	$ 3,867	$ 646	$ (655)
Accounts receivable	24,131	21,461	9,091
Inventories	(10,497)	56,939	6,030
Prepaid expenses and other current assets	9,687	7,855	2,859
Income taxes receivable			(650)
	27,188	86,901	16,675
Increase (decrease) in current liabilities:			
Notes and acceptances payable	4,866	31,422	48
Accounts payable and accrued expenses	(20,464)	22,020	5,188
Income taxes payable	5,221	(1,856)	2,242
	(10,377)	51,586	7,660
Increase in working capital	$37,565	$35,315	$ 9,015

THE L. S. STARRETT COMPANY (JUN)

Consolidated Statement of Changes in Financial Position

	1986	1985	1984
		(in thousands)	
Resources were provided by:			
Operations:			
Net earnings	$12,701	$12,734	$ 8,612
Non-cash expenses:			
Depreciation	4,044	3,720	3,467
Deferred income taxes	1,095	(263)	(695)
Decreases (increases) in:			
Receivables	(303)	(766)	(4,722)
Inventories	(2,260)	(3,882)	6,773
Other current assets and liabilities	(1,457)	3,526	2,845
Total from operations	13,820	15,069	16,280
Stock issued under stock purchase plans	1,043	752	1,532
Sale of stock to ESOP	556	11,051	
Industrial revenue bond proceeds	7,500		
Other resources, net	421	181	(283)
Total resources	23,340	27,053	17,529
Resources were used for:			
Purchase of plant and equipment	4,450	9,196	3,683
Purchase of treasury stock	6,081	16,439	3,716
Payment of dividends	3,831	3,775	3,769
Equity adjustment from currency translation	(749)	578	900
Total uses	13,613	29,988	12,068
Increase (decrease) in cash and equivalents	9,727	(2,935)	5,461
Balance, beginning of year	19,120	22,055	16,594
Balance, end of year	$28,847	$19,120	$22,055

DUPLEX PRODUCTS INC. (OCT)

Consolidated Statement of Changes in Financial Position

	1986	1985	1984
		($000)	
Sources of working capital			
Operations			
Net earnings	$11,707	$14,100	$ 9,933
Add (deduct) items not requiring (providing) working capital			
Depreciation and amortization	4,634	4,033	2,827
Deferred compensation	19	244	(30)
Deferred income taxes	965	727	699
Deferred investment credits	16	177	(60)
Total from operations	17,341	19,281	13,369
Decrease in other assets	—	128	—
Increase in long-term debt	6,000	—	—
Stock issuance and amortization under restricted stock plan	116	189	225
Issuance of treasury stock to ESOP	231	213	159
Total sources of working capital	23,688	19,811	13,753
Uses of working capital			
Increase in other assets	1,260	—	280
Additions to property, plant and equipment	11,991	6,697	4,069
Reduction of long-term debt and capitalized leases	1,842	1,395	1,589
Cash dividends paid	3,972	3,436	3,122
Purchase of treasury stock	390	286	—
Total uses of working capital	19,455	11,824	9,060
Increase in working capital	$ 4,233	$ 7,987	$ 4,693
Increase (decrease) in working capital components			
Cash and marketable securities	$ (158)	$10,076	$ 3,335
Accounts receivable	5,207	280	3,996
Inventories	(266)	(276)	(887)
Current maturities of long-term liabilities	289	207	(120)
Accounts payable	(350)	(1,190)	(825)
Accrued expenses	(301)	(821)	(1,518)
Income taxes	(188)	(289)	712
Increase in working capital	$ 4,233	$ 7,987	$ 4,693

Debt

CAMPBELL SOUP COMPANY (JUL)

Consolidated Statements of Changes in Financial Position

	1986	1985	1984
		(000 omitted)	
Cash provided by:			
Operations			
Net earnings	$223,225	$197,824	$191,202
Items not requiring the use of cash			
Depreciation and amortization	126,777	125,727	107,818
Provisions for restructurings and writedowns		31,493	
Other, principally deferred taxes	48,051	31,896	32,101
(Increase) decrease in operating working capital (see below)	42,877	12,057	(148,307)
Effect of translation adjustments on working capital	1,536	834	(3,799)
Cash provided by operations	442,466	399,831	179,015
Borrowings			
Long-term debt incurred	219,946	18,654	14,664
Long-term debt repaid	(167,544)	(13,748)	(6,291)
Increase (decrease) in short-term debt	(3,234)	28,729	18,756
Cash provided by borrowings	49,168	33,635	21,129
	491,634	433,466	206,144
Cash used for:			
Plant assets			
Purchased	251,909	212,867	183,144
Acquired	23,749	9,454	18,720
Sold	(29,771)	(21,869)	(12,880)
	245,887	200,452	188,984
Goodwill and other assets	4,477	35,783	32,562
Investment in affiliates	9,833	57,902	
Dividends	84,367	79,116	73,389
Treasury stock transactions, net	(3,973)	(1,759)	(552)
Other, net	(17,850)	(16,789)	(21,304)
	322,741	354,705	273,079
Increase (decrease) in cash and temporary investments	$168,893	$ 78,761	$ (66,935)
(Increase) decrease in operating working capital:			
(Increase) decrease in accounts receivable	$ (19,166)	$ (971)	$ (41,579)
(Increase) decrease in inventories	12,617	(20,592)	(146,059)
(Increase) decrease in prepaid expenses	(6,589)	10,893	(10,528)
Increase (decrease) in payables	26,952	(871)	39,845
Increase (decrease) in accrued liabilities	29,063	23,598	10,014
	$ 42,877	$ 12,057	$(148,307)

KAISER ALUMINUM & CHEMICAL CORPORATION (DEC)

Statements of Changes in Consolidated Financial Position

	1986	1985	1984
	Millions of dollars		
Resources Were Provided By:			
Continuing operations:			
Loss from continuing operations	$ (54.4)	$(202.7)	$ (47.1)
Expenses (income) not involving funds:			
Depreciation	117.2	112.7	112.0
Deferred income taxes	(17.5)	(91.5)	(108.2)
Equity in undistributed earnings of companies not consolidated	(23.9)	12.9	(19.1)
Redeemable preference stock	9.2	8.9	
Net loss on asset dispositions and write-downs	40.7	204.9	
Other		(20.7)	1.1
Provided (used) by continuing operations	71.3	24.5	(61.3)
Long-term borrowings	108.0	96.0	168.7
Extension of long-term borrowings	120.0		
Return of investments and advances		2.5	41.0
Capital stock issued	8.2	7.5	36.0
Currency translation adjustment	30.5	29.0	(15.9)
Proceeds from disposition of property and investments	152.6	10.5	6.6
Early collection of long-term note	30.0		
Total	$520.6	$170.0	$175.1
Resources Were Used For:			
Property, plant, and equipment	$ 98.2	$122.3	$240.4
Reduction of long-term debt	279.2	81.9	51.2
Kaiser Development Company common stock repurchased from (contributed to) retirement plans	14.7	(13.0)	
Dividends	3.7	10.3	27.6
Deferred financing costs	11.6		
Other	79.0	(4.9)	(38.4)
Increase (decrease) in working capital	34.2	(26.6)	(105.7)
Total	$520.6	$170.0	$175.1
Increase (Decrease) in Working Capital—By Component:			
Cash	$ (14.2)	$ 71.5	$ 11.7
Receivables	49.5	(63.4)	(127.8)
Inventories	(7.1)	(54.5)	20.7
Prepaid expenses	7.7	3.8	4.9
Current assets of discontinued operations—net	(27.4)	(206.8)	73.2
Accounts payable and accrued liabilities	(35.7)	68.4	51.0
Income taxes payable	(14.6)	80.1	40.0
Payable to affiliates	(8.2)	(9.2)	9.7
Notes payable	65.8	165.5	(143.3)
Long-term debt—current portion	18.4	(82.0)	(45.8)
Total	$ 34.2	$ (26.6)	$(105.7)

NORTEK, INC. (DEC)

Consolidated Statement of Changes in Financial Position

	1986	1985	1984
	(Amounts in Thousands)		
Working Capital was provided by:			
Earnings from continuing operations before extraordinary loss	$ 37,000	$ 33,100	$ 18,300
Charges (credits) to earnings which did not affect working capital—			
Depreciation and amortization	24,939	13,308	10,374
Deferred federal income taxes	(2,700)	5,500	600
Working capital provided from continuing operations	59,239	51,908	29,274
Extraordinary loss	(8,000)	—	—
Businesses sold or discontinued	15,072	(305)	23,256
Common stock sold or issued, net	34,105	44,232	1,210
Increase in long-term debt—			
Proceeds from sale of senior subordinated debentures	49,363	246,370	—
Proceeds from sale of convertible debentures	112,000	—	40,000
Proceeds from sale of subordinated notes	—	—	60,000
Indebtedness of acquired businesses	18,398	22,784	195
Debt incurred in connection with acquired businesses	36,283	6,314	3,250
Guaranty of indebtedness of employee benefit plans	—	10,667	—
Other increase in indebtedness, net	1,455	—	—
Other, net	5,826	4,450	(4,041)
Total Working Capital Provided	323,741	386,420	153,144
Working Capital was used for:			
Net additions to property and equipment	22,209	17,042	12,855
Acquired businesses—			
Plant and equipment	63,046	51,493	389
Goodwill	61,451	32,512	12,013
Other non-current assets and liabilities, net	5,975	1,408	—
Redemption of 15% and 12½% subordinated debentures	45,919	—	—
Open market purchases of 13½% senior subordinated debentures	45,382	—	—
Conversion and redemption of 10½% convertible debentures	40,000	—	—
Deferred compensation	—	11,000	—
Net increase in deferred debt expense	784	9,799	3,911
Investment in Jensen Industries	—	(7,549)	7,549
Reduction of indebtedness, net	—	7,065	57,804
Other investments and long-term receivables	(10,403)	1,189	13,073
Total Working Capital Used	274,363	123,959	107,594
Increase in Working Capital	$ 49,378	$262,461	$ 45,550

AFG INDUSTRIES, INC. (DEC)

Consolidated Statement of Changes in Financial Position

	1986	1985	1984
	(In thousands)		
Funds provided by (used for) operations:			
Income before extraordinary items	$ 53,322	$ 21,102	$18,118
Non-cash items:			
Depreciation	30,942	26,904	23,605
Deferred income taxes	3,706	1,601	17,414
Other	50	(1,926)	(4,394)
Loss (gain) on sale of property, plant, and equipment	(490)	(20)	472
Funds provided from operations before extraordinary items	87,530	47,661	55,215
Extraordinary items, net of deferred income taxes			5,410
Funds provided from operations and extraordinary items	87,530	47,661	60,625
Accounts and notes receivable	1,036	(2,508)	(2,925)
Inventories	(1,382)	2,809	(6,703)
Prepaid expenses	1,350	(820)	(1,546)
Trade accounts payable	9,482	937	(2,838)
Income taxes	17,073	912	(1,963)
Accrued liabilities	(1,508)	4,985	2,488
Cash flow from operations	113,581	53,976	47,138
Cash in lieu of fractional interests	(9)		
Cash dividends declared	(2,025)		
	(2,034)		
Cash provided by (used for) investment activities:			
Acquisition of property, plant, and equipment	(50,476)	(21,876)	(38,130)
Assets and liabilities of companies acquired:			
Working capital other than cash and short-term investments	(7,927)		(1,789)
Property, plant, and equipment	(9,341)		(6,866)
Long-term debt	4,956		2,185
Other	(1,315)		
Proceeds from sale of property, plant and equipment	982	435	414
Advances to unconsolidated affiliate	(15,000)		
Prepaid royalties	(2,000)		
Noncompete covenant	(1,383)		
Other	(1,922)	(1,333)	(1,851)
Cash used for investment activities	(83,426)	(22,774)	(46,037)
Cash provided by (used for) financing activities:			
Proceeds from issuance of long-term debt	118,980	110,000	64,184
Bond issuance costs	(3,716)	(3,686)	
Proceeds from issuance of common stock	227	192	82
Reduction of long-term debt	(8,346)	(62,439)	(74,842)
Reduction of current maturities of long-term debt	(1,469)	(3,321)	(5,262)
Reduction of long-term debt due to conversion of debentures, net of unamortized bond issuance costs	(38,780)		
Proceeds from issuance of common stock due to conversion of debentures, net of unamortized bond issuance costs	38,780		
Increase (decrease) of reserve for pensions and other benefits	229	(13,114)	(1,313)
Cash provided by (used for) financing activities	105,905	27,632	(17,151)
Increase (decrease) in cash, certificates of deposit, and marketable securities	$134,026	$ 58,834	($16,050)

Dividends

BOWATER INCORPORATED (DEC)

Consolidated Statement of Changes in Financial Position

	1986	1985	1984
		(In thousands)	
Internally generated funds:			
Income from continuing operations	$ 49,444	$ 67,520	$ 62,541
Items not affecting working capital:			
Depreciation, amortization and cost of timber harvested	61,500	47,852	43,607
Deferred income taxes	29,402	17,614	31,927
Minority interests	12,245	13,319	9,915
Loss on retirement of fixed assets	7,650	—	—
Other	(2,197)	1,237	10,830
Funds provided by continuing operations	158,044	147,542	158,820
Funds provided by discontinued operations	—	—	10,320
Changes in non-cash components of working capital:			
Receivables	(12,824)	(2,653)	(9,606)
Inventories	(22,521)	13,315	(4,147)
Accounts payable	(67,107)	51,723	(9,986)
Income taxes	(681)	1,274	16,039
Other	(9,070)	3,454	10,036
Cash flow from operations	45,841	214,655	171,476
Disposition of fixed assets, timber and timberlands	1,025	861	1,055
	46,866	215,516	172,531
Capital expenditures and investments:			
Fixed assets, timber and timberlands	(247,757)	(358,099)	(176,706)
Acquisition of Star Forms, Inc., (net of working capital acquired of $19,422,000 in 1986)	(82,959)	—	—
Other	(2,782)	(6,828)	(4,706)
	(333,498)	(364,927)	(181,412)
Net transactions with former parent and affiliates	—	—	(106,256)
Dividends to common shareholders	(21,139)	(21,068)	(10,516)
Dividends to preferred shareholders	(5,025)	—	—
Net cash requirements	$(312,806)	$(170,479)	$(125,653)
Cash provided by:			
Issuance of common stock	$ —	$ —	$ 71,503
Issuance of LIBOR preferred stock	—	73,675	—
Issuance of preferred stock of subsidiary to minority interest	—	24,905	—
Issuance of common stock under stock option and dividend reinvestment plans	4,998	251	—
Long-term debt borrowings	308,399	125,142	91,716
Long-term debt repayments	(23,921)	(52,444)	(18,127)
Short-term debt increase (decrease)	291	(1,061)	(3,833)
Decrease in funds on deposit with trustee	—	2,392	3,844
Decrease (increase) in cash and marketable securities	23,039	(2,381)	(19,450)
Total cash provided	$312,806	$170,479	$125,653

THE SINGER COMPANY (DEC)

Statement of Changes in Financial Position

	1986	1985	1984
	(Amounts in Millions)		
Sources of Funds:			
Operations			
Income from continuing operations	$ 58.5	$ 56.6	$ 62.0
Non-fund charges (credits):			
Depreciation	47.4	37.9	34.4
Amortization	21.5	5.4	2.7
Dividends in excess of (less than) equity in income of unconsolidated companies	10.4	(1.0)	(2.3)
Funds provided from continuing operations	137.8	98.9	96.8
Income (loss) from discontinued operations	33.3	25.7	(8.7)
Funds provided from operations before extraordinary credits and cumulative effect of change in method of accounting	171.1	124.6	88.1
Extraordinary credits	18.0	—	11.8
Cumulative effect of change in method of accounting	(27.2)	—	—
Total funds provided from operations	161.9	124.6	99.9
Financing			
Issuance of common stock and increase in additional paid-in capital:			
Conversion of 9% Convertible Subordinated Debentures	98.8	—	—
Exercise of warrants	9.0	—	—
Exercise of stock options	5.8	2.6	1.8
Long-term debt:			
Increases	145.2	.4	.1
Reductions	(119.7)	(14.0)	(10.9)
Increase (decrease) in short-term debt and current portion of long-term debt	1.8	(3.3)	(1.2)
Total financing funds obtained (repaid)	140.9	(14.3)	(10.2)
Other			
Decrease (increase) in net assets of discontinued operations	315.6	(47.2)	20.4
Changes in equity adjustment from currency translation	34.7	5.4	(11.6)
Property, plant, and equipment:			
Retirements and sales	13.7	40.8	30.0
Construction costs recoverable under sale and lease-back commitments	—	—	36.2
Effect of currency translation	(.3)	(.4)	.5
Increase in accounts payable, accrued expenses, and income taxes	1.2	.8	45.9
Total other funds obtained	364.9	(.6)	121.4
Total sources of funds	667.7	109.7	211.1
Uses of Funds:			
Dividends:			
Distribution of SSMC Inc. stock (non-cash)	161.6	—	—
Cash	13.0	10.4	7.0
Acquisition of Dalmo Victor:			
Working capital	(21.8)	—	—
Property, plant, and equipment	27.4	—	—
Intangibles and other assets (principally goodwill)	168.4	—	—
Capital expenditures	90.6	87.8	94.8
Increase in inventories	85.7	44.2	51.9
Increase in accounts receivable—net	60.7	9.8	34.3
Changes in other non-current items	41.0	6.8	1.1
Increase (decrease) in investments	27.4	(21.0)	(3.7)
Unrealized loss on marketable equity security	12.9	—	—
Increase (decrease) in prepaid expenses	3.5	(.3)	1.3
Total uses of funds	670.4	137.7	186.7
Net increase (decrease) in cash	$ (2.7)	$(28.0)	$ 24.4

WHITTAKER CORPORATION (OCT)

Consolidated Statements of Changes in Financial Position

	1986	1985	1984
	(Dollars in thousands)		
Working Capital Provided by Continuing Operations—			
Income (loss)	$ 4,356	$ (12,430)	$ (8,099)
Items not affecting working capital—			
Depreciation and amortization	14,061	9,278	7,726
Goodwill write-off	—	929	6,543
Write-off of investments and noncurrent receivables	12,000	22,948	16,050
Deferred taxes	4,582	(4,147)	9,216
Total from continuing operations	34,999	16,578	31,436
Discontinued Operations—			
Income (loss)	(9,302)	32,297	51,969
Items not affecting working capital—			
Depreciation and amortization	11,287	11,773	13,749
Goodwill write-off	—	11,160	5,401
Write-off of cumulative translation adjustments	—	17,447	—
Total from discontinued operations	1,985	72,677	71,119
Working capital provided from operations	36,984	89,255	102,555
Disposals of property, plant and equipment	1,852	2,531	3,762
Issuance of long-term debt	19,458	3,085	17,000
Proceeds on sale of noncurrent investments	—	21,984	—
Decrease in noncurrent receivables	1,617	4,829	—
Other items, net	7,800	4,540	8,951
	67,711	126,224	132,268
Working Capital Applied to			
Assets acquired in connection with purchased businesses—			
Property, plant and equipment	6,595	4,420	180
Goodwill	11,824	14,170	230
Other intangibles	18,558	7,938	—
Capital expenditures	24,367	15,157	19,109
Reduction of long-term debt	14,884	20,100	27,870
Cash dividends on preferred stock	602	630	632
Cash dividends on common stock	7,175	8,267	19,494
Cost of company stock reacquired	182,821	6,843	10,138
Increase in noncurrent receivables	—	—	13,315
Increase in noncurrent investments	13,975	—	27,385
Net increase (decrease) in noncurrent assets of discontinued operations	18,846	6,463	(23,035)
	299,647	83,988	95,318
Increase (Decrease) in Working Capital	$(231,036)	$ 42,236	$ 36,950

Purchase Method Business Combination

LACLEDE STEEL COMPANY (DEC)

Consolidated Statements of Changes in Financial Position

	1986	1985	1984
	(Thousands of Dollars)		
Working Capital Was Provided By:			
Earnings before extraordinary credit	$ 4,021	$ 5,237	$ 6,502
Charges to earnings not affecting working capital—			
Depreciation	4,486	4,012	3,620
Deferred income taxes	2,770	4,315	3,833
Total working capital provided by operations before extraordinary credit	11,277	13,564	13,955
Extraordinary credit	—	—	994
Increase in long-term debt	8,324	7,500	9,000
Other, net	119	—	9
Total working capital provided	19,720	21,064	23,958
Working Capital Was Used For:			
Decrease in non-current portion of accrued costs of pension plans	913	3,101	4,964
Expenditures for plant and equipment	9,993	6,391	5,867
Payment of dividends on common stock	676	676	—
Other, net	—	440	—
Purchase of subsidiary companies, excluding working capital:			
Property, plant and equipment	558	4,366	949
Intangible assets	560	1,882	—
Other assets	—	28	—
Long-term debt	—	(2,421)	—
Total working capital used	12,700	14,463	11,780
Increase in Working Capital	7,020	6,601	12,178
Working Capital at Beginning of Year	66,291	59,690	47,512
Working Capital at End of Year	$73,311	$66,291	$59,690

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 10. Changes in Major Components of Working Capital

(Thousands of Dollars):

	Year Ended December 31		
	1986	1985	1984
Cash	$ (993)	$ 182	$ (2,597)
Accounts receivable	3,318	1,717	4,483
Income taxes	(415)	502	(677)
Inventories	9,438	4,769	16,808
Long-term debt payable within one year	(34)	(353)	—
Accounts payable, trade	(2,756)	(1,582)	(1,113)
Accrued compensation	(506)	(749)	(3,190)
Taxes, other than income taxes	(487)	39	(85)
Accrued costs of pension plans	202	1,964	(872)
Other, net	(747)	112	(589)
Increase in working capital	$7,020	$6,601	$12,178

BURLINGTON INDUSTRIES, INC. (SEP)

Consolidated Statements of Changes in Financial Position

	1986	1985	1984
	(amounts in thousands)		
Funds from operations			
Net earnings	$ 56,531	$ 12,574	$ 62,399
Items included not affecting funds:			
Depreciation and amortization of fixed assets	139,910	138,848	134,932
Amortization of intangible assets	836	—	—
Amortization of deferred start-up costs	—	1,263	1,896
Deferred income taxes	24,237	15,088	30,739
	221,514	167,773	229,966
Funds provided (used) by changes in operating working capital (except cash and short-term investments):			
Customer accounts receivable—net	(31,736)	31,127	1,013
Sundry notes and accounts receivable	16,220	(4,153)	(25,263)
Inventories	41,044	102,925	(33,030)
Prepaid expenses	(3,711)	(1,832)	950
Deferred income taxes	12,390	1,550	(15,686)
Accounts payable—trade	22,586	(13,788)	(2,614)
Sundry payables and accrued expenses	(5,256)	(15,607)	31,473
Income taxes	13,619	(3,499)	(10,294)
	65,156	96,723	(53,451)
Funds from operations	286,670	264,496	176,515
Cash dividends	(46,332)	(46,907)	(46,254)
Funds from operations retained in business	240,338	217,589	130,261
Funds provided by (used in) investment transactions			
Acquisition of subsidiary (net of operating working capital of $30,322):			
Fixed assets	(51,847)	—	—
Long-term debt	19,130	—	—
Intangible assets	(48,863)	—	—
Other assets—net	(10,155)	—	—
Fixed asset expenditures	(125,202)	(165,352)	(214,652)
Disposals of fixed assets	47,709	31,843	22,549
Currency translation adjustments of fixed assets	(23,544)	6,183	10,239
Investments and receivables	4,989	(28,226)	4,297
Other	(1,251)	(3,856)	907
	(189,034)	(159,408)	(176,660)
Funds provided by (used in) financing transactions			
Changes in short-term borrowings	(15,569)	(59,375)	109,212
Long-term borrowings	80,748	1,500	16,505
Repayments of long-term debt	(100,315)	(32,553)	(53,892)
Currency adjustments of long-term debt	4,576	(8,334)	(10,250)
Changes in equity from currency translation adjustments	19,589	(9,404)	(14,398)
Issuance of common stock	8,927	3,725	8,810
Purchases of treasury shares	(49,063)	(2,475)	(14,712)
Other	9,356	3,296	(2,724)
	(41,751)	(103,620)	38,551
Net increase (decrease) in cash and short-term investments	$ 9,553	$ (45,439)	$ (7,848)

ILLINOIS TOOL WORKS INC. (DEC)

Statement of Changes in Financial Position

	1986	1985	1984
		($000)	
Funds Provided by Operations:			
Net income	$ 79,583	$31,547	$60,004
Non-cash charges (credits):			
Depreciation	37,213	27,312	25,742
Net loss in energy related investments	23,428	22,600	4,563
Change in non-current deferred income taxes	12,271	821	(1,743)
Other, net	(2,301)	(3,758)	(2,177)
Funds provided by operations	$150,194	$78,542	$86,389
Change in Working Capital Items:			
(Increase) Decrease in—			
Trade receivables	$(141,973)	$ 3,543	$(16,150)
Inventories	(195,826)	(786)	(11,423)
Prepaid income taxes and expenses	(24,550)	(15,566)	(520)
Increase (Decrease) in—			
Short-term debt	28,106	1,267	606
Accounts payable	65,006	2,875	2,750
Accrued expenses	108,584	2,671	2,306
Income taxes	12,470	3,369	(7,390)
Funds (used for) working capital items	$(148,183)	$ (2,627)	$(29,821)
Investment Activities:			
Acquisition of subsidiaries (excluding working capital) and additional interest in affiliates	$(411,086)	$(10,639)	$ (6,680)
Additions to plant and equipment, net	(37,618)	(35,540)	(33,151)
Investment in and advances to unconsolidated subsidiaries	(8,901)	(32,203)	(15,776)
Sale of interest in operating affiliate	33,902	—	—
Notes receivable from sale of operating affiliate	(28,119)	—	—
Funds (used for) investment activities	$(451,822)	$(78,382)	$(55,607)
Financing Activities:			
Cash dividends paid	$ (18,295)	$(17,095)	$(15,648)
Issuance of common stock	2,086	3,149	2,553
Long-term debt borrowings	522,223	1,489	696
Repayments of long-term debt	(79,080)	(2,710)	(2,185)
Funds provided by (used for) financing activities	$426,934	$(15,167)	$(14,584)
Effect of exchange rate changes	$ (5,525)	$ 5,254	$ (4,844)
Other, net	$ 1,670	$ (220)	$ 3,020
Cash, Interest Bearing Deposits and Marketable Debt Securities:			
(Decrease) during year	$ (26,732)	$(12,600)	$(15,447)
Beginning of year	53,813	66,413	81,860
End of year	$ 27,081	$53,813	$66,413
Impact of the Signode and Ramset/SPIT acquisitions included above was as follows:			
Current assets, excluding cash and marketable securities	$(338,729)		
Intangible assets	(216,330)		
Other non-current assets	(166,326)		
Current liabilities	161,082		
Noncurrent liabilities	11,329		
Net assets acquired	$(548,974)		
Long-term financing	521,000		
Net cash (used)	$ (27,974)		

Investments

BALL CORPORATION (DEC)

Consolidated Statement of Changes in Financial Position

	1986	1985	1984
	(dollars in millions)		
Sources (uses) of cash			
Operations			
Net income	$58.9	$51.2	$46.3
Non-cash items			
Depreciation	44.2	39.2	33.1
Deferred taxes on income	14.2	19.1	10.6
Other	1.5	3.2	9.0
Changes in working capital components including $2.7 in 1986 from acquired business			
Accounts receivable	(10.2)	(7.3)	(7.3)
Inventories	(38.3)	16.2	(20.3)
Prepaid expense	(22.6)	1.1	(1.6)
Short-term borrowings and current portion of long-term obligations	14.4	(2.4)	1.6
Accounts payable	14.3	(9.6)	9.6
Other	1.1	.3	2.6
Total from operations	77.5	111.0	83.6
Financing activities			
Issuance of common stock under various employee and shareholder plans	13.3	10.7	8.5
Increase (reduction) in long-term obligations	11.7	(24.9)	6.2
Acquisitions of treasury stock	(21.1)	(11.9)	(7.5)
Dividends to shareholders	(17.8)	(15.6)	(13.9)
Other	(3.3)	4.8	(2.1)
Total financing activities	(17.2)	(36.9)	(8.8)
Investment activities			
Additions to property, plant and equipment, including $8.8 in 1986 from acquired business	(76.3)	(72.2)	(70.1)
Sale of investment in PLM AB	11.3	—	—
Sale (purchase) of investment in The Dorsey Corporation less conversion costs of $3.6 in 1986	11.6	—	(15.0)
Investments in affiliated companies	(9.0)	—	—
Other	(2.7)	(1.3)	1.2
Total investment activities	(65.1)	(73.5)	(83.9)
(Decrease) increase in cash	(4.8)	.6	(9.1)
Cash and temporary investments at beginning of year	15.0	14.4	23.5
Cash and temporary investments at end of year	$10.2	$15.0	$14.4

Lessee Leases

THE PENN TRAFFIC COMPANY (JAN)

Consolidated Statement of Changes in Financial Position

	1987	1986	1985
	(In thousands of dollars)		
Source of Funds:			
Net income	$ 7,300	$ 6,567	$ 3,852
Items not affecting working capital:			
Depreciation and amortization	11,265	9,870	9,267
Deferred income taxes	2,044	2,086	547
Total Working Capital Provided by Operations	20,609	18,523	13,666
Increase in long-term debt, payable after one year	19,113		2,200
Increase in obligations under capital leases	407	1,468	2,661
Obligations under capital leases assumed in business acquisition	1,719		
Disposal of fixed assets-net	287	422	1,886
Indebtedness assumed in business acquisition	420		
Retirement of capital leases	617		838
Other-net	(893)	616	(236)
Total	42,279	21,029	21,015
Application of Funds:			
Additions to fixed assets	12,249	11,107	8,428
Fixed assets acquired in business acquisition	6,254		
Additions to leased store facilities under capital leases	407	1,468	2,661
Leased store facilities under capital leases acquired in business acquisition	1,719		
Restricted debt funds	8,101		
Purchase of treasury stock	145	578	492
Cash dividends	2,737	2,485	2,531
Reduction of long-term debt, payable after one year	2,645	2,468	7,015
Reduction of obligations under capital leases	1,934	1,179	2,025
Other long-term assets acquired in business acquisition	2,618		
Total	38,809	19,285	23,152
Increase (Decrease) in Working Capital	$ 3,470	$ 1,744	$(2,137)

WAL-MART STORES, INC. (JAN)

Consolidated Statements of Changes in Financial Position

	1987	1986	1985
	(Amounts in thousands)		
Source of funds:			
Net income	$450,086	$327,473	$270,767
Items not affecting working capital in current period:			
Depreciation and amortization	123,639	89,749	66,516
Deferred income taxes	22,432	17,922	9,811
Total from current operations	596,157	435,144	347,094
Net proceeds from exercise of options and conversion of preferred stock	10,864	5,282	6,379
Additions to long-term debt	—	141,120	10,699
Additions to long-term obligations under capital leases	184,262	156,453	118,407
Reduction of other assets	1,300	18,609	2,958
Disposal of assets	90,920	9,913	16,430
	883,503	766,521	501,967
Application of funds:			
Additions to property, plant and equipment	403,660	350,667	213,200
Additions to property under capital leases	182,955	181,487	111,721
Reduction in long-term debt, including changes in current maturities	1,448	1,675	10,328
Reduction in long-term lease obligations, including changes in current obligations	15,339	11,134	8,451
Preferred stock conversions	4,902	971	537
Dividends paid	48,116	39,768	29,977
Additions to other assets and deferred charges	5,695	3,513	16,271
	662,115	589,215	390,485
Increase in working capital	$221,388	$177,306	$111,482
Changes in components of working capital:			
Increase (decrease) in current assets:			
Cash	($ 723)	$ 7,398	($ 6,648)
Short-term money market investments	(8,150)	165,168	(148,360)
Receivables	32,718	12,084	6,783
Recoverable costs from sale/leaseback	(105,250)	10,021	74,744
Inventories	642,804	284,243	368,530
Prepaid expenses	7,597	2,107	2,638
	568,996	481,021	297,687
Increase (decrease) in current liabilities:			
Accounts payable and accrued liabilities	301,910	286,840	161,364
Accrued federal and state income taxes	43,434	16,040	21,813
Long-term debt due within one year	(157)	(1,377)	1,539
Obligations under capital leases due within one year	2,421	2,212	1,489
	347,608	303,715	186,205
Increase in working capital	$221,388	$177,306	$111,482

Lessor Leases

ARDEN GROUP, INC. (DEC)

Statements of Changes in Financial Position

	1986	1985	1984
		($000)	
Source of Working Capital:			
Income before extraordinary items	$ 4,608	$ 5,672	$ 4,907
Items not requiring (providing) working capital:			
Depreciation and amortization	14,171	17,146	17,103
Amortization of debt discount on debentures	602	504	427
Amortization of property for sublease	413	198	299
Deferred income taxes	2,555	(337)	
Other items, net	(37)	54	65
Total working capital provided by operations	22,313	23,239	22,804
Extraordinary items		15	331
Deferred income taxes on extraordinary items		10	43
	22,313	23,265	23,179
Retirement or sale of property, plant and equipment	14,162	9,432	9,020
Retirement or sale of property for resale or sublease	110	802	1,739
Increase in deferred income	3,098	2,682	1,210
Decrease in net investment in direct financing and sales type leases	493	418	524
Decrease in other assets	1,945		93
Increase in other liabilities			734
	42,125	36,601	36,502
Use of Working Capital:			
Investment in property, plant and equipment	21,964	26,183	19,821
Decrease in long-term debt	2,930	1,863	5,714
Increase in noncurrent receivables	2,769	3,265	1,657
Increase in other assets		4,589	
Decrease in other liabilities	221	626	
Purchase of Treasury stock	5,780		2,243
Retirement of common stock	1,082		
Redemption of 7% subordinated income debentures, including interest		52	717
Cash dividends declared on Serial Preferred stock	306	306	306
Other transactions, net		51	361
	35,056	36,939	30,821
Increase (decrease) in working capital	$ 7,069	$ (338)	$ 5,681

Foreign Currency Translation Effect

ECONOMICS LABORATORY, INC. (JUN)

Consolidated Statement of Changes in Financial Position

	1986	1985	1984
	(In thousands)		
Operations			
Net income	$43,686	$39,504	$36,445
Depreciation and amortization	35,532	32,630	27,012
Other	3,464	(203)	(613)
Working capital provided from operations	82,682	71,931	62,844
Changes in working capital affecting operations			
Accounts receivable	(16,799)	(4,250)	(18,179)
Inventories	1,555	(4,203)	(3,395)
Income tax receivable			21,514
Other current assets	(52)	1,340	6,925
Accounts payable	7,323	(1,944)	10,625
Accrued expenses and other current liabilities	4,936	3,491	9,248
Cash provided from operations	79,645	66,365	89,582
Investment Activities			
Capital expenditures	(29,553)	(27,436)	(43,456)
Property disposals	8,707	5,273	1,512
Net noncurrent assets of acquired companies	(4,554)	(17,761)	
Other, net	(5,861)	(4,580)	(1,892)
Cash used for investment activities	(31,261)	(44,504)	(43,836)
Dividends	(14,452)	(14,193)	(14,117)
Financing Activities			
Long-term debt additions	4,568	1,579	3,172
Long-term debt reductions	(10,180)	(7,932)	(4,247)
Notes payable, banks	3,012	(7,040)	5,269
Reacquired shares	(19,095)	(670)	
Other, net	11,546	3,715	1,118
Cash used for financing activities	(10,149)	(10,348)	5,312
Foreign Currency Translation			
Translation effect on net property, plant and equipment	(2,272)	1,495	974
Change in cumulative translation	4,363	(2,967)	(2,001)
Net effect of foreign currency translation	2,091	(1,472)	(1,027)
Increase (Decrease) in Cash and Cash Equivalents	$25,874	$ (4,152)	$35,914

PACCAR INC. (DEC)

Consolidated Statements of Changes in Financial Position

	1986	1985	1984
	(thousands of dollars)		
Source of Funds			
Net income	$ 54,283	$72,919	$125,310
Items included in net income not affecting working capital:			
Depreciation	22,742	21,084	19,806
Equity in net income of unconsolidated companies	(14,186)	(14,758)	(8,621)
Deferred income taxes	4,075	2,764	(6,087)
Total from Operations	66,914	82,009	130,408
Dividends from unconsolidated companies	5,790	2,494	83
Increase in long-term debt	416		
Advances repaid by unconsolidated companies			40,698
	73,120	84,503	171,189
Use of Funds			
Net additions to property, plant and equipment	31,568	33,452	14,458
Cash dividends	26,935	39,904	39,902
Purchase of treasury shares	9,545		
Investments in and advances to unconsolidated companies	8,638	5,778	28,652
Investment in Trico and other	24,606	(176)	2,126
Reduction of long-term debt	324	1,735	258
Increase in long-term receivables			5,118
	101,616	80,693	90,514
Foreign currency translation adjustment:			
Reduction of property, plant and equipment (net)	(149)	(266)	(2,276)
Increase (reduction) of equity in unconsolidated companies	809	(397)	(1,011)
Reduction of stockholders' equity	5,470	3,492	4,858
	6,130	2,829	1,571
	107,746	83,522	92,085
Increase (Decrease) in Working Capital	$(34,626)	$ 981	$ 79,104

Refinancing Agreement

TOSCO CORPORATION (DEC)

Consolidated Statement of Changes in Financial Position

	1986	1985	1984
	Thousands of Dollars		
Financial resources provided from (used for):			
Income (loss) before extraordinary gain	$ (56,420)	$ 8,867	$(210,697)
Items not involving working capital:			
Revaluation of assets and related termination costs	55,590	4,000	136,924
Depreciation and depletion	21,834	20,966	27,867
Amortization of deferred items	16,885	15,556	14,734
Amortization of deferred gain	(24,449)	(16,942)	(10,782)
Credit for deferred income taxes		(2,000)	(2,018)
Interest earned on notes receivable from issuance of common stock	(436)	(2,091)	(2,254)
Gain on equity investments		1,694	44
Other	(1,598)	(13)	
Working capital provided from (used for) operations before extraordinary gain	11,406	30,037	(46,182)
Resources provided in connection with the Refinancing Agreement			
Extraordinary gain from refinancing of debt (not affecting working capital)	74,000		
Issuance of Series E Preferred Stock	200,000		
Issuance of long-term debt	170,000		
Issuance of 4% Notes	75,000		
Issuance of common stock	1,000		
Resources provided in connection with the exchanges under the November Debt Restructuring agreement			173,091
Issuance of long-term debt	36,863	86,901	222
Issuance of common stock	9,631	5,500	
Reduction in long-term portion of assets held for sale		7,500	10,000
Dispositions of property, plant and equipment	18,852	1,963	739
Proceeds from sale of equity investment	391	87	8,759
Payments received from ESOP	2,507		6,684
Reclassification to assets held for sale	20,082		
Increase in deferred gain	17,808	10,562	64,797
Increase (decrease) in non-current liabilities	(8,474)	749	(762)
Total resources provided	629,066	143,299	217,348
Financial resources used for:			
Resources used in connection with the exchanges under the November Debt Restructuring agreement			193,598
Resources used in connection with the Refinancing Agreement			
Retirement of Series B Preferred Stock	36,903		
Retirement of long-term debt	366,472		
Retirement of vessel lease obligation	12,848		
Recognition of deferred gain	35,830		
Reduction of long-term debt	132,028	160,390	39,438
Purchase of property, plant and equipment	15,121	26,723	18,308
Preferred stock dividends			1,460
Increase in deferred turnarounds and charges and other assets	19,243	24,198	2,895
Total resources used	618,445	211,311	255,699
Increase (decrease) in working capital	$ 10,621	$ (68,012)	$ (38,351)
Changes in working capital by components:			
Increase (decrease) in current assets:			
Cash and equivalents	$ (7,674)	$ (6,695)	$ 13,385
Trade accounts and other receivables	(43,184)	(24,157)	(49,444)
Income taxes receivable			(54,162)
Inventories	4,144	(37,510)	3,602
Prepaid expenses and other assets	(4,651)	2,660	(1,195)
Assets held for sale	3,521		
	(47,844)	(65,702)	(87,814)
Increase (decrease) in current liabilities:			
Accounts payable and accrued liabilities	(33,638)	(17,941)	(55,810)
Current installments of long-term debt	(24,827)	20,251	6,347
	(58,465)	2,310	(49,463)
Increase (decrease) in working capital	$ 10,621	$ (68,012)	$ (38,351)

CASH FLOW

Paragraph 15 of *Opinion No. 19* states

> The amount of working capital or cash provided from operations is not a substitute for or an improvement upon properly determined net income as a measure of results of operations and the consequent effect on financial position. Terms referring to "cash" should not be used to describe amounts provided from operations unless all non-cash items have been appropriately adjusted. The adjusted amount should be described accurately, in conformity with the nature of the adjustments, e.g., "Cash provided from operations for the period," or "Working capital provided from operations for the period" as appropriate. The Board strongly recommends that isolated statistics of working capital or cash provided from operations, especially per-share amounts, not be presented in annual reports to shareholders. If any per-share data relating to flow of working capital or cash are presented, they should as a minimum include amounts for inflow from operations, inflow from other sources, and total outflow, and each per-share amount should be clearly identified with the corresponding total amount shown in the Statement.

Accounting Series Release No. 142 issued in March 1973 by the Securities and Exchange Commission, states that a company should avoid presenting per share cash flow data in reporting financial results.

ANALYSIS OF CHANGES IN WORKING CAPITAL ELEMENTS

Paragraph 12 of *Opinion No. 19* states:

> Whether or not working capital flow is presented in the Statement, net changes in each element of working capital (as customarily defined) should be appropriately disclosed for at least the current period, either in the Statement or in a related tabulation.
>
> a. If the format shows the flow of cash, changes in other elements of working capital (e.g., in receivables, inventories, and payables) constitute sources and uses of cash and should accordingly be disclosed in appropriate detail in the body of the Statement.
>
> b. If the format shows the flow of working capital and two-year comparative balance sheets are presented, the changes in each element of working capital for the current period (but not for earlier periods) can be computed by the user of the statements. Nevertheless, the Board believes that the objectives of the Statement usually require that the net change in working capital be analyzed in appropriate detail in a tabulation accompanying the Statement, and accordingly this detail should be furnished.

Examples of tabulations analyzing changes in working capital elements have been presented throughout this section.

Section 6: Auditors' Report

This section reviews the format and content of Auditors' Reports appearing in the annual reports of the 600 survey companies. Effective November 1972, *Statement on Auditing Standards No. 1*, issued by the Auditing Standards Board of the AICPA, codified and superseded *Statements on Auditing Procedures Nos. 33-54* previously issued by the Committee on Auditing Procedure. Subsequent to *SAS No. 1*, fifty-one Statements on Auditing Standards have been issued; some of which superseded sections of *SAS No. 1*.

TITLE OF AUDITORS' REPORT

Table 6-1 shows the descriptive titles used to identify the Auditors' Report.

TABLE 6-1: TITLE OF AUDITORS' REPORT

	1986	1985	1984	1983
Independent accountants' report	184	174	174	147
Auditors' report	122	121	116	110
Accountants' report	65	72	77	84
Independent certified public accountants' report	59	58	53	64
Independent auditors' report	56	58	58	72
Certified public accountants' report	51	50	52	53
Auditors' opinion	24	29	29	32
Independent auditors' opinion	7	7	8	4
Independent certified public accountants' opinion	5	6	5	5
Independent accountants' opinion	5	5	8	3
Accountants' opinion	5	2	2	4
Other titles	1	1	2	1
No title	16	17	16	21
Total Companies	**600**	**600**	**600**	**600**

ADDRESSEE OF THE AUDITORS' REPORT

Paragraph 8 of *Statement on Auditing Standards No. 2* states:

> The report may be addressed to the company whose financial statements are being examined or to its board of directors or stockholders. A report on the financial statements of an unincorporated entity should be addressed as circumstances dictate, for example, to the partners, to the general partner, or to the proprietor. Occasionally, an auditor is retained to examine the financial statements of a company that is not his client; in such a case, the report customarily is addressed to the client and not to the directors or stockholders of the company whose financial statements are being examined.

Table 6-2 summarizes the addressee mentioned in the Auditors' Reports of the survey companies. The various forms of address are illustrated in the Auditors' Reports presented as examples throughout this section.

TABLE 6-2: ADDRESSEE OF AUDITORS' REPORT

	1986	1985	1984	1983
The Directors (Board of Directors) and Shareholders	477	471	473	468
The Stockholders	68	70	74	78
The Directors	42	45	40	42
The Company	8	8	8	7
Other, or no addressee	5	6	5	5
Total Companies	**600**	**600**	**600**	**600**

AUDITORS' STANDARD REPORT

The auditors' standard report outlines in general terms the scope of the auditors' examination and states concisely the auditors' opinion as to whether the financial statements fairly present, in conformity with generally accepted accounting principles, the information included therein. Table 6-3, which summarizes the format of auditors' reports included in 1986 annual reports of the survey companies, shows that occasionally a modified form of auditors' report is presented. A modified report differs from the standard report in that the opinion and scope are combined in a single paragraph with the opinion sentence appearing first.

Appropriate wording for an auditors' standard report on comparative financial statements, as stated in paragraph 3 of *Statement on Auditing Standards No. 15,* follows:

> We have examined the balance sheets of ABC Company as of (at) December 31, 19x2 and 19x1, and the related statements of income, retained earnings, and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.
>
> In our opinion, the financial statements referred to above present fairly the financial position of ABC Company as of (at) December 31, 19x2 and 19x1, and the results of its operations and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Effective for fiscal years ending after December 15, 1980, the Securities and Exchange Commission requires that annual reports to stockholders issued in connection with the annual stockholder's meeting include audited statements of income and changes in financial position for each of the 3 most recent fiscal years. Typical wording for an auditors' standard report expressing an opinion on statements of income and changes in financial position for 3 years follows:

> We have examined the consolidated balance sheets of ABC Company and subsidiaries as of (at) December 31, 19x2 and 19x1, and the related consolidated statements of income, retained earnings and changes in financial position for each of the three years in the period ended December 31, 19x2. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.
>
> In our opinion, the financial statements referred to above present fairly the consolidated financial position of ABC Company and subsidiaries as of (at) December 31, 19x2 and 19x1, and the consolidated results of their operations and changes in financial position for each of the three years in the period ended December 31, 19x2, in conformity with generally accepted accounting principles applied on a consistent basis.

TABLE 6-3: FORMAT OF AUDITORS' REPORT

	1986	1985	1984	1983
Standard report	410	416	417	416
Variations to standard report	93	92	95	101
Modified report	97	92	88	83
Total Companies	**600**	**600**	**600**	**600**
Variations to Standard Report				
Sentence in scope paragraph referring to:				
Examination by other accountants	30	32	38	37
Prior year examination	15	14	13	12
Other	1	5	5	3
Middle paragraph between scope and opinion paragraphs referring to:				
Matter for which opinion qualified	39	43	38	31
Prior year qualification removed	9	8	12	10
Other	4	4	7	5
Sentence or paragraph following opinion paragraph	20	17	17	17
Total Variations	***118**	***123**	***130**	***115**

*Some Auditors' reports had more than one variation.

Paragraph 9 of *Statement on Auditing Standards No. 2* lists circumstances which require a departure from the auditors' standard report. Paragraph 9 states:

> The circumstances that result in a departure from the auditor's standard report are as follows:
>
> a. The scope of the auditor's examination is affected by conditions that preclude the application of one or more auditing procedures he considers necessary in the circumstances.
>
> b. The auditor's opinion is based in part on the report of another auditor.
>
> c. The financial statements are affected by a departure from a generally accepted accounting principle.
>
> d. The financial statements are affected by a departure from an accounting principle promulgated by the body designated by the AICPA Council to establish such principles.
>
> e. Accounting principles have not been applied consistently.
>
> f. The financial statements are affected by uncertainties concerning future events, the outcome of which is not susceptible of reasonable estimation at the date of the auditor's report.
>
> g. The auditor wishes to emphasize a matter regarding the financial statements.

Examples of auditor's reports relating to items b, e, f and g are presented in connection with Tables 6-4, 6-5, and 6-6.

REFERENCE TO OTHER AUDITORS

Section 543 of *Statement on Auditing Standards No. 1,* which provides guidance for reporting on financial statements when the principal auditor refers to the work of other independent auditors, states in part:

> .07 When the principal auditor decides that he will make reference to the examination of the other auditor, his report should indicate clearly, in both the scope and opinion paragraphs, the division of responsibility as between that portion of the financial statements covered by his own examination and that covered by the examination of the other auditor. The report should disclose the magnitude of the portion of the financial statements examined by the other auditor. This may be done by stating the dollar amounts or percentages of one or more of the following: total assets, total revenues, or other appropriate criteria, whichever most clearly reveals the portion of the financial statements examined by the other auditor. The other auditor may be named but only with his express permission and provided his report is presented together with that of the principal auditor.

Table 6-4 summarizes the scope of work done by other auditors as disclosed in the reports of the principal auditors. Examples of such disclosures follow.

TABLE 6-4: REFERENCES TO OTHER AUDITORS

	1986	1985	1984	1983
Examination by Other Auditors Covers:				
Statements for branch or consolidated subsidiary...	14	14	18	20
Statements of investee only	10	12	14	15
Statements for prior years only	8	7	7	4
Total Companies..................	**32**	**33**	**39**	**39**

Consolidated Subsidiaries

To the Shareholders and Board of Directors
The Barden Corporation

We have examined the consolidated balance sheets of The Barden Corporation and subsidiaries as of November 2, 1986 and November 3, 1985, and the related consolidated statements of earnings, shareholders' equity and changes in financial position for each of the three fiscal years in the period ended November 2, 1986 (52 weeks, 53 weeks and 52 weeks, respectively). Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not examine the financial statements of The Barden Corporation (U.K.) Limited, a consolidated subsidiary, which statements reflect assets of 16.5% in 1986 and 15.1% in 1985, and net sales of 18.0% in 1986, 15.1% in 1985 and 13.4% in 1984 of the related consolidated totals. These statements were examined by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to amounts included for The Barden Corporation (U.K.) Limited, is based solely on the reports of the other auditors.

In our opinion, based on our examinations and the reports of other auditors referred to above, the consolidated financial statements referred to above present fairly the financial position of The Barden Corporation and subsidiaries as of November 2, 1986 and November 3, 1985, and the results of their operations and the changes in their financial position for each of the three fiscal years in the period ended November 2, 1986, in conformity with generally accepted accounting principles which, except for the change (with which we concur) in the method of accounting for pension expense as described in Note G to the financial statements, were applied on a consistent basis.—*Report of Independent Public Accountants.*

We have examined the consolidated balance sheet of Mobil Corporation at December 31, 1986 and 1985, and the related consolidated statements of income, changes in shareholders' equity and changes in financial position for each of the three years in the period ended December 31, 1986. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. The consolidated financial statements of Marcor Inc. and Montgomery Ward & Co., Incorporated, consolidated subsidiaries, and Container Corporation of America, a consolidated subsidiary at December 31, 1985 and 1984, have been examined by other independent public accountants, and we were furnished with their reports thereon. The assets of these consolidated subsidiaries represent approximately 9% and 13% of the consolidated totals for 1986 and 1985 and revenues represent approximately 10%, 13%, and 15% of the consolidated totals for the years ended December 31, 1986, 1985, and 1984.

In our opinion, based upon our examinations and the reports of other independent public accountants, the financial statements mentioned above present fairly the consolidated financial position of Mobil Corporation at December 31, 1986 and 1985, and the consolidated results of operations and changes in financial position for each of the three years in the period ended December 31, 1986, in conformity with generally accepted accounting principles applied on a consistent basis during the period.—*Report of Certified Public Accountants.*

Shareowners and Board of Directors
The Maytag Company
Newton, Iowa

We have examined the statements of consolidated financial condition of The Maytag Company and subsidiaries as of December 31, 1986 and 1985 and the related statements of consolidated income, retained earnings and changes in financial position for each of the three years in the period ended December 31, 1986. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. The financial statements give retroactive effect to the merger of The Maytag Company and Magic Chef, Inc. which has been accounted for as a pooling of interests as described in the notes of the financial statements. We did not examine the statements of consolidated income, retained earnings and changes in financial position of Magic Chef, Inc. for the year ended June 29, 1985 which statements reflect total revenues of $1,061,752,000 and net income of $53,564,000 of the related consolidated totals for the year ended December 31, 1984. These statements were examined by other auditors whose report thereon has been furnished to us and our opinion expressed herein, insofar as it relates to the amounts included for Magic Chef, Inc. for 1984, is based solely upon the report of such other auditors.

In our opinion, based upon our examinations and in 1984 the report of other auditors, the financial statements referred to above present fairly the consolidated financial position of the Maytag Company and subsidiaries at December 31, 1986 and 1985 and the consolidated results of their operations and changes in their financial position for each of the three years in the period ended December 31, 1986, in conformity with generally accepted accounting principles applied on a consistent basis.—*Report of Independent Auditors.*

To the Board of Directors and Stockholders,
Sara Lee Corporaton:

We have examined the consolidated balance sheets of Sara Lee Corporation and Subsidiaries as of June 28, 1986, June 29, 1985, and June 30, 1984, and the related consolidated statements of income, stockholders' equity and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. The 1985 and 1984 financial statements of Douwe Egberts N.V., whose total assets and net sales constituted 19% and 11%, respectively, of the related consolidated totals for 1985 and 21% and 13%, respectively, for 1984, were examined by other auditors whose reports thereon have been furnished to us.

In our opinion, based on our examinations and the reports of other auditors, the consolidated financial statements referred to above present fairly the financial position of Sara Lee Corporation and Subsidiaries as of June 28, 1986, June 29, 1985, and June 30, 1984, and the results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.—*Auditors' Report.*

Investees

To the Stockholders
and the Board of Directors,
Sun Chemical Corporation:

We have examined the consolidated balance sheet of Sun Chemical Corporation and subsidiaries as of December 31, 1986 and 1985 and the related consolidated statements of income, shareholders' equity and changes in financial position for each of the three years in the period ended December 31, 1986. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not examine the consolidated financial statements of Chromalloy American Corporation that are reflected in the accompanying consolidated financial statements using the equity method of accounting. The Company's equity in net income (losses), including discontinued operations, of Chromalloy American Corporation was $12,945,000, $(585,000) and $(3,295,000) for each of the three years in the period ended December 31, 1986, respectively. We also did not examine the consolidated financial statements of Ault & Wiborg Group plc, which reflect assets of approximately 10% of the related consolidated totals as of December 31, 1985. These statements were examined by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for these entities, is based solely upon the reports of the other auditors.

In our opinion, based upon our examinations and the reports of other auditors referred to above, the consolidated financial statements referred to above present fairly the financial position of Sun Chemical Corporation and subsidiaries as of December 31, 1986 and 1985 and the results of their operations and the changes in their financial position for each of the three years in the period ended December 31, 1986, in conformity with generally accepted accounting principles applied on a consistent basis.—*Auditors' Report.*

To the Shareholders and Board of Directors of
Teledyne, Inc.:

We have examined the consolidated balance sheets of Teledyne, Inc. and subsidiaries as of December 31, 1986 and 1985, and the related consolidated statements of income, shareholders' equity and changes in financial position for the years ended December 31, 1986, 1985 and 1984. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not examine the consolidated financial statements of Unicoa Corporation and subsidiaries (Note 4). The investment in Unicoa Corporation and subsidiaries represents 46 percent in 1986 and 43 percent in 1985 of consolidated assets and the equity in its net income represents 31 percent in 1986 and 29 percent in 1985 and 1984 of consolidated net income. These statements were examined by other auditors whose report has been furnished to us and our opinion, insofar as it relates to amounts included for Unicoa Corporation and subsidiaries, is based solely on the report of the other auditors. Additionally, we did not examine the financial statements of certain investee companies (Notes 1 and 7). The equity in net income of these investees, after taxes, represents 8 percent in 1986, 7 percent in 1985 and 12 percent in 1984 of consolidated net income. These statements were examined by other auditors whose reports have been furnished to us and our opinion, insofar as it relates to amounts included for these investees, is based on the reports of the other auditors.

In our opinion, based on our examinations and the reports of other auditors, the financial statements referred to above present fairly the consolidated financial position of Teledyne, Inc. and subsidiaries as of December 31, 1986 and 1985, and the results of their operations and the changes in their financial position for the years ended December 31, 1986, 1985 and 1984, in conformity with generally accepted accounting principles applied on a consistent basis.—*Report of Independent Public Accountants.*

QUALIFIED OPINIONS

REPORT FORM

Statement on Auditing Standards No. 2 states in part:

29. A qualified opinion states that, "except for" or 'subject to" the effects of the matter to which the qualification relates, the financial statements present fairly financial position, results of operations and changes in financial position in conformity with generally accepted accounting principles consistently applied. Such an opinion is expressed when a lack of sufficient competent evidential matter or restrictions on the scope of the auditor's examination have led him to conclude that he cannot express an unqualified opinion, or when the auditor believes, on the basis of his examination, that

a. the financial statements contain a departure from generally accepted accounting principles, the effect of which is material,

b. there has been a material change between periods in accounting principles or in the method of their application, or

c. there are significant uncertainties affecting the financial statements,

and he has decided not to express an adverse opinion or to disclaim an opinion.

32. When the auditor intends to express a qualified opinion, he should disclose all the substantive reasons in a separate explanatory paragraph(s) of his report, and should include, in the opinion paragraph, the appropriate qualifying language and a reference to the explanatory paragraph(s). The requirement for an explanatory paragraph does not apply when the opinion paragraph has been modified because of a change in accounting principle (see paragraph 20).

33. The explanatory paragraph(s) should disclose the principal effects of the subject matter of the qualification on financial position, results of operations and the changes in financial position, if reasonably determinable. If the effects are not reasonably determinable the report should so state. If such disclosures are made in a note to the financial statements, the explanatory paragraph(s) may be shortened by referring to it. The explanatory paragraph(s) also should make clear whether the matter is (a) one as to which there is a difference of opinion between the auditor and his client and for which the auditor believes an adjustment should be made or (b) one involving an uncertainty that cannot presently be resolved because the outcome depends on future events. If an auditor wishes to emphasize a matter or disclosure regarding the financial statements but does not intend to qualify his opinion (see paragraph 27), he should not refer to this information in the opinion paragraph of his report.

UNCERTAINTIES

Statement on Auditing Standards No. 2 states in part:

22. In certain instances, the outcome of matters that may affect the financial statements or the disclosures required therein is not susceptible of reasonable estimation; such matters are to be regarded as uncertainties for purposes of this Statement. When such uncertainties exist, it cannot be determined whether the financial statements should be adjusted, or in what amount.

23. There may be uncertainties with respect to specific matters whose possible effects on the financial statements can be isolated and therefore readily understood. Examples are the recoverability of a deferred cost or the likelihood that a material amount will become collectible or payable because of income tax adjustments or litigation. Also, there may be multiple uncertainties or uncertainties whose possible effects are complex and whose impact on the financial statements consequently is difficult for a reader to assess. Examples of conditions indicating the existence of uncertainties of the latter kind are recurring operating losses, serious deficiences in working capital, an inability to obtain financing sufficient for continued business operations, and failure to comply with the terms of loan agreements. In some situations an adverse outcome of matters in eiher category could imperil the continued existence of the entit. In any event, if the effects of the matters on the financial statements could e material, their nature and their possible effects should be closed in the statements.

Table 6-5 summarizes the nature of uncertainties causing an auditor to express a qualified opinion. Examples of auditors' opinions qualified because of uncertainties follow.

TABLE 6-5: QUALIFIED OPINIONS—UNCERTAINTIES

	1986	1985	1984	1983
Litigation	12	18	16	14
Going concern	11	13	14	8
Discontinued operations	6	5	3	2
Valuation or realization of assets	2	3	3	4
Income tax liability	2	3	2	2
Other	5	4	1	—
Total Uncertainties	**38**	**46**	**39**	**30**
Total Companies	**30**	**33**	**29**	**26**

Litigation

The Board of Directors
Eagle-Pitcher Industries, Inc.:

We have examined the balance sheet of Eagle-Pitcher Industries, Inc. and subsidiaries as of November 30, 1986 and 1985, and the related statements of income, shareholders' equity, and changes in financial position for each of the years in the three-year period ended November 30, 1986. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As discussed in note I, the financial statements include estimated amounts related to claims associated with the Company's sale of asbestos products. We believe the Company determined these estimates in a reasonable manner. The final resolution of the actual amounts however, which may be more or less than the amounts provided, is, of necessity, dependent upon future events, the outcome of which are not fully determinable at the present time.

In our opinion, subject to the effects on the financial statements of such adjustments, if any, which might have been required had the ultimate outcome of the uncertainty referred to in the preceding paragraph been known, the aforementioned financial statements present fairly the financial position of Eagle-Picher Industries, Inc. and subsidiaries at November 30, 1986 and 1985 and the results of their operations and changes in their financial position for each of the years in the three-year period ended November 30, 1986, in conformity with generally accepted accounting principles applied on a consistent basis.—*Accountants' Report.*

To the Board of Directors and Shareholders
of GenCorp

We have examined the consolidated balance sheet of GenCorp and consolidated subsidiaries as of November 30, 1986 and 1985, and the related consolidated statements of income and of changes in financial position for each of the three years in the period ended November 30, 1986. Our examinations were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As described in Note O to the consolidated financial statements, Aerojet General Corporation, a wholly owned subsidiary of GenCorp, and Cordova Chemical Company, a wholly owned subsidiary of Aerojet, have been subject to environmental litigation arising from discharges of chemicals in past years at Aerojet's Sacramento, California facility. Eventual liabilities of Aerojet relating to this matter cannot be reasonably estimated at this time.

In our opinion, subject to the effects on the consolidated financial statements of such adjustments, if any, as might have been required had the outcome of the uncertainty referred to in the preceding paragraph been known, the consolidated financial statements examined by us present fairly the financial position of GenCorp and consolidated subsidiaries at November 30, 1986 and 1985, and the results of their operations and the changes in their financial position for each of the three years in the period ended November 30, 1986, in conformity with generally accepted accounting principles consistently applied.—*Report of Independent Accountants.*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note O (In Part): Uncertainties and Contingencies

Environmental Matters

Aerojet and its inactive Cordova Chemical Company subsidiary have been parties since 1979 to environmental litigation initiated by the State in the California Superior Court (Sacramento County) arising from discharges of chemicals in past years at Aerojet's Sacramento, California, facility.

After lengthy negotiations with the parties to the California litigation, and the United States Environmental Protection Agency ('EPA") which had joined discussions, Aerojet reached an agreement with these parties and executed a Consent Decree intended to settle not only the California litigation but also potential claims by the EPA. In January 1986, the Consent Decree was filed with the United States District Court for the Eastern District of California ("Court") and published for public comment. The period for public comment ended in May 1986. The parties are presently evaluating comments and considering any revisions to be submitted to the Court for inclusion in a final consent decree.

Aerojet has spent approximately $38 million to date for investigations, remedial measures and other related costs. Under terms of the Consent Decree, Aerojet has undertaken completion of remedial investigation and feasibility studies designed to determine which alternatives, including those already undertaken, are necessary to remedy public health or environmental concerns. Following agreement of the EPA, the State and Aerojet as to findings and recommendations, Aerojet will undertake any agreed-upon remedial measures. In addition, Aerojet will compensate the government agencies for up to approximately $7 million for oversight costs and settlement of various claims. GenCorp will guarantee the performance of Aerojet under terms of the Consent Decree up to $45 million.

Eventual liabilities of Aerojet under a final consent decree cannot be reasonably estimated at this time. However, in the fourth quarter of 1984, the Company recorded a charge to income for estimated future costs to complete investigations and remedial measures at the Sacramento facility. Aerojet also believes that a substantial portion of any eventual costs may either be covered by insurance or be reimbursable under the terms of various government contracts. Litigation has been initiated against the insurance carriers and a claim for reimbursement has been filed with the federal government with respect to recovery of costs.

Separately, the California State Department of Health Services and the EPA have been conducting an investigation of groundwater contamination in the San Gabriel Valley basin ("SGV Basin"). Based on records of chemical usage, Aerojet has been identified by the EPA as one of forty-four entities who may be potentially responsible for the release of chemicals into groundwater underlying a portion of the SGV Basin during the last forty years. In May 1986, the EPA issued for public comment a draft interim report on its investigation. The report indicated that investigative work is expected to continue for several years, and it is not possible at this time to determine what remedial work, if any, will be recommended.

No formal administrative or legal proceeding has been filed against Aerojet. Based on current information, management believes the likelihood is remote that this matter will result in a materially adverse effect on the Company's financial position. Aerojet also believes that a substantial portion of any eventual costs may either be covered by insurance or be reimbursable under the terms of various government contracts.

To the Stockholders and Board of Directors
of Slattery Group Inc.

We have examined the consolidated balance sheets of Slattery Group Inc. (formerly Alpha Portland Industries, Inc.) and subsidiaries as of December 31, 1986 and 1985 and the related statements of consolidated operations, consolidated stockholders' equity, and changes in consolidated financial position for the years ended December 31, 1986, 1985 and 1984. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not examine the 1986, 1985 and 1984 financial statements of certain joint ventures in which the Company participates, which statements reflect net assets and revenues of which the Company's proportionate share constitutes 4% and 7%, respectively, of the 1986 consolidated assets and revenues, 8% and 22%, respectively, of the 1985 consolidated assets and revenues, and 8% and 16%, respectively, of the 1984 consolidated assets and revenues. These statements were examined by other auditors whose reports thereon have been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for such joint ventures, is based solely upon the reports of other auditors.

As discussed in Note 7 to the consolidated financial statements, the Company has been named as a defendant in two actions alleging that the Company wrongfully terminated medical and life insurance benefits for retired employees of the discontinued Cement and Aggregates Division. It is not possible at present for the Company to predict the outcome or the range of potential loss, if any, which might result from these actions.

In our opinion, subject to the effects on the consolidated financial statements of such adjustments, if any, as might have been required had the outcome of the uncertainties referred to in preceding paragraph been known, based upon our examinations and the reports of other auditors, the consolidated financial statements referred to above present fairly the consolidated financial position of Slattery Group Inc. and subsidiaries at December 31, 1986 and 1985 and the consolidated results of their operations and the changes in their consolidated financial position for the years ended December 31, 1986, 1985 and 1984, in conformity with generally accepted accounting principles applied on a consistent basis.—*Auditors' Report.*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7. Contingent Liabilities

The Company has been named as a defendant in two legal actions brought on behalf of certain retired employees of the discontinued Cement and Aggregates Division alleging the Company wrongfully terminated medical and life insurance benefits for such retirees. Although lower court rulings in both actions have been issued in favor of the Company, both decisions are currently being appealed. Accordingly, it is not possible at present for the Company to predict the outcome or the range of potential loss, if any, which might result from these actions.

Two of the construction subsidiaries are plaintiffs against a defendant which has counterclaimed for damages involving material amounts. Management is of the opinion that any ultimate liability will not have any materially adverse effect on the Company's consolidated financial condition.

Going Concern

The Shareholders and the Board of Directors
Allegheny International, Inc.:

We have examined the consolidated balance sheets of Allegheny International, Inc. and consolidated subsidiaries as of December 28, 1986 and December 29, 1985 and related consolidated statements of operations, additional paid-in capital, retained earnings (accumulated deficit), accumulated foreign currency translation adjustments, and changes in financial position for each of the years in the three-year period ended December 28, 1986. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As described in Note 6 to the consolidated financial statements, the Company has received waivers from lending institutions suspending the applicability of certain debt covenants while it arranges to keep its current financing in place to the consummation of the merger described in Note 2. The Company's ability to continue as a going concern is contingent upon its ability to maintain adequate financing and attain profitable operations. The consolidated financial statements do not include any adjustments relating to the recoverability or classification of recorded asset amounts or the amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

In our opinion, subject to the effects on the 1986 consolidated financial statements of such adjustments, if any, as might have been required had the outcome of the matters referred to in the preceding paragraph been known, the aforementioned consolidated financial statements present fairly the financial position of Allegheny International, Inc. and consolidated subsidiaries as of December 28, 1986 and December 29, 1985 and results of their operations and changes in their financial position for each of the years in the three-year period ended December 28, 1986 in conformity with generally accepted accounting principles applied on a consistent basis.—*Auditors' Report.*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Proposed merger:

On March 9, 1987 Allegheny announced that it has entered into an agreement providing for a merger of Allegheny and an affiliate of First Boston, Inc. in a transaction in which the affiliate of First Boston, Inc. will commence a cash tender offer for all outstanding shares of Allegheny's Common

Stock, $2.19 Cumulative Preference Stock and $11.25 Convertible Preferred Stock and, following the tender offer and subject to the conditions of the offer and the merger agreement, will be followed by a shareholders' meeting to vote upon the merger which, if approved by the requisite shareholders' vote, would be followed by the merger.

6 (In Part): Short-term borrowings and bank credit arrangements:

The Credit Agreements require Allegheny to maintain specified levels of consolidated tangible net worth and working capital and certain financial ratios. In anticipation that it might be in violation of certain of these covenants, Allegheny requested, and received on March 18, 1987, from the consortium of banks, waivers of certain of these ratios and covenants, whcih waivers are scheduled to expire on April 29, 1987. Management intends to seek, and expects to receive, an extension of the Short-Term Agreement and the waivers to the earliest of August 31, 1987, consummation of the merger, or 21 days after termination of the merger agreement (see Note 2), at which time the Credit Agreements are expected to be terminated. Because these waivers do not extend for a period in excess of one year from Allegheny's 1986 fiscal year-end, the revolving credit notes, which mature in 1988, have been reclassified, for financial reporting purposes, as a current liability (see Note 7). Additionally, the Credit Agreements place certain restraints on the incurrence of other indebtedness, liens and contingent liabilities, the issuance of capital stock of subsidiaries of Allegheny, the acquisition of assets and investments outside the ordinary course of business, the repurchase and redemption of Allegheny's capital stock and the payment of dividends on Allegheny's capital stock.

The Board of Directors and Stockholders
BMC Industries, Inc.

We have examined the consolidated balance sheets of BMC Industries, Inc. at December 31, 1986 and 1985, and the related consolidated statements of operations, changes in financial position and stockholders' equity for each of the three years in the period ended December 31, 1986. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our report dated March 14, 1986, our opinion on the 1985 financial statements was qualified as being subject to the effects of such adjustments, if any, as might have been required had the outcome of uncertainties pertaining to the discontinuance of certain operations and defaults of certain debt agreements been known. As explained in Note 3, the Company has completed the sale of eleven of the fourteen operations designated as discontinued, and provided an additional provision for loss on disposal of $5 million during 1986. Accordingly, our present opinion on the 1985 financial statements, as presented herein, does not include the qualification about the uncertainties pertaining to the discontinuance of certain operations.

As discussed in Note 6, the Company is in default of both its $70 million senior and $30 million subordinated debt agreements, as well as certain capital lease obligations. As a result, this debt has been classified as current at December 31, 1986 and 1985. Until the Company is able to restructure its debt, it will remain in default of, and subject to the lenders' rights of acceleration under, the agreements. Also, as discussed in Note 6, during 1985 the institutional lenders holding $30 million of the Company's convertible subordinated debentures filed suit to rescind the transaction. The Company's ability to continue operating in the normal course is dependent on the successful resolution of the matters discussed above.

In our opinion, subject to the effects on the financial statements of such adjustments, if any, as might have been required had the outcome of the uncertainties referred to in the preceding paragraph been known, the statements mentioned above present fairly the consolidated financial position of BMC Industries, Inc. at December 31, 1986 and 1985, and the consolidated results of operations and changes in financial position for each of the three years in the period ended December 31, 1986, in conformity with generally accepted accounting principles applied on a consistent basis during the period.—*Report of Certified Public Accountants.*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except share amounts)

6 (In Part): Debt

Due to 1985 and 1986 losses, which were primarily related to discontinued operations, the Company has been, since the third quarter of 1985, in default of the net worth requirements of its $70,000 senior revolving credit agreement. As a result of these defaults, the Company has been advised by its senior lenders that senior debt is now due and payable, but the senior lenders have not taken any formal action to date to enforce their right to immediate repayment.

In December, 1984, the Company completed the sale of $30,000 of convertible subordinated notes to a group of institutional investors through a private placement. Due to 1985 and 1986 losses the Company has been, since the third quarter of 1985, in default of the net worth requirement of its subordinated debt agreement. In addition, the acceleration of the Company's senior debt prevented the Company from making its November 1, 1986 and February 1, 1987 interest payments to the subordinated lenders, the non-payment of which constituted a default under the subordinated debt agreements. The defaults under the subordinated debt agreements enable the Company's subordinated lenders to accelerate their notes.

During June, 1985, the institutional lenders filed suit to rescind their purchase of the $30,000 in subordinated notes. The Company presently anticipates that this lawsuit could come to trial as soon as mid-1987. If the Company were to lose the lawsuit, the institutional lenders would be entitled to the return of the $30,000 and, as judgment creditors, would no longer be subordinated to the senior lenders and could pursue all collection remedies available to judgment creditors, which action might increase the risk of the Company's senior lenders exercising their rights under acceleration. The Company believes it has a meritorious defense in that lawsuit, but cannot predict the outcome.

As a result of these factors the related $100,000 of senior and subordinated debt has been classified as current at both December 31, 1986 and 1985, whereas approximately $81,333 and $100,000, respectively, would otherwise have been classified as long-term.

The Company had approximately $35,000 in domestic cash and short-term investment balances at December 31, 1986, excluding outstanding checks. BMC also received in February, 1987 an additional $10,600 in cash proceeds from divestitures (See Note 13). BMC will have to retain sufficient cash for future working capital needs and capital expenditures, for the payment of past-due subordinated note interest, and for the payment in 1987 of certain remaining liabilities related to discontinued operations. BMC intends to use the balance of cash to pay down domestic debt concurrent with a debt restructuring, but until a restructuring is accomplished the lawsuit will continue and BMC will remain in default of, and subject to the lenders' rights upon acceleration under, those agreements.

To the Shareholders and Board of Directors
The LTV Corporation
Dallas, Texas

We have examined the consolidated balance sheets of The LTV Corporation and subsidiaries (the "Company") as of December 31, 1986 and 1985, and the related consolidated statements of operations and changes in financial position for each of the three years in the period ended December 31, 1986. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As described in the "Summary of Significant Accounting Policies" note to the consolidated financial statements, on July 17, 1986, The LTV Corporation and substantially all of its subsidiaries filed separate petitions for reorganization under Chapter 11 of the Federal Bankruptcy Code in the United States Bankruptcy Court for the Southern District of New York ('Court"). These Chapter 11 cases are being jointly administered, with the Company managing its business as debtor-in-possession under the jurisdiction of the Court. As a result of the Chapter 11 filings, the Company is in default on substantially all of its secured and unsecured debt.

The consolidated financial statements of the Company have been prepared on a going-concern basis which contemplates the realization of assets and the liquidation of liabilities in the ordinary course of business; however, currently, such realization of assets and liquidation of liabilities is subject to significant uncertainties. The appropriateness of the Company to continue to use the aforementioned basis of accounting is dependent upon, among other things, the ability to 1) achieve and maintain profitable operations and 2) formulate and file a plan or plans of reorganization which will gain the approval of the creditors, shareholders, other interested parties and the Court. These consolidated financial statements do not give effect to any adjustments relating to the realization or classification of assets, the amounts and classification of liabilities or the effects on existing deficiency in assets that may result from any plans, arrangements, or other actions arising from the reorganization proceedings.

As more fully described in the "Special Charges" and the "Commitments and Contingencies" notes to the consolidated financial statements, although the Company has provided for certain potential claims and for additional liabilities which occurred on or after July 17, 1986, additional prepetition claims and liabilities may be asserted, some of which may be significant, for various reasons including termination of various contractual obligations, termination of defined benefit pension plans and environmental matters. The ultimate outcome of the foregoing cannot presently be determined.

In our opinion, subject to the effects on the 1986 consolidated financial statements of such adjustments, if any, as might have been required had the outcome of the uncertainties referred to in the three preceding paragraphs been known, the financial statements referred to above present fairly the consolidated financial position of The LTV Corporation and subsidiaries as of December 31, 1986 and 1985 and the consolidated results of operations and changes in financial position for each of the three years in the period ended December 31, 1986 in conformity with generally accepted accounting principles applied on a consistent basis.—*Report of Independent Auditors.*

The Board of Directors and Stockholders
LaBarge, Inc.:

We have examined the consolidated balance sheets of LaBarge, Inc. and subsidiaries as of June 30, 1986 and 1985 and December 31, 1984, and the related consolidated statements of operations, stockholders' equity (deficit), and changes in financial position for the year ended June 30, 1986, the six months ended June 30, 1985, and the years ended December 31, 1984 and 1983. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not examine the consolidated financial statements of Duralite Company, Inc. and subsidiaries, consolidated subsidiaries, for the year ended December 31, 1983, such statements reflect total revenues constituting 24% of the related consolidated totals. These statements were examined by other auditors whose report thereon has been furnished to us and our opinion expressed herein, insofar as it relates to the amounts included for Duralite Company, Inc. and subsidiaries, for the year ended December 31, 1983, is based solely upon the report of the other auditors.

As shown in the consolidated financial statements, the Company incurred substantial losses for the year ended June 30, 1986 and has an excess of current liabilities over current assets and an excess of liabilities over assets at June 30, 1986. As described in Note 6, the Company's loan agreement with a bank expires September 30, 1986. The Company's continued existence is dependent upon its ability to arrange continuing lines of credit, to obtain concessions from its subordinated debt holders, and to attain satisfactory levels of future cash flows from profitable operations. The consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded assets or the amounts and classification of liabilities that might be necessary should the Company be unable to continue in existence.

Additionally, as described in Note 2, in 1986 the Company has implemented a plan to discontinue its casual furniture segment, dispose of the net assets related to those operations, and restructure certain debt. In connection with this plan, the Company has provided for future operating losses to be incurred and has recorded adjustments to the net book values of certain assets to reflect estimated realizable values, net of an estimated gain on proposed debt restructuring. The ultimate accuracy of the Company's provisions and estimates is dependent on the actual amounts realized on the disposition of the assets of the casual furniture segment, the actual costs incurred in connection with the shutdown of operations, and final agreements with creditors.

In our opinion, based upon our examinations and the report of other auditors, subject to the effects on the 1986 consolidated financial statements of such adjustments, if any, as might have been required had the outcome of the uncertainties referred to in the two preceding paragraphs been known, the aforementioned consolidated financial statements present fairly the financial position of LaBarge, Inc. and subsidiaries at June 30, 1986 and 1985 and December 31, 1984 and the results of their operations and the changes in their financial position for the year ended June 30, 1986, the six months ended June 30, 1985, and the years ended December 31, 1984 and 1983 in conformity with generally accepted accounting principles applied on a consistent basis.—*Accountant's Report.*

Note 6 (In Part):

The short-term borrowings of continuing operations at June 30, 1986 represent a demand line of credit agreement with Mercantile Bank N.A. (Mercantile). The Company had a revolving credit agreement with Mercantile (see Note 7) which expired on September 30, 1985, at which time the Company was in default of certain provisions of the agreement. The credit agreement was extended under a security agreement dated September 18, 1985, whereby the Company pledged the accounts receivable and inventories of the Electronics Division to Mercantile. This security agreement was amended on December 18, 1985 to include as collateral all of the Company's equipment and the deed of trust on the Electronics Division's Joplin, Missouri plant. On March 4, 1986, the Company entered into a standstill agreement with Mercantile which amended the debt agreement to include additional restrictive covenants to the debt agreement. The Company and Mercantile entered into a demand line of credit agreement on April 14, 1986, which extended until July 31, 1986, with interest at the prime rate. Subsequent to year-end, the agreement was extended to September 30, 1986 with interest at the prime rate plus 1%. The demand line of credit was used to pay off the revolving line of credit. The security agreement dated September 18, 1985 and the amendment dated December 18, 1985 are still in effect. The demand line of credit is restricted to the maximum of $11,850,000 or the sum of 80% of qualifying accounts receivable, 55% of qualifying inventory, and $2,000,000 representing property and equipment.

Discontinued Operations

To the Board of Directors and Stockholders
American Motors Corporation
Southfield, Michigan

We have examined the consolidated balance sheets of American Motors Corporation as of December 31, 1986 and 1985, and the related consolidated statements of operations, changes in stockholders' equity, and changes in financial position for each of the three years in the period ended December 31, 1986 and the schedules listed in the Index at Item 14(a)2. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As discussed in Note S to the consolidated financial statements, the Company indemnified LTV Corporation against losses resulting from a 1983 dispute between AM General Corporation and Emerson Electric Company. On January 31, 1987, arbitrators issued an award against AM General Corporation in the amount of $60,000,000, plus expenses and interest. This award has not been confirmed by a court and faces additional legal challenges. The ultimate effect on the Company cannot presently be determined.

In our opinion, subject to the possible effects on the financial statements of such adjustments, if any, as might have been required had the outcome of the uncertainty referred to in the preceding paragraph been known, the financial statements referred to above present fairly the consolidated financial position of American Motors Corporation at December 31, 1986 and 1985, and the consolidated results of its operations and changes in its financial position for each of the three years in the period ended December 31, 1986, in conformity with generally accepted accounting principles applied on a consistent basis, and the schedules listed in the Index at Item 14(a)2 present fairly, when read in conjunction with the related financial statements, the information therein set forth.—*Report of Independent Accountants.*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note S—Discontinued Operations

In connection with the sale of AM General Corporation in 1983, the Company agreed to indemnify the purchaser, LTV Corporation, against losses and expenses incurred by LTV as a result of a dispute between AM General and Emerson Electric Company. On January 31, 1987, in a proceeding brought in 1983 by Emerson, a panel of arbitrators issued an award against AM General Corporation, in the amount of $60,000,000 plus expenses and attorney's fees of approximately $3,700,000, together with interest on the total award at 9% per annum. The arbitrators' award has not been confirmed by a court and faces additional legal challenges.

Based on information available, the Company believes the decision is beyond the scope of the arbitrators' authority, is contrary to law, and is not supported by the evidence presented. Further, both LTV and AM General filed petitions for reorganization under Chapter 11 of the Bankruptcy Code in 1986. The final amount of a confirmed award, if any, against AM General, the amount of any loss to LTV, the amount of any indemnity obligation of AMC to LTV, and the effect of the ongoing bankruptcy proceedings, is uncertain. Accordingly, the ultimate effect of this matter on the Company is not presently determinable and therefore management has not provided for this contingency in the consolidated financial statements. The Company intends to defend vigorously any claim asserted against it.

Armco, Its Shareholders and Directors:

We have examined the statement of consolidated financial position of Armco Inc. and consolidated subsidiaries as of December 31, 1986 and 1985, and the related consolidated statements of income, shareholders' equity and changes in financial position for each of the three years in the period ended December 31, 1986. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As more fully discussed in Note 2, Armco adopted in 1984 a plan to discontinue the insurance and finance leasing activities of Armco Financial Services Group (AFSG) and recorded a provision for estimated future net losses involved in discontinuing those activities. The ultimate loss from discontinuance is dependent on future events and other factors and could be greater or less than the amount provided. The recoverability of Armco's investment in and advances to AFSG and the possible effects on the financial statements of the ultimate disposition of the discontinued insurance operations cannot presently be determined.

In our opinion, subject to the effects on the 1986, 1985 and 1984 financial statements of such adjustments, if any, as might have been required had the outcome of the uncertainties referred to in the preceding paragraph been known, the financial statements present fairly the financial position of Armco Inc. and consolidated subsidiaries at December 31, 1986 and 1985, and the results of their operations and changes in their financial position for each of the three years in the period ended December 31, 1986, in conformity with generally accepted accounting principles applied on a consistent basis.—*Auditors' Opinion.*

Asset Realization

To the Shareholders and Board of Directors of
CMI Corporation:

We have examined the consolidated balance sheets of CMI Corporation and subsidiaries as of December 31, 1986 and 1985, and the related consolidated statements of operations and retained earnings and changes in financial position for each of the years in the three-year period ended December 31, 1986. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The consolidated balance sheets at December 31, 1986 and 1985 include the Company's wholly-owned subsidiary CMI Energy Conversion Systems, Inc.'s capitalized investment of approximately $18,650,000 and $13,400,000, respectively, in a waste disposal facility. As discussed in note 13, recovery of these costs is uncertain and dependent upon the Company's ability to complete and place the facility into operation on a profitable basis, either individually or as a joint venture partner, or to sell the facility to an unrelated third party for an amount at least equal to its investment.

In our opinion, subject to the effects on the consolidated financial statements of such adjustments, if any, as might have been required had the outcome of the uncertainty discussed in the preceding paragraph been known, the aforementioned consolidated financial statements present fairly the financial position of CMI Corporation and subsidiaries at December 31, 1986 and 1985, and the results of their operations and the changes in their financial position for each of the years in the three-year period ended December 31, 1986, in conformity with generally accepted accounting principles applied on a consistent basis.—*Auditors' Report.*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

13. CMI Energy Conversion Systems, Inc.

A subsidiary of the Company, CMI Energy Conversion Systems, Inc. (CMI Energy), began construction in 1980 of a waste disposal facility which would convert municipal solid waste (MSW) received from the City of Oklahoma City to energy. Construction was suspended in 1983 when CMI Energy was unable to obtain additional financing for completion of the facility. In 1984, $50 million of tax exempt bonds were issued by the Oklahoma Development Authority and the proceeds were placed in escrow to be used by CMI Energy to complete the facility. In 1985, prior to CMI Energy receiving the bond proceeds, its contract with the City of Oklahoma City was amended whereby, among other things, a ceiling was placed on the tipping fee. This essentially nulified the City's previous guaranty to the bond holders that the tipping fee would be sufficient to pay operating expenses of the facility and the debt service related to the bonds. As a result of that amendment, CMI Energy has not been allowed to break escrow and receive the bond proceeds to complete construction. To demonstrate the technology, CMI Energy operated the plant in its current configuration for nine months in 1986 while it attempted to obtain a joint venture partner with sufficient financial strength to complete the facility and satisfy the guaranty requirements of the escrow agents. CMI Energy has been unsuccessful to date in obtaining such a joint venture partner.

In September, 1986, the City and CMI Energy agreed to suspend temporarily their contract while the City conducted a study of its current waste collection and disposal costs. As a result of that study, the City is now considering a plan to reduce its cost by consolidating the collection and disposal of all MSW with a single contractor. The contractor will be required to dispose of at least 50% of the MSW at a waste disposal facility with the balance being disposed of at a landfill.

As a result of the aforementioned developments, the Company is uncertain as to whether its project will be completed by CMI Energy or a joint venture of CMI Energy, sold to an unrelated party or abandoned. A write-off of all or part of its investment may ultimately be required. The effect of a write-off of all the Company's investment would be to reduce current assets by approximately $750,000, property, plant and equipment by $17,900,000, liabilities by $1,600,000 and earnings by $17,050,000. The Company would continue to be in compliance with its debt covenants if such a write-off were necessary.

During the last three years, CMI Energy sustained losses from interest, administrative salaries and other costs associated with the development of the plant. Such expenses, excluding intercompany interest, amounted to $1,458,000 in 1986, $1,266,000 in 1985, and $1,625,000 in 1984.

Contracts Cancelled Subsequent To Year End

The Stockholders and Board of Directors
Alpha Industries, Inc.

We have examined the consolidated balance sheet of Alpha Industries, Inc. and subsidiaries as of March 31, 1986 and 1985 and the related consolidated statements of income, stockholder's equity and changes in financial position for each of the three years ended March 31, 1986, 1985 and 1984. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As further discussed in Note 12 to the financial statements, certain of the Company's contracts were cancelled subsequent to March 31, 1986. The customer has indicated that it intends to seek reprocurement costs and has reserved its right to claim damages. The Company is unable to determine at this time the effect, if any, that this action may have on its financial condition and results of operations.

In our opinion, subject to the effects of such adjustments, if any, as might have been required had the outcome of the uncertainty discussed in the preceding paragraph been known, such financial statements present fairly the financial position of Alpha Industries, Inc. and subsidiaries at March 31, 1986 and 1985 and the results of their operations and the changes in their financial position for each of the three years ended March 31, 1986, 1985 and 1984 in conformity with generally accepted accounting principles applied on a consistent basis.—*Report of Independent Certified Public Accountants.*

NOTES TO FINANCIAL STATEMENTS

Note 12 (In Part): Subsequent Events

On July 2, 1986, the Company received notification that certain of its microwave components contracts were being cancelled. The customer has alleged that the contracts were behind schedule and stated that it would attempt to recover reprocurement costs. The customer also has reserved the right to recover damages. The impact, if any, on the Company's financial condition and results of operations cannot be determined at this time.

CHANGES IN ACCOUNTING PRINCIPLES

Section 546 of *Statement on Auditing Standards No. 1* states in part:

> 01. When there is a change in accounting principle, the independent auditor should modify his opinion as to consistency, indicating the nature of the change. The auditor's concurrence with a change is implicit unless he takes exception to the change in expressing his opinion as to fair presentation of the financial statements in conformity with generally accepted accounting principles. Nevertheless, in order to be more informative the auditor should make his concurrence explicit (unless the change is the correction of an error) using the expression "with which we concur." The form of modification of the opinion depends on the method of accounting for the effect of the change, as explained in paragraphs .02 and .03.
>
> 02. If there has been a change in accounting principle which should be reported by restating the financial statements of prior years, the appropriate reference to consistency is that the statements are consistent after giving retroactive effect to the change . . .
>
> The auditor's report need not refer to a change in accounting principle and restatement made in conformity with generally accepted accounting principles if the statements for the year of change are reported upon together with the financial statements for a year subsequent to the year of change.
>
> 03. If there has been a change in accounting principle which should be reported by means other than by restating the financial statements of prior years and the independent auditor is reporting only on the year during which the change was made, his report should state that accounting principles have been consistently applied except for the change . . .
>
> If the independent auditor is reporting on two or more years when reporting on a subsequent year's financial statements, he should make appropriate reference to the change as long as the year of change is included in the years being reported upon . . .
>
> If the year of change is the earliest year being reported upon, there is no inconsistency in the application of accounting principles during the period subsequent to the change. However, the auditor should make reference to the change having been made in such year when a cumulative effect adjustment is included in the income statement for the year of the change.

Table 6-6 shows the reasons for consistency qualifications. Of the 182 reasons, 28 are for changes made in years prior to 1986. Examples of auditors' opinions qualified as to consistency follow.

Pension Cost Determination

The Board of Directors and Stockholders
American Petrofina, Incorporated:

We have examined the consolidated balance sheets of American Petrofina, Incorporated and consolidated subsidiaries as of December 31, 1986 and 1985 and the related consolidated statements of operations, stockholders' equity and changes in financial position for each of the years in the three-year period ended December 31, 1986. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned consolidated financial statements present fairly the financial position of American Petrofina, Incorporated and consolidated subsidiaries at December 31, 1986 and 1985 and the results of their operations and the changes in their financial position for each of the years in the three-year period ended December 31, 1986, in conformity with generally accepted accounting principles consistently applied during the period except for the change, with which we concur, in the method of accounting for pension costs as described in note 1(f) to the consolidated financial statements.—*Auditors' Report.*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1f (In Part): Employee Benefits

The Company and its consolidated subsidiaries have several defined benefit pension plans covering substantially all employees. The benefits are based on years of service and the employee's final average monthly compensation. The Company's funding policy is to contribute annually not less than the minimum required nor more than the maximum amount that can be deducted for Federal income tax purposes. Contributions are intended to provide not only for benefits attributed to service to date but also for those expected to be earned in the future.

Effective as of January 1, 1985 the Company adopted Statement of Financial Accounting Standards No. 87, "Employers' Accounting for Pensions." Adoption of the statement, which is accounted for prospectively without adjustments to prior years, reduced the Company's 1985 net loss by $3,530,000 ($.29 per share). Total pension expense (income) was ($4,401.000) in 1986, ($2,710,000) in 1985 and $2,782,000 in 1984.

TABLE 6-6: QUALIFIED OPINIONS—CONSISTENCY

	1986	1985	1984	1983
Pension cost determination	141	15	6	9
LIFO adoption	6	7	3	12
Other inventory changes	4	6	11	8
Software costs	5	1	—	—
Depreciation method	4	5	5	6
Consolidation policy	4	2	5	5
Investment tax credit	2	6	11	13
Foreign currency translation	—	3	25	91
Compensated absences	—	2	4	6
Interest capitalization	—	—	—	3
Other	16	13	13	20
Total Qualifications	**182**	**60**	**83**	**173**
Total Companies	**164**	**51**	**69**	**143**

The Board of Directors
and Shareholders
Avnet, Inc.

We have examined the consolidated balance sheets of Avnet, Inc. and Subsidiaries as of June 30, 1986 and 1985, and the related consolidated statements of income, shareholders' equity and changes in financial position for each of the three years in the period ended June 30, 1986. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the financial position of Avnet, Inc. and Subsidiaries as of June 30, 1986 and 1985, and the results of their operations and changes in their financial position for each of the three years in the period ended June 30, 1986, in conformity with generally accepted accounting principles consistently applied during the period, except for the change, with which we concur, in the method of accounting for pension cost, as described in Note 8 to the Consolidated Financial Statements.—*Accountants' Report.*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8 (In Part): Pension and Profit Sharing Plans

Pension plan

In the fourth quarter of fiscal 1986, the Company changed its method of accounting for pensions by adopting "Statement of Financial Accounting Standards No. 87", retroactive to July 1, 1985. Charges in fiscal 1985 and 1984 were calculated in accordance with previous accounting principles. The effect of this change was to increase 1986 earnings and earnings per share by $2,589,000 and $.07, respectively. Except for one unit covered by a profit sharing plan, the Company's defined benefit pension plan covers substantially all of the domestic employees. The benefits are based primarily on years of service and career average pay. The Company's funding policy is consistent with the requirements of the Internal Revenue Code. At June 30, 1986, approximately ⅔ of the plan assets consisted of U.S. government securities with the remainder being primarily corporate debt obligations and short-term marketable debt securities.

To the Board of Directors and Shareholders of
Fansteel Inc.:

We have examined the consolidated balance sheet of Fansteel Inc. at December 31, 1986 and 1985, and the related consolidated statements of income, shareholders' equity and changes in financial position for each of the three years in the period ended December 31, 1986. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements mentioned above present fairly the consolidated financial position of Fansteel Inc. at December 31, 1986 and 1985, and the consolidated results of operations and changes in financial position for each of the three years in the period ended December 31, 1986, in conformity with generally accepted accounting principles applied on a consistent basis during the period, except for the change in 1986, with which we concur, in the method of accounting for pension costs as described in Note 9 to the consolidated financial statements.—*Report of Certified Public Accountants.*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9 (In Part): Retirement Plans

The Company maintains several non-contributory, defined-benefit pension plans covering the majority of its employees. Benefits for salaried plans are generally based on salary and years of service, while hourly plans are based upon a fixed benefit rate in effect at retirement date per years of service. The Company's funding policy is to make annual contributions to the plan at least equal to the minimum required by ERISA.

In December 1986 the Company changed, retroactive to January 1, 1986, its method of accounting for pension costs in accordance with the "Statement of Financial Accounting Standards—Employers' Accounting for Pensions." The change in accounting increased net income by $750,000 ($.09 per common share) for the year ended December 31, 1986.

To the Shareholders and Board of Directors of
Sealed Power Corporation:

We have examined the consolidated balance sheets of Sealed Power Corporation and Subsidiaries as of December 31, 1986 and 1985, and the related consolidated statements of income, shareholders' equity and changes in financial position for each of the three years in the period ended December 31, 1986. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of Sealed Power Corporation and subsidiaries as of December 31, 1986 and 1985, and the results of their operations and the changes in their financial position for each of the three years in the period ended December 31, 1986, in conformity with generally accepted accounting principles which, except for the change in the year ended December 31, 1985, (with which we concur) in the method of accounting for pension costs as explained in Note 4 to the financial statements, were applied on a consistent basis.—*Report of Independent Public Accountants.*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4 (In Part): Post Retirement Benefits

Effective January 1, 1985, the Company adopted the income statement and disclosure requirements of Statement of Financial Accounting Standard (SFAS) No. 87—Employers' Accounting for Pensions. This statement establishes standards of financial accounting and reporting for an employer that offers pension benefits to its employees. The effect of this accounting change was not material to the 1985 results of operations.

Pension Plan Settlements

Board of Directors and Stockholders
Fairchild Industries, Inc.
Chantilly, Virginia

We have examined the consolidated balance sheet of Fairchild Industries, Inc. and consolidated subsidiaries as of December 31, 1986, and the related consolidated statements of results of operations, common stockholders' equity and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. The financial statements of Fairchild Industries, Inc. and consolidated subsidiaries as of December 31, 1985, and for each of the two years in the period then ended were examined by other auditors whose opinion, dated March 5, 1986, on the 1984 financial statements was unqualified and on the 1985 financial statements was qualified as being subject to the effects on the 1985 statements of such adjustments, if any, as might have been required had the outcome of the uncertainties regarding the continuation of the T-46A aircraft program been known.

As discussed in Note 2, as a result of the cancellation of the T-46A program and the winding down of other major aircraft programs, the Company has decided to close its Fairchild Republic Company's Farmingdale, New York, plant. Although the Company has provided for the estimated costs to be incurred in connection with the closing, net of estimated amounts, based on appraised values, to be realized from the sale of the land, buildings and equipment, the ultimate loss to be incurred is subject to the uncertainties inherent in such estimates.

In our opinion, subject to the effects of such adjustments, if any, as might have been required had the outcome of the uncertainties referred to in the preceding paragraph been known, the consolidated financial statements referred to above present fairly the financial position of Fairchild Industries, Inc. and consolidated subsidiaries as of December 31, 1986, and the results of their operations and the changes in their financial position for the year then ended, in conformity with generally accepted accounting principles, which, except for the change, with which we concur, in the method of accounting for settlements of defined benefit pension plans as described in Note 9 to the financial statements, have been applied on a basis consistent with that of the preceding year.—*Accountants' Report.*

NOTES TO FINANCIAL STATEMENTS

Note 9 (In Part): Employee Benefit Plans

In 1985 the Company terminated three of its defined benefit pension plans. Substantially similar plans became effective on September 1, 1985, to cover all active employees previously covered under terminated plans. Upon the termination of the plans, accumulated benefits of all participants became fully vested and the Pension Benefit Guaranty Corporation (PBGC) has issued a Notice of Sufficiency for each plan. The Trustee of the plans has entered into contracts with an insurance company which guarantees the payment of terminated plan benefits. The excess assets of the plans have been, or are to be, refunded to the Company. As of December 31, 1986, the Company had recognized refunds of $64,046,000 net of amortization recorded in 1985. During 1986 as a result of adopting FAS 88 which deals with the accounting for plan terminations, the Company recognized $44,949,000 in pretax earnings in the first quarter of 1986 as the cumulative effect of a change in accounting principle.

Inventory

To the Directors and Shareowners
of Bergen Brunswig Corporation:

We have examined the consolidated balance sheets of Bergen Brunswig Corporation and subsidiaries as of August 31, 1986 and 1985 and the related statements of consolidated earnings, and retained earnings, and changes in financial position for each of the three years in the period ended August 31, 1986. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of the Corporation and its subsidiaries at August 31, 1986 and 1985 and the results of their operations and the changes in their financial position for each of the three years in the period ended August 31, 1986, in conformity with generally accepted accounting principles consistently applied during the period except for the change, with which we concur, in 1985 in the method of accounting for the cost of inventories as described in Note 3 to the consolidated financial statements.—*Opinion of Independent Certified Public Accountants.*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3—Change to LIFO Accounting

To match costs and related revenues more properly, the Corporation changed its method of valuing the Drug and Health Care and Medical/Surgical Supplies segments' inventories to the LIFO method in 1985. The Consumer Electronics segment inventories ($46,321,000 and $41,090,000 at August 31, 1986 and 1985, respectively) continue to be valued using the FIFO method because of the deflationary nature of its inventory costs.

It is not possible to determine the cumulative effect of the change on retained earnings as of September 1, 1984 nor the pro forma effects of retroactive application of the change for prior periods. In accordance with generally accepted accounting principles, the change is prospective from September 1, 1984. The effect of the change to LIFO in 1985 was to decrease earnings from continuing operations by $3,400,000, or $.26 per share.

The Board of Directors and Shareholders
Hecla Mining Company

We have examined the consolidated balance sheets of Hecla Mining Company and consolidated subsidiaries as of December 31, 1986 and 1985, and the related consolidated statements of operations, changes in shareholders' equity and changes in financial position for each of the three years in the period ended December 31, 1986. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the consolidated financial position of Hecla Mining Company and consolidated subsidiaries at December 31, 1986 and 1985, and the consolidated results of their operations and changes in their financial position for each of the three years in the period ended December 31, 1986, in conformity with generally accepted accounting principles consistently applied during the period subsequent to the change, with which we concur, made as of January 1, 1984, in the method of accounting for materials and supplies as described in Note 2 to the financial statements.—*Report of Certified Public Accountants.*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 (In Part): Inventories:

During 1984 the Company changed the inventory accounting practice at certain operations. The change involved including in inventory unused materials and supplies, which were previously charged to operations when they were purchased. The change, which is a preferable method of accounting, was made to facilitate management control of these inventories and more accurately and consistently match the cost of operations with sales. The cumulative effect of the change to 1984 earnings was $1,175,000 before applicable income tax effect of $329,000. The effect of the change on 1984 operations was immaterial.

The Board of Directors and Shareholders
James River Corporation of Virginia:

We have examined the consolidated balance sheet of James River Corporation of Virginia and Subsidiaries as of April 27, 1986 and April 28, 1985, and the related consolidated statements of income, changes in financial position and changes in capital accounts for each of the three years in the period ended April 27, 1986. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the consolidated financial position of James River Corporation of Virginia and Subsidiaries as of April 27, 1986 and April 28, 1985, and the consolidated results of their operations and the changes in their financial position for each of the three years in the period ended April 27, 1986, in conformity with generally accepted accounting principles consistently applied during the period, except for the changes in fiscal 1986, with which we concur, in the methods of accounting for certain inventories and pension cost as described in Notes 5 and 14, respectively, to the consolidated financial statements.—*Report of Independent Certified Public Accountants.*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5 (In Part): Inventories

Effective April 29, 1985, James River adopted the LIFO cost flow assumption for valuing substantially all domestic inventories. The Company believes that the use of the LIFO method better matches current costs with current revenues. The cumulative effect of this change on retained earnings at the beginning of the year is not determinable, nor are the pro forma effects of retroactive application of LIFO to prior years. The effect of the change on fiscal 1986 was to increase net income by $3.3 million, or $.06 per fully diluted share ($.07 per primary share).

14 (In Part): Pension Plans:

During the fourth quarter of fiscal 1986, James River changed its method of accounting for pension cost and adopted certain provisions of Statement of Financial Accounting Standards No. 87, "Employers' Accounting for Pensions" ("SFAS 87"). The effect of this change was to reduce pension cost and increase net income for fiscal 1986 by approximately $13.3 million and $5.7 million ($.12 per primary and $.11 per fully diluted share), respectively. Application of SFAS 87 was made retroactive to April 29, 1985, resulting in the restatement of operating results for the first three quarters of fiscal 1986. SFAS 87 does not allow application to prior years.

Software Development Costs

To the Board of Directors of
Unisys Corporation

We have examined the consolidated balance sheet of Unisys Corporation at December 31, 1986 and the related consolidated statements of income and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. The financial statements of Burroughs Corporation (name changed to Unisys Corporation in 1986) for the years ended December 31, 1985 and 1984, were examined by other auditors whose report dated January 20, 1986, expressed an unqualified opinion on those statements.

In our opinion, the financial statements mentioned above present fairly the consolidated financial position of Unisys Corporation at December 31, 1986, and the consolidated results of operations and changes in financial position for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year, except for the changes in 1986, with which we concur, in the method of capitalizing software costs and determining pension costs as described in Note 4 to the consolidated financial statements.—*Report of Independent Accountants.*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. Accounting changes

Effective January 1, 1986, the Company adopted the provisions of Statement of Financial Accounting Standards No. 86, "Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed" which provides for capitalization and amortization of certain costs associated with the production of the Company's software products. Costs incurred and capitalized during 1986 are amortized to cost of products sold over the estimated revenue producing lives of the products, but not in excess of three years following product release. This change increased net income for the year ended December 31, 1986 by $31.6 million, or $.69 per common share. Unamortized marketable software costs at December 31, 1986 were $111.1 million; related amortization during the year was $5.8 million.

In December 1986, the Company adopted, effective January 1, 1986, the provisions of Statements of Financial Accounting Standards Nos. 87 and 88, "Employers' Accounting for Pensions" (Statement 87) and "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits" (Statement 88). The adoption of Statement 87, which prescribes the projected unit credit actuarial method and use of economic assumptions, did not result in a material effect on 1986 earnings. The coincident adoption of Statement 88, which provides for recognition of gains or losses in certain circumstances, increased net income for the year ended December 31, 1986 by $12.1 million, or $.26 per common share.

Depreciation Method

Board of Directors and Stockholders
Rowe Furniture Corporation:

We have examined the consolidated balance sheets of Rowe Furniture Corporation and its wholly-owned subsidiaries as of November 30, 1986 and 1985, and the related statements of consolidated earnings, consolidated stockholders' equity, and changes in consolidated financial position for each of the three years in the period ended November 30, 1986. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, such consolidated financial statements present fairly the financial position of Rowe Furniture Corporation and its wholly-owned subsidiaries as of November 30, 1986 and 1985, and the results of their operations and the changes in their financial position for each of the three years in the period ended November 30, 1986, in conformity with generally accepted accounting principles consistently applied during the period except for the change, with which we concur, in 1985 in the method of computing depreciation for fixed asset additions as described in Note 2 to the financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2—Change in Accounting Principle

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

Board of Directors
The Timken Company
Canton, Ohio

We have examined the consolidated balance sheets of The Timken Company and subsidiaries as of December 31, 1986 and 1985, and the related consolidated statements of income, capital and earnings invested in the business and changes in financial position for each of the three years in the period ended December 31, 1986. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the consolidated financial position of The Timken Company and subsidiaries at December 31, 1986 and 1985, and the consolidated results of their operations and changes in their financial position for each of the three years in the period ended December 31, 1986, in conformity with generally accepted accounting principles applied on a consistent basis during the period except for the changes in 1986, with which we concur, in the method of computing depreciation and the method of accounting for pensions as described in Note B to the financial statements.—*Accountants' Report.*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note B—Accounting Changes

Effective January 1, 1986, the Company changed its method of depreciation for substantially all property, plant and equipment from accelerated methods (primarily double-declining balance method) to the straight-line method. The Company believes the straight-line method is preferable to the method previously used since it is more consistent with depreciation methods used by most similar industrial companies and, therefore, should improve comparability of financial reporting. This change increased net income by $71,165,000 ($5.76 per share) in 1986, which included the cumulative effect on prior years of $59,473,000 ($4.81 per share) and the after-tax effect on 1986 operations of $11,692,000 ($.95 per share).

In the fourth quarter, 1986, the Company elected early adoption of the provisions of Financial Accounting Standards Board Statements No. 87, "Employers' Accounting for Pensions," and No. 88, "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits," as recommended by the Financial Accounting Standards Board. It is required that these changes in accounting methods be applied effective January 1 in the year of adoption. Net income increased by $5,802,000 ($.47 per share) in 1986 as a result of adopting Statement No. 87. Under the provisions of Statement No. 88, approximately $48,150,000 of the gain on pension termination/reestablishment previously deferred was recognized as income. The cumulative effect of adopting Statement No. 88 as of January 1, 1986, was an increase to net income of $26,001,000 ($2.11 per share) in 1986.

Consolidation Policy

Board of Directors and Shareholders
The Coca-Cola Company
Atlanta, Georgia

We have examined the consolidated balance sheets of The Coca-Cola Company and subsidiaries as of December 31, 1986 and 1985, and the related consolidated statements of income, shareholders' equity and changes in financial position for each of the three years in the period ended December 31, 1986. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the consolidated financial position of The Coca-Cola Company and subsidiaries at December 31, 1986 and 1985, and the consolidated results of their operations and changes in their financial position for each of the three years in the period ended December 31, 1986, in conformity with generally accepted accounting principles applied on a consistent basis after restatement for the change, with which we concur, to the equity method of accounting for Coca-Cola Enterprises Inc. as described in Note 3 to the consolidated financial statements.—*Report of Independent Accountants.*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3 (In Part): Investments in and Advances to Affiliated Companies.

On September 12, 1986, the Company transferred the operating assets of substantially all previously owned and recently acquired bottling companies in the United States to Coca-Cola Enterprises Inc. (Enterprises), a wholly owned subsidiary. In connection with these transactions, Enterprises assumed approximately $233 million of debt incurred by the Company in conjunction with certain of the acquisitions. In addition, in September 1986, Enterprises acquired the Coca-Cola bottling companies controlled by John T. Lupton and his family and the soft drink bottling operations of BCI Holdings Corporation (the successor to The Beatrice Companies, Inc.) and the remaining interest in The Detroit Bottling Company, Inc. for an aggregate cost of approximately $2.25 billion; these acquisitions were funded with borrowings under a credit agreement entered into by Enterprises with a syndicate of banks. The Company is not a party to the credit agreement and has not guaranteed any of the borrowings thereunder.

On November 21, 1986, Enterprises sold 71.4 million shares of its unissued common stock for net proceeds of approximately $1.12 billion. This transaction reduced the Company's ownership interest to 49 percent and resulted in a pretax gain of $375 million. Consistent with its reduced ownership interest, the Company has commenced reporting its investment in Enterprises under the equity method of accounting. The consolidated financial statements have been restated to reflect Enterprises under the equity method of accounting for all periods presented. The restatement had no effect on shareholders' equity, income from continuing operations, net income or related per share amounts.

Oil and Gas Operations

To the Board of Directors and Stockholders,
Gulf Resources & Chemical Corporation:

We have examined the consolidated balance sheets of Gulf Resources & Chemical Corporation and subsidiaries as of December 31, 1986 and 1985 and the related consolidated statements of income, stockholders' investment and changes in financial position for each of the three years in the period ended December 31, 1986. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned consolidated financial statements present fairly the financial position of Gulf Resources & Chemical Corporation and subsidiaries as of December 31, 1986 and 1985, and the results of their operations and the changes in their financial position for each of the three years in the period ended December 31, 1986, in conformity with generally accepted accounting principles applied on a consistent basis after giving retroactive effect to the change (with which we concur) in the method of accounting for oil and gas operations, as explained in Note 1 to the financial statements.—*Auditors' Report.*

NOTES TO FINANCIAL STATEMENTS

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

Oil and Gas Accounting and Depreciation, Depletion and Amortization

Effective as of January 1, 1987 GRE changed the method of accounting for its oil and gas operations from the full-cost method to the successful efforts method. Under this method, costs of productive wells, development dry holes and productive leases are capitalized and amortized on a unit-of-production basis over the life of remaining proved reserves. Cost centers for amortization purposes are determined on a field-by-field basis. The estimated future costs of dismantlement, restoration and abandonment are amortized as part of depreciation, depletion and amortization expense.

Oil and gas leasehold costs are capitalized when incurred. The acquisition costs of all unproved properties that are not individually significant are generally aggregated, and the portion of such costs estimated to be non-productive, based on historical experience, is amortized on an average holding period basis. Costs of such properties surrendered are charged against the valuation allowance. Any individually significant unproved properties are assessed periodically on a property-by-property basis and any impairments in value are charged to expense.

Exploratory expenses, including geological and geophysical expenses and annual delay rentals for oil and gas leases, are charged to income as incurred. Exploratory drilling costs are initially capitalized, but charged to expense if and when the well is determined to be unsuccessful.

The Financial Accounting Standards Board has expressed a preference for the successful efforts method and management believes the successful efforts method is a more appropriate measure of the results of GRE's oil and gas operations under present circumstances. Accordingly, the accompanying financial statements have been restated to comply with the new method. The change in method had the effect of increasing (decreasing) net income by $9.2 million, $(4.3) million and $(4.9) million or $.98, $(.43) and $(.49) per share fully diluted for 1986, 1985 and 1984. The change in method had the effect of increasing (decreasing) income from continuing operations by $9.2 million, $(2.3) million and $(4.3) million or $.98 $(.23) and $(.43) per share fully diluted for 1986, 1985 and 1984. The cumulative effect of the change on retained earnings at December 31, 1986 was a decrease of $14.0 million.

Depreciation of plants, facilities and equipment is provided principally on the straight-line method at annual rates ranging from 3% to 33% which, in the opinion of management, are adequate to allocate the cost of the assets over their estimated useful lives.

EMPHASIS OF A MATTER

Paragraph 27 of *Statement on Auditing Standards No. 2* states:

> In some circumstances, the auditor may wish to emphasize a matter regarding the financial statements, but nevertheless intends to express an unqualified opinion. For example, he may wish to point out that the entity is a component of a larger business enterprise or that it has had significant transactions with related parties, or he may wish to call attention to an unusually important subsequent event or to an accounting matter affecting the comparability of the financial statements with those of the preceding period. Such explanatory information may be presented in a separate paragraph of the auditor's report. Phrases such as "with the foregoing explanation" should not be used in the opinion paragraph in situations of this type.

Examples of auditors' reports including explanatory information about the financial statements follow.

Board of Directors and Stockholders
Centronics Corporation

We have examined the consolidated financial statements and the financial statement schedule of Centronics Corporation (formerly Centronics Data Computer Corp.) and Subsidiaries as listed in Item 14(a) of this Form 10K. Our examinations were made in accordance with generally accepted auditing standards, and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As more fully described in Note 1, subsequent to December 28, 1986, the Company sold substantially all of the assets of its printer business, net of related liabilities. The Company's historical financial statements have been retroactively adjusted to reflect the sale and discontinuance of its printer business.

In our opinion, the financial statements referred to above present fairly the consolidated financial position of Centronics Corporation and Subsidiaries as of December 28, 1986 and December 29, 1985 and the consolidated results of their operations and changes in their financial position for each of the three fiscal years in the period ended December 28, 1986, in conformity with generally accepted accounting principles applied on a consistent basis. In addition, the financial statement schedule referred to above, when considered in relation to the basic financial statements taken as a whole, presents fairly the information required to be included therein.—*Report of Independent Certified Public Accountants.*

To the Board of Directors and Shareholders of
Cyclops Corporation

We have examined the consolidated financial statements listed in the index appearing under Item 14(a) (1) and (2) on page 27. Our examinations were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As discussed in Note 15, Dixons Group plc and its indirect wholly owned subsidiary CC Acquiring Corporation, have acquired approximately 83% of Cyclops Corporation Common Stock as of March 27, 1987.

In our opinion, the consolidated financial statements examined by us present fairly the financial position of Cyclops Corporation and its subsidiaries as of December 31, 1986 and 1985, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1986, in conformity with generally accepted accounting principles consistently applied.—*Report of Independent Accountants.*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 15—Subsequent Event

On March 25, 1987 Dixons Group Inc plc and its indirect wholly owned subsidiary, CC Acquiring Corporation ("CC Acquiring"), together announced that as of March 24, 1987 they had acquired approximately 925,300 shares, constituting approximately 23% of the outstanding Common Stock.

On March 27, 1987 CC Acquiring purchased in a single block trade 2,455,267 shares of the Company's Common Stock bringing their combined ownership to approximately 83%.

REPORTS ON COMPARATIVE FINANCIAL STATEMENTS

Statement on Auditing Standards No. 15 "provides guidance to an auditor reporting on financial statements of one or more prior periods that are presented on a comparative basis with financial statements of the current period." Examples illustrating various aspects of reporting on one or more prior periods follow.

Qualification as to Prior Years Financial Statements Removed

To the Board of Directors and Stockholders of
Genesco Inc.

We have examined the consolidated balance sheet of Genesco Inc. and its subsidiaries as of January 31, 1987 and 1986, and the related consolidated statements of earnings, of changes in financial position, of additional paid-in capital and of accumulated deficit for each of the two years in the period ended January 31, 1987, for the six months ended January 31, 1985, and for the year ended July 31, 1984. Our examinations were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our report dated February 26, 1986, our opinion on the 1986 consolidated financial statements was qualified subject to the effects of such adjustments, if any, relating to the recoverability and classificaticn of recorded asset amounts or the amounts and classification of liabilities that might be necessary should the Company be unable to continue in existence due to a lack of adequate operating funds. As described in Note 1, the Company completed the sale of certain operations which generated sufficient funds to enable the Company to finance its operations, working capital and other projected cash needs. Accordingly, our present opinion on the fiscal 1986 consolidated financial statements, as presented herein, is no longer qualified with respect to this matter.

In our opinion, the consolidated financial statements examined by us present fairly the financial position of Genesco Inc. and its subsidiaries at January 31, 1987 and 1986, and the results of their operations and the changes in their financial position for each of the two years in the period ended January 31, 1987, for the six months ended January 31, 1985 and for the year ended July 31, 1984, in conformity with generally accepted accounting principles consistently applied.—*Report of Independent Accountants.*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Basis of Consolidation

Genesco Inc. and all subsidiaries are included in the consolidated financial statements.

Pursuant to a share purchase agreement dated January 23, 1987, the Company completed the sale of its Canadian operations on February 6, 1987. The sale was a major part of a restructuring program announced in June 1986. The transaction has been accrued in the January 31, 1987 financial statements. The cash portion of the proceeds (which were received on February 6, 1987) is reflected in the January 31, 1987 balance sheet as "contract receivable." The gain on the sale (after providing for losses relating to other aspects of the restructuring program) along with other divestiture gains and losses is reflected in the consolidated earnings statement as "gains on sales of divested operations".

To the Stockholders and Board of Directors of
Oak Industries Inc.:

We have examined the consolidated balance sheets of Oak Industries Inc. and Subsidiaries as of December 31, 1986 and 1985, and the related consolidated statements of operations, stockholders' investment and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our report dated April 7, 1986, our opinion on the 1985 consolidated financial statements was qualified as being subject to the effects on the 1985 consolidated financial statements of such adjustments, if any, as might have been required had the outcome of the uncertainty about the Company's ability to continue as a going concern and the uncertainty about certain litigation been known. As explained in Notes 5 and 10 to the consolidated financial statements, on May 2, 1986, the Company generated additional cash by the issuance of new shares of common stock and the sale of its Materials Segment. In addition, as explained in Note 14 to the consolidated financial statements, on August 29, 1986, the litigation referred to above was settled under terms and conditions previously provided for in the financial statements. Accordingly, our present opinion on the 1985 consolidated financial statements, as presented herein, is different from that expressed in our previous report.

In our opinion, the consolidated financial statements referred to above present fairly the financial position of Oak Industries Inc. and Subsidiaries as of December 31, 1986 and 1985, and the results of their operations and the changes in their financial position for the years then ended in conformity with generally accepted accounting principles applied on a consistent basis.—*Report of Independent Public Accountants.*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5 (In Part): Capital Stock:

Common Stock

The stockholders approved increases in the authorized number of shares of common stock from 40,000,000 to 80,000,000, in June 1985 and from 80,000,000 to 135,000,000 in June 1986.

On May 2, 1986 the Company issued 10,000,000 shares of common stock to Allied-Signal and a warrant (see Note 16) permitting Allied-Signal to purchase additional shares of common stock at a specified price, for $15,000,000 in accordance with a Stock Purchase Agreement dated February 14, 1986 (see Note 10).

On May 9, 1986 the Company issued 21,305,831 shares of common stock in connection with the retirement of portions of the Company's long-term public debt.

10 (In Part): Acquisitions and Dispositions:

The Company completed an agreement with Allied-Signal on May 2, 1986 for the sale of the Company's Material Segment and a capital infusion by Allied-Signal (see Note 5). The Materials Segment was sold for $151,750,000 cash, resulting in a net gain of $61,258,000 (after state and federal income taxes totaling $17,964,000). The net gain includes the write-off of Materials Segment cumulative translation losses of approximately $2,042,000 which had previously been deferred and deducted from stockholders' investment. The Company's Consolidated Financial Statements have been restated to reflect the Materials Segment as a discontinued operation. In conjunction with the sale, the Company, on May 9, 1986, retired approximately 85.6% of its outstanding public debt for cash and common stock (see Note 4).

14 (In Part): Litigation and Contingencies

Class Action Litigation

On September 26, 1985, a conditional settlement was reached between the Company and the plaintiffs in the consolidated amended class action complaint entitled *In Re Oak Industries Securities Litigation*. The Company, in agreeing to settle the class action litigation, denied all allegations of wrongdoing set forth in the settlement in order to avoid the expense, inconvenience and loss of time and effort which would be involved in protracted litigation with plaintiffs. The Company, in 1985, made conditional payments of $13,250,000, plus interest of $215,867 (the "Settlement Fund") in consideration for the dismissal with prejudice of all claims asserted or any claims which could have been asserted by the settlement class. The Company had accrued $13,250,000 as its estimate of the cost of a possible settlement in 1984. The Settlement Fund was paid into an escrow and was held in such escrow until August 29, 1986, when the court gave its final approval to the settlement and entered an order and a judgment dismissing *In Re Oak Industries Securities Litigation* with prejudice. The time during which appeals to this judgment could have been taken has expired. The final settlement of this litigation did not affect the financial condition of the Company.

Executive Risk Insurance Policy Litigation

On April 5, 1985, the insurer under the Company's "Executive Risk Policy" covering the period July 1982 to July 1985, Federal Insurance Company ("Federal"), filed an action in the United States District Court for the Southern District of California (*Federal Insurance Company v. Oak Industries Inc., et al.*) against the Company and the eight former officers and directors of the Company who are defendants in the securities class action lawsuit described above. The suit alleged that Federal was entitled to rescind the policy on the ground that there were material misrepresentations in various Securities and Exchange Commission filing by the Company. On February 5, 1986, the Court granted a declaratory judgment that the policy was valid and enforceable in accordance with its terms. On May 15, 1986, an agreement-in-principle was reached between Federal and the Company whereby Federal agreed to pay $19,000,000 to be principally used to settle the class action litigation described above. This settlement was approved by the court and the case was dismissed with prejudice on August 29, 1986. The time during which appeals to this judgment could have been taken has expired. The final settlement of this litigation did not affect the financial condition of the Company.

Change In Auditors

To the Board of Directors and the Shareholders
Winnebago Industries, Inc.
Forest City, Iowa

We have examined the consolidated balance sheet of Winnebago Industries, Inc. and the balance sheet of Winnebago Acceptance Corporation as of August 30, 1986 and the related statements of operations, reinvested earnings, changes in stockholders' equity and changes in financial position for the year then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. The financial statements of Winnebago Industries, Inc. and Winnebago Acceptance Corporation for the years ended August 31, 1985 and August 25, 1984 were examined by other auditors whose report, dated November 15, 1985, expressed an unqualified opinion on those statements.

In our opinion, the financial statements for 1986 present fairly the financial position of Winnebago Industries, Inc., and Winnebago Acceptance Corporation at August 30, 1986, and the results of their operations and the changes in their financial position for the year ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.—*Report of Independent Accountants.*

The Stockholders and Board of Directors
Spencer Companies, Inc.

We have examined the consolidated balance sheet of Spencer Companies, Inc. and subsidiaries as of May 31, 1986 and the related consolidated statements of operations, changes in stockholders' equity, and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the consolidated financial position of Spencer Companies, Inc. and subsidiaries as of May 1, 1986 and the consolidated results of their operations and changes in their financial position for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

The Stockholders and Board of Directors
Spencer Companies, Inc.
Boston, Massachusetts

We have examined the consolidated balance sheet of Spencer Companies, Inc. and Subsidiaries as of June 1, 1985 and the related consolidated statements of operations, changes in stockholders' equity, and changes in financial position for the years ended June 1, 1985 and June 2, 1984. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

During the year ended May 31, 1986, the Company sold Fashion Gallery, Inc. and two other related companies as more fully described in Note 2 to the consolidated financial statements. The 1985 and 1984 financial statements have been restated to segregate the disposal of this segment of the business.

In our opinion, the consolidated financial statements referred to above (as restated) present fairly the financial position of Spencer Companies, Inc. and Subsidiaries at June 1, 1985 and the results of their operations and the changes in their financial position for the years ended June 1, 1985 and June 2, 1984, in conformity with generally accepted accounting principles applied on a consistent basis.

OPINIONS EXPRESSED ON SUPPLEMENTAL STATEMENTS OR SCHEDULES

Table 6-7 shows that occasionally the annual reports of the survey companies present either an auditors' report which expresses an opinion on both the basic financial statements of a company and supplemental statements or schedules, or an auditors' report which expresses an opinion on the basic financial statements and an auditors' report which expresses an opinion on supplemental statements or schedules. Examples of auditors' reports expressing opinions on supplemental schedules follow.

To the Stockholders of
Baker International Corporation:

We have examined the consolidated statements of financial position of Baker International Corporation and its subsidiaries as of September 30, 1986 and 1985, and the related consolidated statements of operations, stockholders' equity, and changes in financial position for each of the three

TABLE 6-7: OPINION EXPRESSED ON SUPPLEMENTAL STATEMENTS OR SCHEDULES

	Number of Companies			
	1986	1985	1984	1983
Schedules presented to comply with SEC regulations .	13	14	12	5
Financial statements of subsidiaries	9	5	6	9
Historical summaries or five year summaries of operations	2	2	1	2
Other..........................	4	2	3	3

years in the period ended September 30, 1986. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, such consolidated financial statements present fairly the financial position of Baker International Corporation and its subsidiaries at September 30, 1986 and 1985, and the results of their operations and changes in their financial position for each of the three years in the period ended September 30, 1986, in conformity with generally accepted accounting principles applied on a consistent basis.

Our examinations also comprehended the supplemental schedules of Baker International Corporation and its subsidiaries listed in Item 14. In our opinion, such supplemental schedules, when considered in relation to the basic consolidated financial statements, present fairly in all material respects the information shown therein.—*Auditors' Opinion.*

To the directors and shareowners of
Great Northern Nekoosa Corporation:

We have examined the consolidated balance sheets of Great Northern Nekoosa Corporation and subsidiaries as of December 31, 1986 and 1985, and the related consolidated statements of income, reinvested earnings and changes in financial position for each of the three years in the period ended December 31, 1986. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the financial position of Great Northern Nekoosa Corporation and subsidiaries as of December 31, 1986 and 1985, and the results of their operations and the changes in their financial position for each of the three years in the period ended December 31, 1986, in conformity with generally accepted accounting principles which, except for the change (with which we concur) in the method of accounting for pension costs as described in Note 7 to the consolidated financial statements, were applied on a consistent basis.

Our examinations were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules listed in the index to financial statements on page 21 are presented for purposes of complying with the Securities and Exchange Commission's rules and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the examinations of the basic financial statements and, in our opinion, fairly state in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.—*Auditors' Report.*

REPORT OF MANAGEMENT

The 1986 annual reports of 268 survey companies included a Report of Management. Examples of management reports follow.

BAXTER TRAVENOL LABORATORIES, INC.

MANAGEMENT'S RESPONSIBILITIES FOR FINANCIAL REPORTING

The consolidated balance sheets of Baxter Travenol Laboratories, Inc. and subsidiaries as of December 31, 1986 and 1985, and the related consolidated statements of income, changes in financial position and stockholders' equity for each of the three years in the period ended December 31, 1986 have been prepared by management, which is responsible for their integrity and objectivity. The statements have been prepared in conformity with generally accepted accounting principles appropriate in the circumstances and include some amounts that are based upon management's best estimates and judgments. The financial information contained elsewhere in this annual report is consistent with that contained in the financial statements.

In meeting its responsibility for the integrity of the financial statements, management relies on the company's system of internal accounting control. This system is designed to provide reasonable assurance that assets are safeguarded and that transactions are properly recorded and executed in accordance with management's authorization. The concept of reasonable assurance is based on the recognition that there are inherent limitations in all systems of internal accounting control and that the cost of such systems should not exceed the benefits to be derived. A professional staff of corporate auditors reviews the accounting practices, systems control and compliance therewith.

In connection with their annual audit, independent certified public accountants perform examinations in accordance with generally accepted auditing standards, which include a review of the system of internal accounting control and assurance that the financial statements are fairly presented.

The board of directors, through its audit committee composed solely of non-employee directors, reviews the company's financial reporting and accounting practices. The independent certified public accountants and corporate auditors meet regularly with and have access to this committee with or without management present to discuss the results of their audit work.

BROCKWAY, INC. (NY)

MANAGEMENT'S RESPONSIBILITIES FOR FINANCIAL REPORTING

The financial statements and other financial information included in this report are the responsibility of management and have been prepared in conformity with generally accepted accounting principles to fairly present Brockway's financial position.

The Company has a system of internal controls designed to assure that its financial statements objectively reflect the results of its operations, and that its established financial policies and procedures are followed. That system is constantly reviewed for its effectiveness, including judgments to assess and balance the relative costs and benefits of these controls. In addition to the use of independent accountants, the Company maintains a staff of professional internal auditors, who coordinate audit coverage with the independent accountants and conduct operational and special audits.

The Company's financial statements are audited by independent public accountants. Their role is to perform reviews of the Company's controls and statements to the extent required by generally accepted auditing standards and render an independent professional opinion thereon.

The Audit Committee of the Board of Directors, composed solely of directors who are not employees of the Company, meets periodically with representatives of management, the independent accountants, and the Company's internal auditors (jointly and separately) to assure that each is properly performing its respective functions.

The independent accountants and the internal auditors have full and free access to the Audit Committee, with or without the presence of management representatives, to discuss the results of their audits and their opinions on the adequacy of internal accounting controls and the quality of the Company's financial reporting.

Chairman
Chief Executive Officer
Senior Vice President
Chief Financial Officer

CARPENTER TECHNOLOGY CORPORATION

RESPONSIBILITIES FOR FINANCIAL REPORTING AND INTERNAL CONTROL

The Company's financial statements are prepared by management, which is responsible for their fairness, integrity and objectivity. The statements and related information were prepared in conformity with generally accepted accounting principles, based on recorded transactions and management's best judgments and estimates, in order to set forth a fair presentation of financial position and results of operations.

The Company maintains a strong system of internal controls designed to provide reasonable assurance that assets are safeguarded and transactions are properly executed and recorded for the preparation of financial information.

There are limits in all systems of internal control, based on recognition that the cost of the system should not exceed the benefits to be derived. We believe that the Company's internal control system is cost effective and provides reasonable assurance that material errors or irregularities will be prevented or detected within a timely period. The internal control system and compliance therewith are monitored by the Company's internal audit staff.

The Audit Committee of the Board of Directors is composed of five members, none of whom is an employee of the Company. This Committee is responsible for recommending the independent certified public accountants to conduct the annual audit of the financial statements of the Company and for reviewing the adequacy of the corporate financial reporting, accounting systems and controls, as well as the internal and external auditing functions. The Committee maintains direct channels of communication between the Board of Directors and both the external and internal auditors.

The independent public accountants, recommended by the Board of Directors and elected by the shareholders, express their opinion on our financial statements based on procedures, including an evaluation of internal controls, which they consider to be sufficient to form their opinion.

President and
Chief Executive Officer
Controller

CINCINNATI MILACRON INC.

RESPONSIBILITY FOR FINANCIAL REPORTING

The management of Cincinnati Milacron Inc. is responsible for the integrity and objectivity of the financial statements and other financial information contained in the annual report. The financial statements and related information were prepared in accordance with generally accepted accounting principles and include amounts that are based on management's informed judgments and estimates.

In fulfilling its responsibilities for the integrity of financial information, management maintains accounting systems and related controls. These controls provide reasonable assurance, at appropriate costs, that assets are safeguarded against losses and that financial records are reliable for use in preparing financial statements. These systems are enhanced by written policies, an organizational structure providing division of responsibilities, careful selection and training of qualified people and a program of financial, operational and systems review coordinated by the internal auditors and the independent accountants.

Management recognizes its responsibility for conducting the company's affairs according to the highest standards of personal and corporate conduct. This responsibility is characterized by and included in key policy statements. Management maintains a systematic program to assess compliance with these policies.

The Audit Committee of the Board of Directors, composed solely of outside directors, meets with the independent accountants, management and internal auditors periodically to review the work of each and ensure that each is properly discharging its responsibilities. The independent accountants and the company's internal auditors have free access to this committee, without management present, to discuss the results of their audit work and their opinion on the adequacy of internal financial controls and the quality of financial reporting.

Chairman and Chief Executive Officer
Executive Vice President-Finance and Administration

INTERNATIONAL PAPER COMPANY

REPORT OF MANAGEMENT

The management of International Paper Company is responsible for the fair presentation of the information contained in the financial statements in this Annual Report. The statements were prepared in accordance with generally accepted accounting principles and reflect managment's best judgment as to the Company's financial position and the results of its operations.

The Company maintains a system of internal accounting controls designed to provide reasonable assurance that transactions are properly recorded and summarized so that reliable financial records and reports can be prepared and that assets can be safeguarded.

An important part of the internal controls system is the Company's Policy on Ethical Business Conduct which requires employees to maintain the highest ethical and legal standards in their conduct of Company business. The internal controls system further includes careful selection and training of supervisory and management personnel, appropriate delegations of authority and division of responsbility, dissemination of accounting and business policies throughout the Company, and an extensive program of internal audits with management follow-up.

The independent public accountants provide an objective, independent review of management's discharge of its responsibility for the fairness of the Company's financial statements. They review the Company's internal accounting controls and conduct tests of procedures and accounting records to enable them to form the opinion set forth in their report.

The Board of Directors monitors managment's administration of the Company's financial and accounting policies and practices, and the preparation of financial reports. The Audit Committee, which consists of six non-employee directors, meets regularly with representatives of management, the independent public acountants, and the Internal Auditor to review their activities. At the Annual Meeting, the Audit Committee presents a summary of its findings to the share owners and recommends that the share owners approve the appointment of independent public accountants to conduct the annual audit.

Both the independent public accountants and the Internal Auditor have free access to the Audit Committee and meet regularly with the Audit Committee and the full Board, with and without management representatives in attendance.

MACMILLAN, INC.

REPORT OF MANAGEMENT

The accompanying financial statements have been prepared by the management of Macmillan, Inc., in conformity with generally accepted accounting principles and, in the judgment of management, present fairly and consistently the Company's financial position and results of operations. These statements necessarily include amounts that are based on management's best estimates and judgments and give due consideration to materiality.

The accounting systems and internal accounting controls of Macmillan, Inc. are designed to provide reasonable assurance that the financial records are reliable for preparing financial statements and maintaining accountability for assets and that, in all material respects, assets are safeguarded against loss from unauthorized use or disposition. Qualified personnel throughout the organization maintain and monitor these internal accounting controls on an ongoing basis. In addition, the Company's internal audit department systematically reviews the adequacy and effectiveness of the controls and reports thereon.

The Company engages independent certified public accountants to examine its financial statements and express their opinion thereon. They have full access to each member of management in conducting their examinations. Such examinations are conducted in accordance with generally accepted auditing standards and include a review of internal controls, tests of the accounting records, and such other auditing procedures as they consider necessary to express an opinion on the Company's financial statements.

The Board of Directors has appointed an Audit Committee consisting of directors who are not officers or employees of the Company. The Committee is responsible to the Board for recommending the appointment of the independent certified public accountants. The Committee meets periodically with management, the internal auditors, and the independent certified public accountants to review the work of each and to satisfy itself that they are properly discharging their responsibilities. Both the internal auditors and the independent certified public accountants have free access to the Committee, with or without the presence of management, to discuss the adequacy of internal controls and to review the quality of financial reporting.

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 Fortieth (1986) edition. Fifty companies in the 1986 edition have been eliminated and their numbers left unused. The companies selected as replacements have been assigned numbers 601 to 650, inclusive. Companies numbered out of alphabetical order are shown in *italics* and have been given an additional listing in alphabetical order.)

Co. No.		*Month in which fiscal year ends
1	ADDSCO Industries, Inc.	6
2	AEL Industries, Inc.	2
3	AFG Industries, Inc.	12
4	AM International, Inc.	7
5	AMAX Inc.	12
6	AMETEK, Inc.	12
7	AMP Incorporated and Pamcor, Inc.	12
9	ASARCO Incorporated	12
10	Abbott Laboratories	12
11	Acme-Cleveland Corporation	9
12	Acme Precision Products, Inc.	9
13	Action Industries, Inc.	6
14	Adams-Millis Corporation	12
15	Adams-Russell Co., Inc.	9
16	Air Products and Chemicals, Inc.	9
	Alberto-Culver Company—*see 601*	
17	Albertson's, Inc.	1
18	Alco Standard Corporation	9
19	Allegheny International, Inc.	12
	The Allen Group Inc.—*see 602*	
20	Allied-Signal Inc.	12
22	Allis-Chalmers Corporation	12
23	Alpha Industries, Inc.	3
24	Aluminum Company of America	12
25	Amcast Industrial Corporation	8
	Amdahl Corporation—*see 603*	
26	Amerada Hess Corporation	12
28	American Biltrite Inc.	12
29	American Brands, Inc.	12
30	American Building Maintenance Industries, Inc.	10
32	American Cyanamid Company	12
33	American Greetings Corporation	2
34	American Hoist & Derrick Company	11
35	American Home Products Corporation	12
36	American Maize-Products Company	12
37	American Medical International, Inc.	8
38	American Motors Corporation	12
39	American Petrofina, Incorporated	12
40	The American Ship Building Company	9

Co. No.		*Month in which fiscal year ends
41	American Standard Inc.	12
42	American Stores Company	1
43	American Telephone and Telegraph Company	12
44	Ameron, Inc.	11
45	Amoco Corporation	12
46	Ampco-Pittsburgh Corporation	12
48	Analogic Corporation	7
49	Anchor Hocking Corporation	12
50	Anderson, Clayton & Co.	6
51	Anheuser-Busch Companies, Inc.	12
52	Apple Computer, Inc.	9
53	Archer Daniels Midland Company	6
54	Arden Group, Inc.	12
55	Armada Corporation	12
56	Armco Inc.	12
57	Armstrong World Industries, Inc.	12
58	The Arundel Corporation	12
59	Arvin Industries, Inc.	12
60	Ashland Oil, Inc.	9
62	Astrosystems, Inc.	6
63	Athlone Industries, Inc.	12
64	Atlantic Richfield Company	12
	Avery International Corporation—*see 604*	
65	Avnet, Inc.	6
66	Avon Products, Inc.	12
67	BMC Industries, Inc.	12
68	Badger Meter, Inc.	12
69	Baird Corporation	9
70	Baker International Corporation	9
71	Ball Corporation	12
72	Barco of California	6
73	The Barden Corporation	10
	Barnes Group Inc.—*see 605*	
	Bassett Furniture Industries, Incorporated—*see 606*	
74	Bausch & Lomb Incorporated	12
75	Baxter Travenol Laboratories, Inc.	12
77	Becor Western Inc.	12

Months numbered in sequence, January through December

Co. No.		*Month in which fiscal year ends
78	Becton, Dickinson and Company	9
79	Belding Heminway Company, Inc.	12
80	Bell & Howell Company	12
81	Bemis Company, Inc.	12
82	Bergen Brunswig Corporation	8
83	Bethlehem Steel Corporation	12
84	Bird Incorporated	12
85	The Black & Decker Corporation	9
86	Bobbie Brooks, Incorporated	12
87	The Boeing Company	12
88	Boise Cascade Corporation	12
89	Borden, Inc.	12
90	Borg-Warner Corporation	12
91	Bowne & Co., Inc.	10
	Bowater Incorporated—*see 607*	
92	Brenco, Incorporated	12
93	Briggs & Stratton Corporation	6
94	Bristol-Myers Company	12
95	Brockway, Inc. (NY)	12
96	Brown & Sharpe Manufacturing Company	12
97	Brown Group, Inc.	10
98	Browning-Ferris Industries, Inc.	9
99	Brunswick Corporation	12
100	Burlington Industries, Inc	9
101	Burndy Corporation	12
102	*Unisys Corporation*	12
103	CBI Industries, Inc.	12
104	CBS Inc.	12
105	CMI Corporation	12
106	CPC International Inc.	12
107	CSP Inc.	8
108	Cabot Corporation	9
109	Caesars World, Inc.	7
	CalMat Co.—*see 608*	
	Cameron Iron Works, Inc.—*see 609*	
110	Campbell Soup Company	7
111	Capital Cities/ABC, Inc.	12
	Carpenter Technology Corporation—*see 610*	
112	Castle & Cooke, Inc.	12
113	Caterpillar Inc.	12
116	CertainTeed Corporation	12
117	Champion International Corporation	12
118	Champion Spark Plug Company	12
121	Chevron Corporation	12
122	Chicago Pacific Corporation	12
124	Chock Full o'Nuts Corporation	7
126	Chrysler Corporation	12
127	Cincinnati Milacron Inc.	12
	Liz Claiborne, Inc.—*see 611*	
128	Clark Equipment Company	12
130	Cleveland-Cliffs Inc.	12
131	The Clorox Company	6
132	The Coastal Corporation	12
133	The Coca-Cola Company	12
134	Coleco Industries, Inc	12
	The Coleman Company, Inc.—*see 612*	
135	Colgate-Palmolive Company	12
136	Collins & Aikman Corporation	2
137	Collins Industries, Inc.	10

Co. No.		*Month in which fiscal year ends
138	Colt Industries Inc.	12
139	Combustion Engineering, Inc.	12
140	Commercial Metals Company	8
141	Compugraphic Corporation	12
	Computervision Corporation—*see 613*	
142	ConAgra, Inc.	5
143	Concord Fabrics Inc.	8
144	Consolidated Papers, Inc.	12
145	Control Data Corporation	12
146	Cooper Industries, Inc.	12
147	Adolph Coors Company	12
148	Copperweld Corporation	12
149	Corning Glass Works	12
150	Courier Corporation	9
152	Crane Co.	12
153	Crown Central Petroleum Corporation	12
154	Crown Cork & Seal Company, Inc.	12
156	Culbro Corporation	12
157	Cummins Engine Company, Inc.	12
158	Curtiss-Wright Corporation	12
159	Cyclops Corporation	12
160	DSC Communications Corporation	12
161	Dana Corporation	12
162	*Kraft, Inc.*	12
163	Data General Corporation	9
164	Dayco Corporation	10
165	Dayton Hudson Corporation	1
166	Dean Foods Company	5
167	Deere & Company	10
168	Deluxe Check Printers, Incorporated	12
169	Dennison Manufacturing Company	12
170	Designcraft Industries, Inc	2
	Diamond-Bathurst Inc.—*see 614*	
171	Diamond Shamrock Corporation	12
172	DiGiorgio Corporation	12
173	Digital Equipment Corporation	6
174	The Walt Disney Company	9
175	R. R. Donnelley & Sons Company	12
	The Dorsey Corporation—*see 615*	
176	Dover Corporation	12
177	The Dow Chemical Company	12
178	Dow Jones & Company, Inc.	12
180	Dravo Corporation	12
181	Dresser Industries, Inc.	10
182	The Dun & Bradstreet Corporation	12
183	Duplex Products Inc.	10
184	E.I. du Pont de Nemours and Company	12
185	Durr-Fillauer Medical, Inc.	12
186	Dynamics Corporation of America	12
	E-Systems, Inc.—*see 616*	
187	EG & G, Inc.	12
188	Eagle-Picher Industries, Inc.	11
190	The Eastern Company	12
191	Eastman Kodak Company	12
192	Eaton Corporation	12
193	Echlin Inc.	8
	Economics Laboratory, Inc.—*see 617*	
194	Elcor Corporation	6
195	Emerson Electric Co.	9

Months numbered in sequence, January through December

Co. No.		*Month in which fiscal year ends
196	Emerson Radio Corp.	3
197	Emhart Corporation	12
198	Engelhard Corporation	12
199	Ethyl Corporation	12
200	Everest & Jennings International	12
202	Exxon Corporation	12
203	FMC Corporation	12
204	Fairchild Industries, Inc.	12
205	Fansteel Inc.	12
206	Fedders Corporation	12
207	The Federal Company	5
208	Federal-Mogul Corporation	12
	Federal Paper Board Company, Inc.—see *618*	
209	Federated Department Stores, Inc.	1
	Fieldcrest Cannon, Inc.—see *619*	
210	The Firestone Tire & Rubber Company	10
211	Fischbach Corporation	9
212	Fleetwood Enterprises, Inc.	4
213	Fleming Companies, Inc.	12
214	Flowers Industries, Inc.	6
215	John Fluke Mfg. Co., Inc.	9
216	Fluor Corporation	10
217	The Fluorocarbon Company	1
218	Foote Mineral Company	12
219	Ford Motor Company	12
220	Fort Howard Paper Company	12
221	Foster Wheeler Corporation	12
	The Foxboro Company—see *620*	
222	Freeport-McMoRan Inc.	12
223	Fruehauf Corporation	12
	H.B. Fuller Company—see *621*	
224	Fuqua Industries, Inc.	12
225	GAF Corporation	12
227	GTI Corporation	12
228	Gannett Co., Inc.	12
229	Gearhart Industries, Inc.	1
230	GenCorp	11
231	General Cinema Corporation	10
232	General Dynamics Corporation	12
233	General Electric Company	12
235	General Host Corporation	1
236	General Instrument Corporation	2
237	General Mills, Inc.	5
238	General Motors Corporation	12
239	General Refractories Company	12
240	General Signal Corporation	12
241	Genesco Inc.	1
242	Genuine Parts Company	12
243	Georgia-Pacific Corporation	12
244	Gerber Products Company	3
245	Giant Food Inc.	2
246	The Gillette Company	12
247	Golden Enterprises, Inc.	5
248	The BFGoodrich Company	12
249	The Goodyear Tire & Rubber Company	12
250	Gould Inc.	12
251	Goulds Pumps, Incorporated	12
252	W.R. Grace & Co.	12

Co. No.		*Month in which fiscal year ends
253	W.W. Grainger, Inc.	12
254	The Great Atlantic & Pacific Tea Company, Inc.	2
255	Great Northern Nekoosa Corporation	12
256	Greif Bros. Corporation	10
257	The Greyhound Corporation	12
258	Grumman Corporation	12
259	Guilford Mills, Inc.	6
261	Gulf Resources & Chemical Corporation	12
263	HON INDUSTRIES Inc.	12
264	Halliburton Company	12
266	Hampton Industries, Inc.	12
267	Handy & Harman	12
	Harcourt Brace Jovanovich, Inc.—see *622*	
	Harmon Industries, Inc.—see *475*	
268	Harnischfeger Industries, Inc.	10
269	Harris Corporation	6
270	Harsco Corporation	12
271	Hartmarx Corporation	11
	Hasbro, Inc.—see *623*	
273	Hecla Mining Company	12
274	G. Heileman Brewing Company, Inc.	12
275	H.J. Heinz Company	4
276	Hercules Incorporated	12
277	Hershey Foods Corporation	12
278	Hewlett-Packard Company	10
	Hillenbrand Industries, Inc.—see *624*	
279	Holly Sugar Corporation	3
280	Homasote Company	12
281	Honeywell Inc.	12
282	Geo. A. Hormel & Company	10
283	Hughes Supply, Inc.	1
285	Humana Inc.	8
286	Hunt Manufacturing Co.	11
287	Hurco Companies, Inc.	10
288	IC Industries, Inc.	12
289	ICOT Corporation	7
290	IPCO Corporation	6
291	ITT Corporation	12
	Illinois Tool Works Inc.—see *625*	
292	Ingersoll-Rand Company	12
293	Inland Steel Industries, Inc.	12
294	Insilco Corporation	12
295	Intel Corporation	12
296	Interco Incorporated	2
297	The Interlake Corporation	12
298	International Business Machines Corporation	12
	International Controls Corp.—see *626*	
	International Flavors & Fragrances Inc.—see *627*	
299	*Navistar International Corporation*	10
300	International Minerals & Chemical Corporation	6
301	International Multifoods Corporation	2
302	International Paper Company	12
303	Interstate Bakeries Corporation	5
304	Iroquois Brands, Ltd.	12

Months numbered in sequence, January through December

Co. No.		*Month in which fiscal year ends
305	JLG Industries, Inc.	7
306	JWT Group, Inc.	12
307	James River Corporation of Virginia	4
	Jefferson Smurfit Corporation—*see 628*	
308	Johnson & Johnson	12
309	Johnson Controls, Inc.	9
310	Johnson Products Co., Inc.	8
311	Joslyn Corporation	12
312	Jostens, Inc.	6
313	Joy Manufacturing Company	9
314	K mart Corporation	1
315	Kaiser Aluminum & Chemical Corporation	12
	Kaman Corporation—*see 629*	
317	Kellogg Company	12
318	Kelly Services, Inc.	12
319	Kerr Glass Manufacturing Corporation	12
320	Kerr-McGee Corporation	12
321	Kevlin Microwave Corporation	5
322	Keystone Consolidated Industries, Inc.	6
323	Kidde, Inc.	12
324	Kimberly-Clark Corporation	12
325	Kinder-Care Learning Centers, Inc.	8
326	Knape & Vogt Manufacturing Company	6
327	Knight-Ridder, Inc.	12
328	Koppers Company, Inc.	12
	Kraft, Inc.—*see 162*	
329	The Kroger Co.	12
330	Kuhlman Corporation	12
331	The LTV Corporation	12
332	LaBarge, Inc.	6
333	Laclede Steel Company	12
334	Lamaur Inc.	12
335	Lear Siegler, Inc.	6
336	Lee Enterprises, Incorporated	9
337	Leggett & Platt, Incorporated	12
338	*TRINOVA Corporation*	12
339	Eli Lilly and Company	12
340	Litton Industries, Inc.	7
341	Lockheed Corporation	12
342	Lone Star Industries, Inc.	12
	Loral Corporation—*see 630*	
343	The Louisiana Land and Exploration Company	12
344	Lowe's Companies, Inc.	1
345	The Lubrizol Corporation	12
346	Lucky Stores, Inc.	1
347	Lukens, Inc.	12
348	Lynch Corporation	12
349	M/A-COM, Inc.	9
350	MAPCO Inc.	12
351	MCA INC.	12
353	Mack Trucks, Inc.	12
354	Macmillan, Inc.	12
	Manpower Inc.—*see 425*	
357	Manville Corporation	12
358	Marriott Corporation	12
359	Martin Marietta Corporation	12
360	Masco Corporation	12
361	Mattel, Inc.	12

Co. No.		*Month in which fiscal year ends
362	The May Department Stores Company	1
363	The Maytag Company	12
364	McCormick & Company, Incorporated	11
365	McDermott International, Inc.	3
366	McDonald's Corporation	12
367	McDonnell Douglas Corporation	12
368	McGraw-Hill, Inc.	12
369	McKesson Corporation	3
370	The Mead Corporation	12
	Media General, Inc.—*see 631*	
371	Medtronic, Inc.	4
372	Melville Corporation	12
373	Merck & Co., Inc.	12
374	Meredith Corporation	6
375	Met-Pro Corporation	1
377	Herman Miller, Inc.	5
378	Milton Roy Company	12
379	Minnesota Mining and Manufacturing Company	12
	Minstar, Inc.—*see 632*	
380	Mobil Corporation	12
381	Mohasco Corporation	12
382	Monfort of Colorado, Inc.	8
383	Monsanto Company	12
384	Moore McCormack Resources, Inc.	12
385	Morton Thiokol, Inc.	6
386	Mosinee Paper Corporation	12
387	Motorola, Inc.	12
389	Munsingwear, Inc.	12
390	Murphy Oil Corporation	12
391	The Murray Ohio Manufacturing Company	12
	NACCO Industries, Inc.—*see 403*	
392	NCR Corporation	12
	NIKE, Inc.—*see 401*	
393	NL Industries, Inc.	12
394	National Distillers and Chemical Corporation	12
397	National Presto Industries, Inc.	12
398	National Semiconductor Corporation	5
399	National Service Industries, Inc.	8
	Navistar International Corporation—*see 299*	
400	The New York Times Company	12
401	*NIKE, Inc.*	5
402	Nortek, Inc.	12
403	*NACCO Industries, Inc.*	12
404	North American Philips Corporation	12
405	Northrop Corporation	12
406	Norton Company	12
	Nucor Corporation—*see 633*	
407	Oak Industries Inc.	12
408	Occidental Petroleum Corporation	12
409	Ogden Corporation	12
410	Ohio Ferro-Alloys Corporation	12
411	Olin Corporation	12
412	Orion Pictures Corporation	2
413	O'Sullivan Corporation	12
414	Outboard Marine Corporation	9
415	Owens-Corning Fiberglas Corporation	12

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Co. No.		*Month in which fiscal year ends
417	Oxford Industries, Inc.	5
	PACCAR Inc.—see *419*	
418	PPG Industries, Inc.	12
419	*PACCAR Inc.*	12
	PORTEC, Inc.—see *444*	
420	Pacific Resources, Inc.	12
421	Pall Corporation	7
422	Pantasote Inc.	12
424	Parker Hannifin Corporation	6
425	*Manpower Inc.*	2
426	The Penn Central Corporation	12
427	The Penn Traffic Company	1
428	J.C. Penney Company, Inc.	1
429	Pennwalt Corporation	12
430	Pennzoil Company	12
431	Pentron Industries, Inc.	6
432	PepsiCo, Inc.	12
433	The Perkin-Elmer Corporation	7
434	Pettibone Corporation	3
435	Pfizer Inc.	12
436	Phelps Dodge Corporation	12
437	Philip Morris Companies Inc.	12
438	Phillips Petroleum Company	12
	Phillips-Van Heusen Corporation—see *634*	
439	The Pillsbury Company	5
440	Pioneer Hi-Bred International, Inc.	8
441	Pitney Bowes Inc.	12
442	The Pittston Company	12
443	Polaroid Corporation	12
444	*PORTEC, Inc.*	12
445	H. K. Porter Company, Inc.	12
446	Potlatch Corporation	12
447	Prab Robots, Inc.	10
448	Pratt & Lambert, Inc.	12
	Premark International, Inc.—see *635*	
450	Premier Industrial Corporation	5
451	The Procter & Gamble Company	6
	Publix Super Markets, Inc.—see *636*	
	The Pullman-Peabody Company—see *637*	
453	The Quaker Oats Company	6
454	Quaker State Oil Refining Corporation	12
455	Quanex Corporation	10
	RJR Nabisco, Inc.—see *465*	
457	RTE Corporation	12
458	Ralston Purina Company	9
459	Ranco Incorporated	9
	Raychem Corporation—see *638*	
460	Raytech Corporation	12
461	Raytheon Company	12
462	Reichhold Chemicals, Inc.	12
465	*RJR Nabisco, Inc.*	12
466	Reynolds Metals Company	12
468	H. H. Robertson Company	12
	A.H. Robins Company, Incorporated—see *639*	
469	Rockwell International Corporation	9
470	Rohm and Haas Company	12
	Rohr Industries, Inc.—see *640*	

Co. No.		*Month in which fiscal year ends
	Rorer Group Inc.—see *641*	
471	Rowe Furniture Corporation	11
472	Rubbermaid Incorporated	12
473	Russ Togs, Inc.	1
474	The Rymer Company	10
475	*Harmon Industries, Inc.*	12
477	SPS Technologies, Inc.	12
479	Sara Lee Corporation	6
480	Savannah Foods & Industries, Inc.	12
481	Schering-Plough Corporation	12
482	Schlumberger Limited	12
483	Scholastic Inc.	5
484	Scope Industries	6
485	Scott Paper Company	12
	Sealed Power Corporation—see *642*	
486	Sears, Roebuck and Co.	12
487	Service Corporation International	4
488	Seton Company	12
	Shaw Industries, Inc.—see *643*	
490	The Sherwin-Williams Company	12
492	The Singer Company	12
493	Slattery Group Inc.	12
494	A. O. Smith Corporation	12
495	SmithKline Beckman Corporation	12
496	Snap-on Tools Corporation	12
497	The Southland Corporation	12
498	Sparton Corporation	6
499	Spectrum Control, Inc.	11
500	Spencer Companies, Inc.	5
502	Springs Industries Inc.	12
503	Square D Company	12
504	Squibb Corporation	12
505	Staley Continental, Inc.	9
506	Stanadyne, Inc.	12
507	Standard Motor Products, Inc.	12
508	The Standard Oil Company	12
509	The Standard Register Company	12
510	Stanhome Inc.	12
511	The Stanley Works	12
512	The L. S. Starrett Company	6
514	Sterling Drug Inc.	12
515	J. P. Stevens & Co. Inc.	10
516	Stewart-Warner Corporation	12
517	Stone Container Corporation	12
518	The Stop & Shop Companies, Inc.	1
519	Sun Chemical Corporation	12
520	Sun Company, Inc.	12
521	Sundstrand Corporation	12
522	Super Valu Stores, Inc.	2
523	Supermarkets General Corporation	1
524	Supreme Equipment & Systems Corp.	7
525	Syntex Corporation	7
	TRINOVA Corporation—see *338*	
526	TRW Inc.	12
527	Talley Industries, Inc.	12
528	Tandy Corporation	6
529	Tasty Baking Company	12
530	Tecumseh Products Company	12
531	Teledyne, Inc.	12

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Co. No.		*Month in which fiscal year ends
532	Temple-Inland Inc.	12
533	Temtex Industries, Inc.	8
534	Tenneco Inc.	12
535	Tesoro Petroleum Corporation	9
536	Texaco Inc.	12
537	Texas Instruments Incorporated	12
538	Textron Inc.	12
539	Thetford Corporation	9
	Thorn Apple Valley, Inc.—*see 644*	
540	Time Incorporated	12
541	The Times Mirror Company	12
542	The Timken Company	12
543	Tonka Corporation	12
544	Tosco Corporation	12
	Transtech Industries, Inc.—*see 645*	
545	Triangle Industries, Inc.	12
547	Tribune Company	12
	Trinity Industries, Inc.—*see 646*	
548	Tultex Corporation	11
549	Tyler Corporation	12
550	Tyson Foods, Inc.	9
551	UNC Incorporated	12
552	USG Corporation	12
	USX Corporation—*see 561*	
553	Unifi, Inc.	6
554	Union Camp Corporation	12
555	Union Carbide Corporation	12
	Unisys Corporation—*see 102*	
557	United Brands Company	12
558	United Foods, Inc.	2
559	United Merchants and Manufacturers, Inc.	6
560	The United States Shoe Corporation	1
561	*USX Corporation*	12
562	United States Surgical Corporation	12
563	United States Tobacco Company	12
564	United Technologies Corporation	12
565	Univar Corporation	2
566	Universal Leaf Tobacco Company, Incorporated	6
567	Universal Voltronics Corp	6
568	Unocal Corporation	12
569	The Upjohn Company	12
570	VF Corporation	12
	Valero Energy Corporation—*see 647*	
571	Varian Associates, Inc.	9
572	The Vendo Company	12
573	Vulcan Materials Company	12
	Wal-Mart Stores, Inc.—*see 648*	
574	Walbro Corporation	12
575	Walgreen Co.	8
576	Jim Walter Corporation	8
577	Wang Laboratories, Inc.	6
578	Warner Communications Inc.	12
579	Warner-Lambert Company	12
	The Washington Post Company—*see 649*	
580	Waste Management, Inc.	12
581	Wausau Paper Mills Company	8
582	West Point-Pepperell, Inc.	9
583	Westinghouse Electric Corporation	12

Co. No.		*Month in which fiscal year ends
584	Westvaco Corporation	10
585	Wetterau Incorporated	3
586	Weyerhaeuser Company	12
587	Wheeling-Pittsburgh Steel Corporation	12
588	Whirlpool Corporation	12
589	Whittaker Corporation	10
590	Willamette Industries, Inc.	12
591	The Williams Companies	12
592	Wilson Foods Corporation	7
593	Winn-Dixie Stores, Inc.	6
594	Winnebago Industries, Inc.	8
595	Witco Corporation	12
596	F. W. Woolworth Co.	1
597	Wm. Wrigley Jr. Company	12
598	The Wurlitzer Company	3
599	Xerox Corporation	12
	York International Corporation—*see 650*	
600	Zenith Electronics Corporation	12

COMPANIES ADDED FOR 1987 EDITION

601	*Alberto-Culver Company*	9
602	*The Allen Group Inc.*	12
603	*Amdahl Corporation*	12
604	*Avery International Corporation*	11
605	*Barnes Group Inc.*	12
606	*Bassett Furniture Industries, Incorporated*	11
607	*Bowater Incorporated*	12
608	*CalMat Co.*	12
609	*Cameron Iron Works, Inc.*	6
610	*Carpenter Technology Corporation*	6
611	*Liz Claiborne, Inc.*	12
612	*The Coleman Company, Inc.*	12
613	*Computervision Corporation*	12
614	*Diamond-Bathurst Inc.*	12
615	*The Dorsey Corporation*	12
616	*E-Systems, Inc.*	12
617	*Economics Laboratory, Inc.*	6
618	*Federal Paper Board Company, Inc.*	12
619	*Fieldcrest Cannon, Inc.*	12
620	*The Foxboro Company*	12
621	*H.B. Fuller Company*	11
622	*Harcourt Brace Jovanovich, Inc.*	12
623	*Hasbro, Inc.*	12
624	*Hillenbrand Industries, Inc.*	11
625	*Illinois Tool Works Inc.*	12
626	*International Controls Corp.*	12
627	*International Flavors & Fragrances Inc.*	12
628	*Jefferson Smurfit Corporation*	12
629	*Kaman Corporation*	12
630	*Loral Corporation*	3
631	*Media General, Inc.*	12
632	*Minstar, Inc.*	12
633	*Nucor Corporation*	12
634	*Phillips-Van Heusen Corporation*	1

Months numbered in sequence, January through December

Co. No.		*Month in which fiscal year ends
635	*Premark International, Inc.*	12
636	*Publix Super Markets, Inc.*	12
637	*The Pullman-Peabody Company*	9
638	*Raychem Corporation*	6
639	*A.H. Robins Company, Incorporated*	12
640	*Rohr Industries, Inc.*	7
641	*Rorer Group Inc.*	7
642	*Sealed Power Corporation*	12
643	*Shaw Industries, Inc.*	6
644	*Thorn Apple Valley, Inc.*	5
645	*Transtech Industries, Inc.*	12
646	*Trinity Industries, Inc.*	12
647	*Valero Energy Corporation*	12
648	*Wal-Mart Stores, Inc.*	1
649	*The Washington Post Company*	12
650	*York International Corporation*	12

Companies Included in Fortieth Edition Not Included in this Edition of the Survey

8	AMSTED Industries Incorporated
21	Allied Stores Corporation
27	American Bakeries Company
31	American Can Company
47	Anadite, Inc.
61	Associated Dry Goods Corporation
76	Beatrice Companies, Inc.
114	Celanese Corporation
115	Centronics Corporation
119	The Charter Company
120	Chesebrough-Pond's Inc.
123	Chicago Pneumatic Tool Company
125	Chromalloy American Corporation
129	Clarostat Mfg. Co., Inc.
151	Craddock-Terry Shoe Corporation
155	Crown Zellerbach
179	Doyle Dane Bernbach Group Inc.
189	Easco Corporation
201	Ex-Cell-O Corporation
226	GATX Corporation
234	General Foods Corporation
260	Gulf & Western Industries, Inc.
262	Gulton Industries, Inc.
265	Hammermill Paper Company
272	Hazeltine Corporation
284	Hughes Tool Company
316	Kaiser Cement Corporation
352	MGM/UA Entertainment Co.
355	R.H. Macy & Co., Inc.
356	Magic Chef, Inc.
376	Midland-Ross Corporation
388	Mott's Super Markets, Inc.
395	National Gypsum Company
396	National Intergroup, Inc.
416	Owens-Illinois, Inc.
423	Pantry Pride, Inc.
449	Pratt-Read Corporation
452	Purolator Courier Corp.
456	RCA Corporation
463	Revere Copper and Brass Incorporated
464	Rexnord Inc.
467	Richardson-Vicks Inc.
476	SCM Corporation
478	Safeway Stores, Incorporated
489	Sheller-Globe Corporation
491	Simkins Industries, Inc.
501	Sperry Corporation
513	Steiger Tractor, Inc.
546	Triangle Pacific Corp.
556	Union Pacific Corporation

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